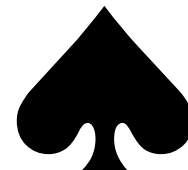


SPADE INVESTOR



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Defense * Homeland Security * Space

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New on the Website

In March, we gave a presentation on 'Investing in Defense & Security' to the New York Society of Security Analysts.

This presentation will also be used for the April 10th InformedInvestors.com online conference on security and defense.

SPADE Defense Index Statistics

YTD Return:	4.37%
March Return:	1.29%
3/28/07 Close:	2198.16
Intraday All-time High*:	2277.59
Date:	23 Feb 2007

Index Quarterly Review

Changes to the Index, effective March 30, 2007, are as follows:

Two companies were added to the Index -- AeroVironment (following their recent IPO) and Force Protection (which moved to the NASDAQ making them eligible)

AeroVironment (NASDAQ: AVAV) designs, develops, produces, and supports an advanced portfolio of Unmanned Aircraft Systems (UAS) and efficient electric energy systems. The compa-

ny's small UAS are used extensively by agencies of the U.S. Department of Defense and increasingly by allied military forces to deliver real-time reconnaissance, surveillance, and target acquisition to tactical operating units.

Force Protection (NASDAQ: FRPT), manufactures ballistic- and blast-protected vehicles, which have been used to support armed forces and security personnel in Iraq, Afghanistan, Kosovo and other hot spots around the globe.

Also, during the quarter, XM Satellite (NASDAQ: XMSR) and Sirius Satellite Radio (NASDAQ:

SIRI) were removed from the Index. By definition, firms providing satellite services are included in the SPADE Defense Index when their operations include the acquisition of space and ground assets (such as satellites, launch vehicles, and monitoring networks) as this helps to ensure the stability of the infrastructure base of the sector -- an area of critical importance to the Department of Defense. Both XM Satellite Radio and Sirius Satellite Radio have evolved to the point where current and future near-term operations do not require a continued, significant investment in infrastructure. As such, these two firms have been removed from the Index.

Commentary

With the close of the first quarter of 2007, I want to give you an overview of what the first three months have meant to investors in defense and homeland security.

The Index and the ETF

1. The Index outperformed the broader market as defined by the S&P 500 by roughly 4%
2. The Index has almost completely recovered from the market correction in February and is 2% below its all time high
3. The first three months saw an inflow in the Powershares Aerospace & Defense ETF of more than 65%. With our underlying Index up 4%, this translates into a significant inflow from investors -- an indication that many investors view the sector with strength.

First Quarter Strength & Weaknesses

4. Companies are set to report their first quarter results and expectations from analysts are that aerospace and defense companies will continue to report strong earnings.
5. Companies focused on defense IT and transformation continue to lag the sector's performance as resources are continually diverted to Iraq. (see additional commentary on the battle

for supplemental spending). I have heard some defense analysts comment that they expect that the reallocation of resources will slow and allow this element to recover later this year.

6. Commercial aerospace remains strong and analysts see the cycle and this strength continuing. The upbeat mood should make this June's Paris Air Show an exciting time. Look for a number of deals for new aircraft in this timeframe.

7. The GAO released a report indicating that several defense satellite programs, such as the NPOESS weather satellite system are well over budget with costs continuing to rise. However, DoD relies too heavily on satellite systems to cancel and it is likely that they will continue to increase spending in this area boost the capabilities they require.

The Battle for Supplemental Spending

The White House and Congress are engaged in verbal battles over a delay in approving a supplemental spending package to cover the costs in Iraq and Afghanistan due to the inclusion of language calling for a withdrawal of troops.

Nearly two months ago, the Bush Administration requested more than \$100 bil-

lion to pay for the wars in Iraq and Afghanistan. Both houses of Congress have since approved it but the Senate added a provision calling for most U.S. combat troops to leave Iraq by March 31, 2008 and the House version specified a September 2008 withdrawal. Because of this language, President Bush has said that he would veto the bill unless the language is removed.

At present Congress is on Spring recess and the White House is using the opportunity to try and put political pressure on them as a political strategy.

Here is what happens next....

a> The current \$70 billion war appropriation runs out in mid-April.

b> According to the Congressional Research Service, the President and Congress have about three months to resolve the standoff before Iraq operations would actually be affected.

c> The Pentagon will begin to divert resources from other, day-to-day activities to the war effort until the supplemental bill is passed. This would include items such as repairing buildings, nonessential travel and training, conferences, and hiring contractors. Acting Army Secretary Pete Green told the

Mar 2007 Leading Gainers

1	Cogent	19.13%
2	Force Protection	15.09%
3	Precision Castparts	14.50%
4	Applied Signal Tech.	11.23%
5	Moog	9.29%
6	Argon ST	9.20%
7	Mercury Computer	9.04%
8	EDO Corp.	9.03%

Mar 2007 Laggards

1	Ladish	[9.95%]
2	Dyncorp	[8.88%]
3	KVH Industries	[6.89%]
4	Orbital Sciences	[5.26%]
5	SAIC	[3.94%]
6	Viasat	[3.48%]
7	Mantech	[3.02%]
8	Raytheon	[2.04%]

YTD 2007 Leading Gainers

1	Precision Castparts	32.92%
2	Applied Signal	27.52%
3	OSI Systems	26.33%
4	Argon ST	22.84%
5	Armor Holdings	22.75%
6	Cogent	22.16%
7	SafeNet	18.21%
8	Echostar	14.20%

YTD 2007 Laggards

1	CACI	[17.06%]
2	KVH Industries	[12.16%]
3	American Science	[11.49%]
4	SI International	[11.44%]
5	MTC Technologies	[10.70%]
6	Mantech	[9.29%]
7	SRA Int'l	[8.90%]
8	AeroVironment	[8.56%]

Index and Industry Statistics

ETF Statistics (AMEX: PPA)
Powershares Aerospace & Defense
 Exchange / Ticker Symbol: AMEX / PPA
 Fee: 60 basis
 Assets (3/30/07): \$176.2 M
 Closing Price (3/30/07): \$19.36
 Trading Volume (Mar 07): 1,838,000

Powershares Aerospace & Defense ETF(PPA)
 Average Portfolio Market Cap*: \$13.31 Billion
 Portfolio P/E*: 18.83
 Portfolio P/S*: 1.22
 Portfolio P/B*: 2.96
 Portfolio P/Cash Flow*: 9.92
 Earnings Growth Rate (ttm)*: 13.83%
 3 month Avg Daily Trading Volume: 129,170
*source: Yahoo! Finance - ETF Center * 28 Feb 07*

“In our judgment, with a \$14.2 trillion economy, the nation has a lot to protect, and we might see even more funds flow in,”
Bob Stevens,
Lockheed Martin’s Chairman/CEO

Senate Armed Services Committee that ‘We don’t have to imagine what would happen if the supplemental is delayed. We experienced it last summer [2006].’

[note: this will get a lot of press in the media should a pessimistic scenario follow, however from an operational standpoint, while not preferred, it is manageable.]

According to *Defense News*, when the Army experienced this in May 2006, a series of spending restrictions took place. First, orders for non-critical parts and supplies were halted along with nonessential travel, training and conferences being cancelled. Next, civilian hiring was postponed. In mid-June, civilian employees were to be furlowed and depot maintenance to be halted. The supplemental passed June 15 sparing the Army from laying off contract employees, halting recruiting, and freezing promotions. (See page 4 for details on the what’s inside the bill)

Growing International Defense Budgets

Canada plans to spend an addition \$960 million Canadian dollars (\$896M) on the Canadian Forces in 2007. By the end of the decade, the Conservative government promised to eventually add \$5.3 billion Canadian dollars, bringing it to about \$20 billion Canadian.

New Technologies / New Initiatives

With DoD spending approximately \$70 billion annually on R&D and the global market for defense and security past the \$1 trillion level, the sector tends to come up with some interesting technologies and products. Although two are from universities and one from a private company that is not in the Index, they caught my eye and I figured I’d share them with you.

- Cross a USB portable storage key with a padlock and you get the ID Vault which contains your unique passcode. In order to prevent ID theft and fraud, it is logical to expect that at some point when signing on to a financial website you’ll not only have to type in your name and password but insert the ‘key’ into your USB port. This would add a second factor of security.

Invisible Products - 1:

Researchers at RPI (disclaimer: I am an alum) have created a material that has the refractive index almost that of air -- ie. it reflects virtually no light.

Invisible Products - 2:

Rice University chemists have discovered gold nanorods which spontaneously assemble themselves and changes its optical and electromagnetic properties. This could help to develop novel nanodevices, including ‘invisible objects for military use’.

New Initiatives...

The Department of Homeland Security is expected to begin taking bids in May for a project that will use unmanned aerial vehicles to protect aircraft in flight against man-portable missile attacks. This will demonstrate an ‘alternative concept’ of providing protection within a designated geographic area by coupling high-endurance UAVs with counter-Manpads technology. The contract will come out in August.

**Strategic Research Institute
 Defense & Aerospace Investor Meeting**

Here are some of my notes from Ron Epstein’s [Merrill Lynch’s defense analyst] presentation...

- Strong market conditions, drive strong financials
- Growth will begin to moderate
- DoD recapitalization may last longer than you think
- There is top line visibility through 2009
- Expect somewhat higher bottom-line growth
- Large cap defense primes tend to grow roughly inline w/DoD budget
- Too few players, too much money
- Politics matter: The Administration is the single most important factor
- Valuations tend to revert to a mean and reflect long-term growth rates
- Continued focus on Army and Marine Corps. Trend is to recapitalize both agencies
- Merrill Lynch is forecasting 1.4% CAGR (07-11) growth in the modernization budget. 2-3% in long-term growth rate for the large primes.

Year	SPADE	S&P500
2007	4.37%	0.18%
2006	19.33%	13.62%
2005	5.30%	3.00%
2004	20.47%	8.99%
2003	37.27%	26.38%
2002	[2.87%]	[23.37%]
2001	0.94%	[13.04%]
2000	4.98%	[10.14%]
1999	15.31%	19.53%
1998	6.63%	26.67%

Quarter	SPADE	S&P500
1Q07	4.37%	0.18%
4Q06	8.79%	6.17%
3Q06	3.21%	5.17%
2Q06	[4.03%]	[1.91%]
1Q06	10.65%	3.73%
4Q05	[0.47%]	1.59%
3Q05	4.44%	3.15%
2Q05	3.91%	0.91%
1Q05	[2.52%]	[2.59%]
4Q04	9.80%	8.73%
3Q04	2.81%	[2.30%]
2Q04	6.34%	1.30%
1Q04	0.36%	1.29%
4Q03	18.97%	11.64%
3Q03	5.27%	2.20%
2Q03	19.03%	14.89%
1Q03	[7.92%]	[3.60%]
4Q02	3.39%	7.92%
3Q02	[17.04%]	[17.63%]
2Q02	[2.86%]	[13.73%]
1Q02	16.57%	[0.06%]
4Q01	14.59%	10.29%
3Q01	[10.40%]	[14.29%]
2Q01	5.91%	5.52%
1Q01	[7.18%]	[12.11%]
4Q00	[0.05%]	[8.09%]
3Q00	12.14%	[1.24%]
2Q00	[7.11%]	[2.93%]
1Q00	0.83%	2.00%
4Q99	7.57%	14.54%
3Q99	[10.18%]	[6.56%]
2Q99	21.39%	6.71%
1Q99	[1.68%]	4.65%
4Q98	13.70%	20.87%
3Q98	[16.88%]	[10.30%]
2Q98	[1.88%]	2.91%
1Q98	14.99%	13.53%

If you didn't receive an email alert that the latest newsletter is available and want to get on our list. Email us at: info@spadeindex.com

Statistics

National Defense Industrial Association

The president's FY08 request of \$481.4 B in addition to the \$141.7 billion for war costs is 11% higher than last year.

10th consecutive year of growth in defense spending

This is \$49 billion higher than 2007 and \$17 billion higher than was the Pentagon forecast in 2007 it would need in 2008.

In 2008, the Army's share increases from 25.4% to 27%

The Navy's portion will drop from 25.5% to

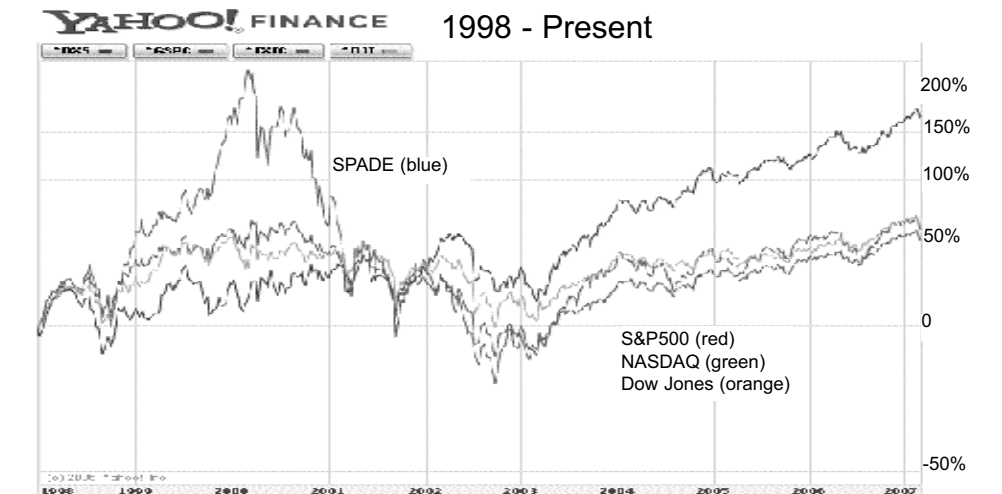
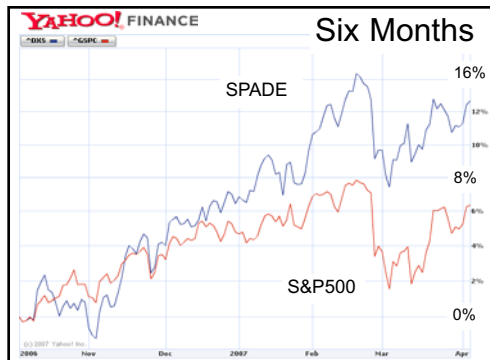
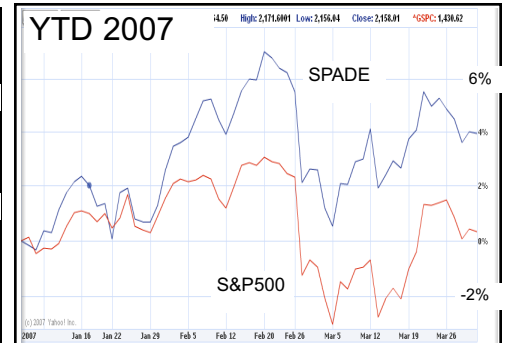
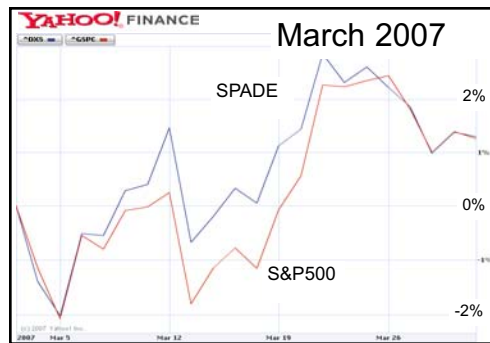
24.8%. The Air Force will drop from 29.7% to 28.2%. The Marines will rise from 3.7% to 4.3%

During 2010 - 2012, the base budget is projected to stay relatively flat.

Pentagon-Awarded Contracts

According to a World Policy Institute report: The annual growth rate of contracts of Pentagon-awarded contracts was up 8.7% after five straight years of double-digit increases

- FY06 contract awards: \$294.9B (up 9%)
- FY05 contract awards: \$269.2B
- FY04 contract awards: \$230.7B (up 10%)
- FY03 contract awards: \$208.9B (up 22%)
- FY02 contract awards \$170.8B (up 18.1%)
- FY01 contract awards \$144.6B



About

The SPADE Defense Index (AMEX: DXS) provides an investment benchmark for companies involved with defense, homeland security, and space.

The Index value is available through financial websites using the ticker symbol 'DXS' with historical data and charting back to December 30, 1997. Some sites may require a character (eg. ^ on Yahoo) to identify it as an Index.

Licensed Products

Exchange Traded Fund (ETF)

The Powershares Aerospace & Defense Portfolio ETF (AMEX: PPA) is designed to track the performance of the SPADE Defense Index

Options

ETF options are traded by the American Stock Exchange using the underlying symbol.

Rules

The Index was designed to be RIC (Registered Investment Company) compliant for the purpose of enabling financial products. Full details can be found at www.spadeindex.com

- * Market Cap: Minimum \$100M
- * Share Price: Minimum \$5.00
- * Liquidity: 50,000 avg daily trading

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More Statistics

QED Analytics - a quantitative analysis consulting firm put out a report from Herb Blank and Andrea Psoras entitled, 'When is Vice Nice for Investment Portfolios From a Quantitative Perspective?'

The report presented some information which provides numerical proof to that which we already know...

Sensitivity to Inflation
 Defense - 0.1305
 S&P500 - 1.0000

...the defense sector is less sensitive to inflation

Business Cycle
 Defense - [0.6007]
 S&P500 - 1.000

...defense sector is independent of where the cycle is for the broader economy or as they phrased it...

...'below average sensitivity to GDP shocks and surprises'

Consumer Confidence
 Defense - 3.0825
 High - 8.1145

Defense is not immune to such jolts but less sensitive that sectors providing 'big ticket' items such as automobiles, furniture, and the airline industry

Sensitivity to the relative steepness of the yield curve

Low: 0.1139
 Defense - 0.4791
 S&P500 - 1.0000
 High - 2.1306

Low end of the sensitivity spectrum is marked by credit card and insurance companies, consumer staples and health care; high-end are household durables, and automobiles.

The War on Terror - Status

A recent Reuters article has some interesting comments about our efforts since 9-11. Citing 'experts':

'...[the] administration has crippled al Qaeda's ability to carry out major attacks on U.S. soil but at a political and economic cost that could leave the country more vulnerable in years to come.'

'Tighter U.S. airport security, greater security of people entering the U.S. and better coordination

between the CIA, FBI, and DHS have also made it harder for extremists to enter the country'.

'If the question is why al Qaeda hasn't carried out another 9/11 attack, the answer I think is that if they could have, they would have'

Islamic groups have killed about 1600 people in 53 attacks overseas since 2001, according to IntelCenter, an intelligence contractor.

The number and lethality of the attacks have fallen off since 2004. Last year, there were five attacks and 28 deaths.

Inside the U.S. House Appropriations Committee \$95.8 billion Supplemental Spending Bill

\$24.8 billion - buying weapons.
 About \$14 billion for the Army. \$4.6 billion to the Air Force. \$2B for the Marines

\$3.5 billion - to the Army for Bradley & Stryker armored vehicles, trucks, tanks, howitzers, Humvees, trailers, carbines, shotguns, machine guns, grenade launchers, small arms, radios, communications gear, and hundreds of items to replace equipment lost in the wars.

\$487.7 million (service request of \$398.7 + an additional \$89M) to buy more Predator and Reaper unmanned aerial vehicles. The panel said that these enable U.S. troops to "see the enemy around the corner or over the hill, thus saving lives every day in the war."

\$287.6 million to the Air Force to install missile defense systems on C-17, C-5, and C-130 cargo planes

\$480.6 million on Marine Corps explosive ordnance disposal systems to combat roadside bombs in Iraq.

\$259 million to the Marine Corps for 'mine-resistant, ambush-protected' vehicles

\$263 million for the Marine Corp to acquire new radios

\$990 million to the Navy for new aircraft including three F/A-18 E/F to replace planes lost in the theater.

source: Defense News

FY-2008 DoD - Total Budget Authority (\$B) - Discretionary+ Receipts

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
TOTAL	483.913	593.748	507.031	483.248	513.051	523.494	529.544	538.429	548.502

Company	Ticker	SPADE Defense Index				% Ch YTD	% Ch MTD	Market Cap intraday	Forward P/E (ttm, intraday)	Price/ Sales ttm	Price/ Book mrq	Div Yld forward %
		Float %	Price	Price	Price							
		30-Mar	28-Feb-07	30-Mar-07								
United Technologies	UTX	5.75%	65.64	65.00	3.97%	-0.98%	64.73	13.77	1.35	3.74	1.60%	
Boeing Co	BA	5.74%	87.26	88.91	0.08%	1.89%	70.17	14.92	1.15	14.94	1.60%	
Lockheed Martin	LMT	5.67%	95.84	97.02	5.38%	1.23%	40.99	14.77	1.05	6.00	1.40%	
Honeywell Intl	HON	5.09%	46.40	46.06	1.81%	-0.73%	36.84	13.87	1.17	3.78	2.20%	
Directv Group	DTV	4.59%	22.55	23.07	-7.50%	2.31%	28.37	15.69	1.91	4.20		
Echostar Communications'a'	DISH	4.55%	40.60	43.43	14.20%	6.97%	19.37	17.10	1.95			
Raytheon Co	RTN	4.49%	53.55	52.46	-0.64%	-2.04%	23.41	14.99	1.15	2.10	1.90%	
Northrop Grumman	NOC	4.48%	71.85	74.22	9.63%	3.30%	26.00	13.62	0.87	1.56	2.00%	
Genl Dynamics	GD	4.45%	76.38	76.40	2.76%	0.03%	31.00	14.47	1.29	3.17	1.50%	
L-3 Communications Hldgs	LLL	4.02%	86.96	87.47	6.96%	0.59%	10.89	13.91	0.87	2.06	1.10%	
Computer Sciences	CSC	4.01%	52.93	52.13	-2.32%	-1.51%	9.03	12.62	0.62	1.44		
Garmin Ltd	GRMN	4.00%	54.76	54.15	-2.71%	-1.11%	11.71	17.25	6.62	7.53	0.90%	
Precision Castparts	PCP	3.99%	90.87	104.05	32.92%	14.50%	14.27	19.13	2.99	5.30	0.10%	
Itt Indus	ITT	3.98%	59.22	60.32	6.16%	1.86%	10.97	15.67	1.40	3.84	0.90%	
Rockwell Collins	COL	3.97%	65.48	66.93	5.75%	2.21%	11.26	17.90	2.83	8.63	1.00%	
Harris Corp	HRS	3.40%	49.10	50.95	11.10%	3.77%	6.83	16.02	1.76	3.72	0.90%	
Goodrich Corp	GR	3.21%	49.08	51.48	13.02%	4.89%	6.45	14.50	1.10	3.26	1.50%	
Ball Corp	BLL	2.35%	46.32	45.85	5.16%	-1.01%	4.73	12.19	0.72	4.13	0.90%	
Oshkosh Truck	OSK	1.95%	53.65	53.00	9.46%	-1.21%	3.92	11.37	1.07	3.52	0.80%	
Trimble Navigation Ltd * (2:1 split)	TRMB	1.49%	26.46	26.84	1.45%	1.44%	3.17	20.81	3.35	3.98		
Alliant Techsystems	ATK	1.44%	86.56	87.92	12.44%	1.57%	2.90	14.51	0.84	5.11		
Armor Holdings	AH	1.19%	63.56	67.33	22.75%	5.93%	2.39	11.79	1.02	2.84		
Flir Systems	FLIR	1.19%	34.76	35.67	12.06%	2.62%	2.36	20.38	4.07	5.82		
URS Corporation	URS	1.11%	41.49	42.59	-0.61%	2.65%	2.24	15.38	0.53	1.47		
Drs Technologies	DRS	1.05%	52.99	52.17	-0.97%	-1.55%	2.11	15.43	0.80	1.46	0.20%	
Moog Inc.	MOGA	0.88%	38.11	41.65	9.06%	9.29%	1.77	15.90	1.29	2.20		
SAIC	SAI	0.75%	18.03	17.32	-2.64%	-3.94%	7.11	20.38	0.88	4.97		
Ceradyne Inc	CRDN	0.74%	51.60	54.74	-3.12%	6.09%	1.49	12.33	2.28	3.71		
Caci Intl	CAI	0.72%	46.50	46.86	-17.06%	0.77%	1.44	16.62	0.79	1.83		
Sra International'a'	SRX	0.69%	23.70	24.36	-8.90%	2.78%	1.38	20.47	1.12	2.36		
Teledyne Technologies	TDY	0.65%	38.05	37.44	-6.70%	-1.60%	1.30	13.97	0.92	3.04		
Force Protection	FRPT	0.63%	16.30	18.76	7.75%	15.09%	1.27	16.90	6.44	5.71		
Cogent Inc.	COGT	0.63%	11.29	13.45	22.16%	19.13%	1.27	28.02	12.40	2.56		
L-1 Identify Solutions	ID	0.60%	15.81	16.51	9.12%	4.43%	1.20	56.93	7.24	1.11		
Mantech International'a'	MANT	0.56%	34.45	33.41	-9.29%	-3.02%	1.13	16.87	0.99	2.48		
Orbital Sciences Corp	ORB	0.55%	19.78	18.74	1.63%	-5.26%	1.11	20.82	1.38	2.80		
Esterline Technologies	ESL	0.52%	40.90	41.07	2.09%	0.42%	1.05	13.47	1.02	1.42		
Viasat Inc	VSAT	0.48%	34.16	32.97	10.60%	-3.48%	0.96	21.83	1.89	3.00		
DynCorp	DCP	0.43%	16.56	15.09	-4.91%	-8.88%	0.86	14.51	0.42	2.46		
Gencorp	GY	0.39%	13.86	13.84	-1.28%	-0.14%	0.77	34.60	1.20			
United Industrial	UIC	0.31%	53.95	55.20	8.77%	2.32%	0.62	16.88	1.09	9.88	0.70%	
SafeNet Inc.	SFNT	0.30%	27.45	28.30	18.21%	3.10%	0.60	20.07	2.09	1.11		
Cubic Corp	CUB	0.29%	21.11	21.64	-0.28%	2.51%	0.58	17.59	0.69	1.71	0.80%	
Argon St	STST	0.29%	24.23	26.46	22.84%	9.20%	0.60	21.51	2.34	2.16		
Ladish Co	LDSH	0.27%	41.80	37.64	1.51%	-9.95%	0.55	12.85	1.49	3.54		
Edo Corp	EDO	0.27%	24.03	26.20	10.36%	9.03%	0.55	14.56	0.75	1.96	0.50%	
TASER International Inc.	TASR	0.25%	7.94	8.03	5.52%	1.13%	0.50	19.12	7.36	5.01		
American Science & Engineering	ASEI	0.24%	51.16	52.67	-11.49%	2.95%	0.48	19.95	3.30	3.07		
Osi Systems	OSIS	0.22%	25.00	26.44	26.33%	5.76%	0.45	29.38	0.90	1.90		
AeroVironment (IPO 23Jan07)	AVAV	0.21%	21.21	22.86	-8.56%	7.78%	0.43	24.85	2.90	3.42		
Si International	SINT	0.19%	28.02	28.71	-11.44%	2.46%	0.37	15.11	0.81	1.57		
Stanley Inc.	SXE	0.17%	15.08	15.60	-7.75%	3.45%	0.33	18.80	0.88	2.57		
MTC Technologies Inc.	MTCT	0.16%	21.11	21.03	-10.70%	-0.38%	0.32	15.24	0.77	1.79		
Mercury Computer Sys	MRCY	0.15%	12.72	13.87	3.82%	9.04%	0.31	36.50	1.43	1.56		
Herley Industries	HRLY	0.11%	15.37	15.62	-3.52%	1.63%	0.22	17.95	1.32	1.10		
Applied Signal Technology	APSG	0.11%	16.12	17.93	27.52%	11.23%	0.22	25.99	1.26	1.98	2.80%	
Kvh Industries	KVHI	0.07%	10.01	9.32	-12.16%	-6.89%	0.14	15.03	1.81	1.82		