

OEM Capital – Defense Electronics Technology MARKET FOCUS

February 2011

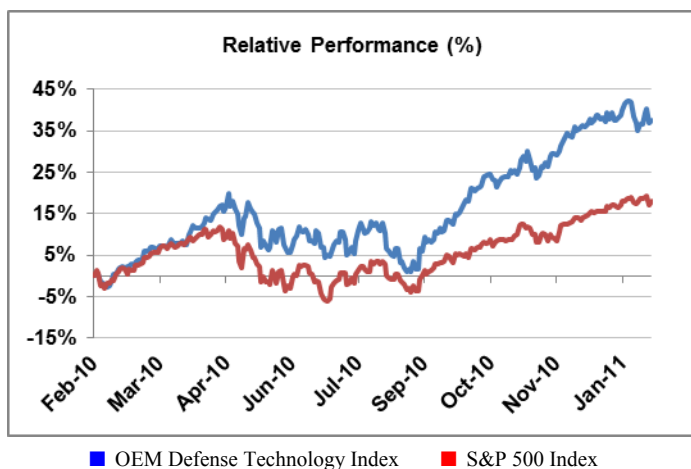
MONTHLY MARKET PERFORMANCE:

Closing Prices as of January 31, 2011

Current Company Name	Market Cap ¹	Revenue ¹	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	52.5	26.1	11.1 ▲	11.1 ▲	NM
AeroVironment, Inc.	615.4	262.2	5.1 ▲	5.1 ▲	40.4
AML Communications Inc.	14.6	15.8	0.7 ▲	0.7 ▲	17.7
Anaren Inc.	310.4	175.4	(1.5) ▼	(1.5) ▼	19.8
Astronics Corp.	249.5	195.8	10.0 ▲	10.0 ▲	18.0
Dynamics Research Corp.	135.5	272.1	0.7 ▲	0.7 ▲	12.2
EMS Technologies Inc.	280.7	342.1	(7.3) ▼	(7.3) ▼	29.9
Endwave Corp.	22.0	16.2	(1.5) ▼	(1.5) ▼	NM
Espey Manufacturing & Electronics Corp.	50.3	28.8	(9.0) ▼	(9.0) ▼	17.4
Giga-tronics Inc.	13.9	19.3	5.3 ▲	5.3 ▲	111.9
Frequency Electronics Inc.	58.3	50.2	5.2 ▲	5.2 ▲	38.3
Global Defense Technology & Systems, Inc.	150.6	206.3	(2.4) ▼	(2.4) ▼	35.3
Herley Industries Inc.	230.7	189.4	(5.1) ▼	(5.1) ▼	17.9
Hittite Microwave Corporation	1,842.0	244.3	(2.1) ▼	(2.1) ▼	28.4
Kratos Defense & Security Solutions, Inc.	260.2	362.9	6.5 ▲	6.5 ▲	131.2
KVH Industries Inc.	184.6	112.2	1.7 ▲	1.7 ▲	60.4
LaBarge Inc.	220.7	324.0	(11.1) ▼	(11.1) ▼	13.6
Mercury Computer Systems, Inc.	459.8	214.9	2.7 ▲	2.7 ▲	28.8
Micronetics Inc.	18.8	35.1	(8.8) ▼	(8.8) ▼	11.8
Orbit International Corp.	17.5	27.3	(1.7) ▼	(1.7) ▼	76.4
Sparton Corp.	87.3	170.7	3.7 ▲	3.7 ▲	26.5
Spectrum Control Inc.	171.8	163.9	(11.5) ▼	(11.5) ▼	14.2

¹ (\$ millions)

OEM DEFENSE ELECTRONICS TECHNOLOGY INDEX:



SELECTED STATISTICS FOR INDEX COMPANIES:

Trading Multiples	CY2007	CY2008	CY2009	Latest
TEV/Total Revenue	1.6x	1.4x	1.3x	1.4x
TEV/EBITDA	12.1x	10.2x	10.3x	8.9x
TEV/EBIT	15.5x	13.1x	14.4x	11.4x
Profitability				
Return on Assets %	6.4%	6.9%	5.4%	7.0%
Return on Capital %	12.4%	13.6%	10.6%	8.5%
Return on Equity %	9.2%	3.0%	3.1%	9.3%
Margin Analysis				
Gross Margin %	28.7%	28.7%	27.7%	28.8%
SG&A Margin %	14.7%	14.4%	14.6%	13.2%
EBITDA Margin %	13.1%	14.0%	12.7%	15.5%
EBIT Margin %	10.1%	10.8%	9.1%	12.1%
Net Income Margin %	5.8%	1.7%	2.4%	6.4%
Growth Rates				
Total Revenue, 1 Yr Growth %	20.4%	11.8%	(0.7%)	14.5%
Total Revenue, 2 Yr CAGR %	17.5%	15.7%	5.4%	9.1%
Total Revenue, 3 Yr CAGR %	16.6%	15.3%	9.8%	10.2%

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

MARKET COMMENTARY:

The OEM Defense Technology Index is up 37.0% over the last twelve months, compared to 19.3% 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 \$400 million.

COMMENTARY

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Several significant pending transactions were announced in January, which could portend activity in 2011, will outpace that of 2010. One reason M&A activity could grow this year is that US defense spending may shrink and companies need to figure out a way to grow in an environment that is contracting. Smaller niche companies in higher growth areas will be particularly attractive. European companies, which are facing even more drastic budget cuts in their home countries and in the European Union in general, are stepping up their efforts to gain a larger share of the US market.

However, the US government has made a point of stating that defense prime contractors will not be encouraged to merge as they were told at the end of the Cold War. This means that Tier 1 and 2 companies will get primary attention in the merger news. And, from the deals that have been recently announced, it is a seller's market... as long as no one is too greedy.

NOTABLE RECENT TRANSACTIONS:

Meggitt plc (LSE:MGGT), a United Kingdom based aerospace and defense company, agreed to acquire the **Pacific Scientific Aerospace** business of **Danaher Corporation (NYSE:DHR)** for \$685 million in cash. The **Pacific Scientific Aerospace** business is a provider of electric components and equipment, safety and security products to customers in military, aerospace, and commercial industries.

Private equity firm **Vector Capital** agreed to acquire **RAE Systems (AMEX:RAE)** from shareholders for approximately \$100 million, or \$1.75 per share in cash. **RAE Systems**, based in San Jose, California, develops and manufactures sensor-based solutions for end-users in a variety of industries, including environmental, industrial, and defense. The offer from **Vector Capital** trumps a previous offer of \$1.60 per share by **Battery Ventures**.

Curtiss-Wright Corp. (NYSE:CW) closed the acquisition of **Predator Systems, Inc.** for \$13.3 million. **Predator Systems** develops and manufactures control components and subsystems used in defense, aerospace, and fluid power applications. **Predator Systems** is based in Boca Raton, Florida.

OEM Capital

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