

OEM Capital – Defense Electronics Technology MARKET FOCUS

March 2011

MONTHLY MARKET PERFORMANCE:

Closing Prices as of February 28, 2011

Current Company Name	Market Cap ¹	Revenue ¹	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	63.4	26.1	19.7 ▲	27.8 ▲	NM
AeroVironment, Inc.	633.1	262.2	4.7 ▲	8.1 ▲	40.4
AML Communications Inc.	22.4	15.8	51.4 ▲	56.0 ▲	17.7
Anaren Inc.	320.7	175.4	3.9 ▲	1.8 ▲	19.8
Astronics Corp.	240.8	195.8	(4.2) ▼	2.7 ▲	18.0
Dynamics Research Corp.	154.8	272.1	13.0 ▲	14.6 ▲	12.2
EMS Technologies Inc.	297.6	342.1	4.3 ▲	(1.7) ▼	29.9
Endw ave Corp.	26.2	16.2	17.2 ▲	16.7 ▲	NM
Espey Manufacturing & Electronics Corp.	53.4	28.8	9.3 ▲	(3.4) ▼	17.4
Giga-tronics Inc.	12.6	19.3	(12.1) ▼	(4.5) ▼	111.9
Frequency Electronics Inc.	66.0	50.2	11.1 ▲	19.2 ▲	38.3
Global Defense Technology & Systems, Inc.	149.6	206.3	1.1 ▲	(3.0) ▼	35.3
Herley Industries Inc.	267.1	189.4	14.7 ▲	9.7 ▲	17.9
Hittite Microwave Corporation	1,918.3	244.3	3.1 ▲	0.6 ▲	28.4
Kratos Defense & Security Solutions, Inc.	330.4	362.9	4.0 ▲	9.4 ▲	131.2
KVH Industries Inc.	223.0	112.2	22.0 ▲	22.8 ▲	60.4
LaBarge Inc.	248.2	324.0	14.0 ▲	(0.2) ▼	13.6
Mercury Computer Systems, Inc.	532.9	214.9	0.7 ▲	3.3 ▲	28.8
Micronetics Inc.	18.7	35.1	(3.3) ▼	(9.3) ▼	11.8
Orbit International Corp.	18.2	27.3	4.0 ▲	2.3 ▲	76.4
Spartan Corp.	79.7	170.7	(9.4) ▼	(5.5) ▼	26.5
Spectrum Control Inc.	183.9	163.9	6.2 ▲	(6.5) ▼	14.2

¹ (\$ millions)

MARKET COMMENTARY:

The OEM Defense Technology Index is up 51.0% over the last twelve months, compared to 19.0% 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 \$400 million.

COMMENTARY

By: Ron Klammer
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The three transactions announced in February are very illustrative of the consolidation wave sweeping the industry.

Anaren acquired AML Communications to round out its line of amplifier components to make it a more credible player in integrated assemblies, a higher margin item than electronic components.

Herley, which had been actively marketing itself for the past couple of years, found an acquirer in Kratos, a company wishing to extend its product line and make itself more important to its customers to help combat vendor shrink.

And, Endwave, a nanocap public company that never had a history of profitability, even before its sale of half of its revenues to Microsemi a couple of years ago, finally was taken out of its misery by GigOptix in an all stock deal.

Expect to see many more as the defense industry consolidates.

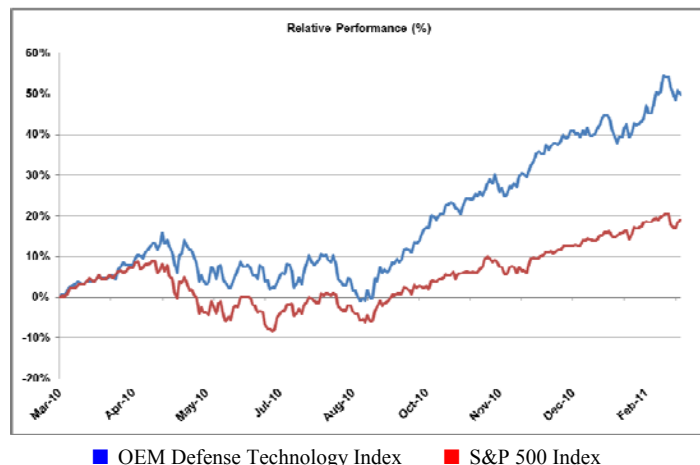
NOTABLE RECENT TRANSACTIONS:

Anaren, Inc. (NasdaqGS:ANEN), an East Syracuse, New York-based manufacturer of communications equipment, agreed to acquire **AML Communications, Inc. (OTCBB:AMLJ)** for approximately \$23 million in cash, a deal valued at 1.4 times revenues and 8.4 times EBITDA. **AML Communications** designs and manufactures radio frequency and microwave amplifiers and subsystems used in defense electronic warfare applications.

Kratos Defense & Security Solutions, Inc. (NasdaqGS:KTOS), a San Diego, California-based provider of engineering and IT services to customers in the government and defense markets, agreed to acquire **Herley Industries, Inc. (NasdaqGS:HRLY)** for approximately \$270 million in cash, a deal valued at 1.3 times revenues and 7.8 times EBITDA. **Herley Industries** designs, and manufactures microwave solutions for use in defense, aerospace, and medical applications.

GigOptix, Inc. (OTCBB:GGOX), a Palo Alto, California-based manufacturer of high performance electronic components, agreed to acquire **Endwave Corp. (NasdaqGM:ENWV)** for approximately \$22 million in stock.

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

OEM Capital

Technology Investment Banking

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