

OEM Capital – Defense Electronics Technology MARKET FOCUS

October 2010

MONTHLY MARKET PERFORMANCE:

Closing Prices as of September 30, 2010

Current Company Name	Market Cap ¹	Revenue ¹	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	26.3	21.4	64.9 ▲	27.0 ▲	NM
AeroVironment, Inc.	523.0	249.8	(1.5) ▼	(24.9) ▼	29.9
AML Communications Inc.	14.8	16.7	15.3 ▲	(3.4) ▼	9.4
Anaren Inc.	251.6	173.0	23.7 ▲	11.6 ▲	19.0
Applied Signal Technology, Inc.	446.1	216.9	26.8 ▲	27.9 ▲	29.4
Astronics Corp.	222.0	188.2	18.0 ▲	88.9 ▲	23.2
Comtech Telecommunications Corp.	850.8	778.2	34.3 ▲	(23.1) ▼	14.8
Dynamics Research Corp.	111.8	268.1	4.6 ▲	(3.4) ▼	9.0
EVS Technologies Inc.	274.8	342.1	28.3 ▲	31.2 ▲	30.0
Endwave Corp.	22.6	16.2	(6.3) ▼	(6.7) ▼	NM
Espey Manufacturing & Electronics Corp.	55.7	28.9	11.8 ▲	10.2 ▲	16.7
Frequency Electronics Inc.	48.3	49.1	19.0 ▲	18.3 ▲	39.0
Global Defense Technology & Systems, Inc.	123.2	204.9	31.1 ▲	(16.3) ▼	34.6
HEICO Corp.	1,393.2	591.3	10.0 ▲	27.4 ▲	25.9
Herley Industries Inc.	224.7	188.1	8.2 ▲	17.0 ▲	16.8
Hittite Microwave Corporation	1,559.1	222.3	12.0 ▲	16.7 ▲	23.0
Kratos Defense & Security Solutions, Inc.	209.6	329.1	7.6 ▲	(1.4) ▼	77.4
KVH Industries Inc.	203.2	111.5	20.4 ▲	(0.1) ▼	38.3
LaBarge Inc.	197.6	289.3	19.4 ▲	3.0 ▲	14.5
Micronetics Inc.	23.9	36.3	11.8 ▲	60.0 ▲	13.2
Orbit International Corp.	15.8	26.9	15.6 ▲	(7.1) ▼	121.7
Sparton Corp.	76.0	174.0	17.8 ▲	5.9 ▲	18.9
Spectrum Control Inc.	191.3	155.3	24.6 ▲	53.2 ▲	16.3
TTM Technologies Inc.	840.6	737.5	18.8 ▲	(16.5) ▼	16.0

¹ (\$ millions)

MARKET COMMENTARY:

The OEM Defense Technology Index is up 18.8% over the last twelve months, compared to 8.0% for the S&P 500 Index during the same period. The Index is comprised of publicly traded US defense electronics companies with annual revenues under \$800 million. The Index, moved ahead of the S&P 500 in the Spring and, after dropping to S&P 500 averages in the summer, has bounced back much more strongly during the stock market rally these past two months.

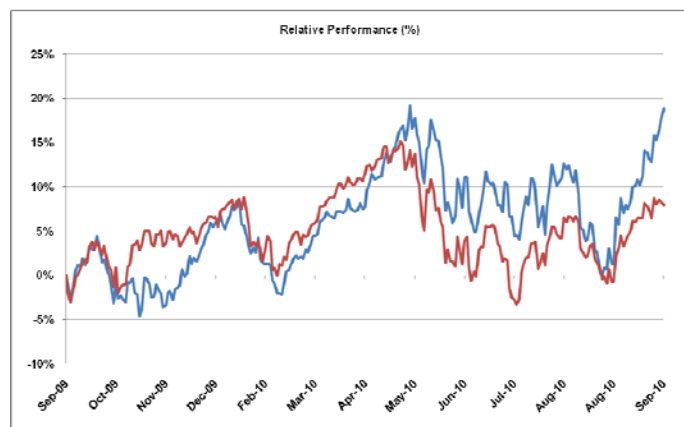
COMMENTARY

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With many individual investors remaining on the sidelines, we believe that stock market professionals are looking to continued industry consolidation from mergers and acquisitions realizing value for them as returns on assets, capital and equity has been on a downward trend, as has revenue growth, for the companies in the OEM Defense Technology Index for the past few years.

We are definitely witnessing an industry in transition and those companies that can quickly reorient their business and costs to the new normal will be the major beneficiaries.

OEM DEFENSE ELECTRONICS TECHNOLOGY INDEX:



■ OEM Defense Technology Index ■ S&P 500 Index

NOTABLE RECENT TRANSACTIONS:

Battery Ventures signed a definitive agreement to acquire **RAE Systems, Inc. (AMEX:RAE)** for \$1.60 per share in cash, for total consideration to shareholders of approximately \$95.0 million. **RAE Systems** manufactures and develops sensor-based solutions for end-users in a variety of industries, including environmental, industrial, and defense. **Battery Ventures** is a technology focused private equity and venture capital firm.

BAE Systems plc (LSE:BA.), a United Kingdom-based company that engages in the development and support of a variety of aerospace and defense systems, agreed to acquire **OASYS Technology, LLC** for up to \$55 million in cash. The consideration consists of \$25 million in cash at closing and the potential to earn another \$30 million through an earn-out. **OASYS Technology, LLC** designs and manufactures optical systems and components that are used in aerospace, defense, commercial, and industrial applications.

Microsemi Corp. (NasdaqGS:MSSC) acquired **Arxan Defense Systems, Inc.** from Arxan Technologies, Inc. Terms of the transaction were not disclosed. Arxan Defense Systems develops hardware and software products that provide anti-tampering solutions, which are used to ensure the integrity of mission-critical applications and systems for a variety of government defense agencies.

SELECTED STATISTICS FOR INDEX COMPANIES:

Trading Multiples	CY2007	CY2008	CY2009	Latest
TEV/Total Revenue	1.6x	1.4x	1.3x	1.5x
TEV/EBITDA	12.1x	10.2x	10.3x	10.1x
TEV/EBIT	15.5x	13.1x	14.4x	13.2x
Profitability				
Return on Assets %	6.4%	6.9%	5.4%	6.2%
Return on Capital %	12.4%	13.6%	10.6%	7.6%
Return on Equity %	9.2%	3.0%	3.1%	7.6%
Margin Analysis				
Gross Margin %	28.7%	28.7%	27.7%	29.4%
SG&A Margin %	14.7%	14.4%	14.6%	14.1%
EBITDA Margin %	13.1%	14.0%	12.7%	14.8%
EBIT Margin %	10.1%	10.8%	9.1%	11.4%
Net Income Margin %	5.8%	1.7%	2.4%	5.3%
Growth Rates				
Total Revenue, 1 Yr Growth %	20.4%	11.8%	(0.7%)	7.7%
Total Revenue, 2 Yr CAGR %	17.5%	15.7%	5.4%	6.7%
Total Revenue, 3 Yr CAGR %	16.6%	15.3%	9.8%	9.2%

Source of financial data: Standard & Poor's, CapitalIQ, FT and Thomson Financial

OEM Capital

Technology Investment Banking

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