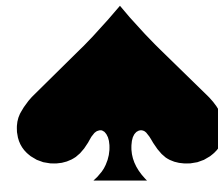


SPADE INVESTOR



February 2010

Defense * Homeland Security * Space

www.spadeindex.com

Inside the Market...	3	Budget Winners and Losers...	4
Quarterly Reporting Comments..	3	Cancelled Defense Programs...	5
Recent Mergers & Acquisitions...	3	Defense Program Reductions...	5

Vol 5 #2 ISSN: 1930-4781

SPADE Defense Index Statistics

1/31/10 Close: 1905.57
 All-time Close: 2747.67
 Date of all-time close: 9 October 2007

FY-2011 Budget Request (Table 8.9, in billions)

	2009	2010E	2011E	2012E	2013E	2014E	2015E
Defense Dep't	666.355	693.417	708.001	616.360	631.779	647.770	666.036
Other Defense	28.622	23.708	25.091	25.002	25.147	25.816	26.474
Total	\$694.977	\$717.127	\$733.092	\$641.362	\$656.926	\$673.586	\$692.510

	SPADE Defense	S&P500
January	[1.81%]	[3.70%]
QTD	[1.81%]	[3.70%]
2009	21.71%	23.45%

Commentary

For the defense sector, this past week was the Super Bowl, the Olympics, and the World Cup all rolled into one. Just as millions transfixed on the TV screen watching the competitive sporting event of their choice, so too do defense analysts with the federal budget. The top level and big information has been released but the fine details will slowly emerge over the next few weeks as analysts, investors, and company officials determine the winners and losers and look for opportunities hidden in the budget. (FYI: The DoD budget is typically more than 26,000 pages). There is no more important day for the defense industry than the release of the budget. OK enough hyperbole and onto the analysis.

The Budget

A year ago the sector sold off from its highs (along with the overall market) driven by the fear of anticipated declines in the FY-2011 budget, therefore the details presented in the White House's plans can be seen as nothing but a **positive for the sector with the budget being strong and steady through the middle of the next decade.**

An analysis of the out-year budget shows a 13% dip between FY-2011 and FY-2012 before rising steadily over the following three years. This decline reflects reduced supplemental war spending as the U.S. pulls out of Iraq and the 18-month long efforts in Afghanistan and Pakistan wind down. Much of these resources goes toward personnel, supplies, and other items (ie. gasoline and energy needs). Many defense firms have stated that the war effort represents 5% or less of total revenues so the impact from reduced war spending is less than the raw number indicates.

Meanwhile the core defense budgets grows about \$15 billion annually through the middle of the decade.

Overall, defense spending levels for FY-2015 are forecasted to be just 5% less than what is being spent during the peak of the war effort. The White House appears to have incorporated the necessary funds to rebuild and recapitalize the military while still funding future R&D and

Budget Summary

- Base budget of FY-2011 is \$548.9 Billion, up 3.4%
- Includes \$33.0 Billion for 2010 supplemental and asks for an additional \$159.3 Billion in 2011 to support overseas operations.
- Reform defense acquisitions - Time and materials and labor hour contracts reduced by 17% through 2011.
- 6% boost in SOCOM to purchase gear, ISR assets and communications systems
- Money to develop a new long-range bomber and cruise missile
- \$4 billion to improve long-range strike capabilities, maintain the industrial base and upgrade B-2 and B-52
- Starting in 2011, a new "Phased Adaptive Approach" to guide missile defense architecture (incremental deployment of sea- and land-based missile interceptors and range of sensors in Europe).
- \$10.7 billion for more development and the acquisition of 42 F-35 jet fighters.
- Announced release by the National Counterterrorism Center's government-wide action plan.
- \$9.6 billion to modernize helicopter fleet including \$1.4 billion (UH60 Black Hawk); \$1.2 billion (CH-47 Chinook), \$2.7 billion for V-22 Osprey, and \$1.7 billion (MH-60R/S Seahawks).
- Create two "combat aviation brigade" by combining existing platforms to create a 12th active duty brigade. A 13th is planned for 2015.

FY-2011 Department of Defense Discretionary Budget Request (\$M)

	2009	2010E	2011E
Military Personnel	125,625	134,968	138,541
Operations & Maintenance	179,103	184,488	200,248
Procurement	100,886	104,803	112,873
RDT&E	79,392	80,097	76,131
Military Construction	21,898	21,022	16,924
Family Housing	3,163	2,259	1,822
Revolving Funds	3,155	3,118	2,380
Total	\$513,222	\$530,755	\$548,919
Overseas Contingency	145,741	129,648	---
2011 Requested		33,014	159,336
Total War Effort	145,741	162,662	159,336
Other	7,435		
TOTAL	\$633,797	\$684,436	\$708,255

Due to the various ways the government calculates the budget, figures may vary slightly from table to table

continued on page 2

January 2010 Top Gainers

1	TASER	28.77%
2	AeroVironment	17.16%
3	Argon ST	16.81%
4	VSE Corporation	12.11%
5	Boeing	11.95%
6	Mercury Computer	8.45%
7	NCI Information	7.78%
8	Triumph Group	5.55%
9	Cubic Corp.	4.69%
10	Texton	3.83%

January 2010 Laggards

1	GenCorp/Aerojet	[20.00%]
2	DynCorp	[16.31%]
3	Integral Systems	[14.32%]
4	ViaSat	[14.00%]
5	Herley Industries	[11.88%]
6	EMS Technologies	[11.59%]
7	Computer Sciences	[10.83%]
8	Alliant Techsystems	[10.54%]
9	SRA International	[9.84%]
10	Harris Corporation	[9.74%]

YTD Top Gainers

1	TASER	28.77%
2	AeroVironment	17.16%
3	Argon ST	16.81%
4	VSE Corporation	12.11%
5	Boeing	11.95%
6	Mercury Computer	8.45%
7	NCI Information	7.78%
8	Triumph Group	5.55%
9	Cubic Corp.	4.69%
10	Texton	3.83%

YTD Laggards

1	GenCorp/Aerojet	[20.00%]
2	DynCorp	[16.31%]
3	Integral Systems	[14.32%]
4	ViaSat	[14.00%]
5	Herley Industries	[11.88%]
6	EMS Technologies	[11.59%]
7	Computer Sciences	[10.83%]
8	Alliant Techsystems	[10.54%]
9	SRA International	[9.84%]
10	Harris Corporation	[9.74%]

Largest Defense Prime Contractors

	January	YTD
Lockheed Martin	[1.10%]	[1.10%]
Boeing	11.95%	11.95%
General Dynamics	[1.94%]	[1.94%]
Northrop Grumman	1.34%	1.34%
Raytheon	1.77%	1.77%

Year SPADE S&P500

2009	21.71%	23.45%
2008	[38.03%]	[38.49%]
2007	22.17%	3.53%
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%

ETF Statistics (NYSEArca: PPA)

Powershares Aerospace & Defense

Exchange / Ticker Symbol: NYSE / PPA
 Fee 60 basis
 Assets (1/29/10) \$ 123.9 M
 Closing Price (1/29/10) \$16.74
 Yield (12-month yield) 1.20%
 January 10 Volume 1,054,800
 3 month Avg Daily Trading Volume 66414
 Turnover 9%

source: Yahoo Finance

Commentary (continued)

development efforts. It is nothing short of being one of the strongest non-war defense budget ever submitted from the White House.

Combined with companies expanding their focus to compete and operate in non-defense sectors and the possibility of defense firms maintaining future growth becomes highly possible.

Some other items for your consideration:

1. General Science, Space, and Technology (non-defense) rises nearly 20% over the five years.
2. There is a minor dip in defense "direct physical" procurement rises from \$117B to \$147B before dipping to \$141B in FY-11. RDT&E holds relative steady at \$83B, \$83B, and \$82B from FY-09 to FY-11.
3. The classified budget (a \$40+ billion effort) holds the post-growth levels seen in prior years. (There have been no statements to the contrary and rising expenditures on classified satellite systems and cybersecurity at the NSA and other agencies are not seen to decline).
4. Homeland Security is one of the departments whose budget was not frozen and will see \$2 billion added, with nearly half of that

amount going into advanced airport scanners.

5. NASA's budget has been restructured an adds \$6 billion over the five years while eliminating a major program creating opportunities for more companies to get a piece of future programs.

6. There is increased spending in what has been deemed "new priority areas", ie. UAVs, helicopters, cyberwarfare, and activities that focus on agility.

7. Small and mid-size companies should see more opportunities. As such an increase from the 60 M&A transactions that Houlihan Lokey recorded for the sector in 2009 is likely to rise. (83% of the deals were less than \$100 million in value, although valuations were higher with few high-growth companies coming to market.)

8. For large contractors, DoD's shift from large, multi-billion dollar decade-long 'exquisite weapons programs' will lead to increased competition but is not necessarily a negative.

So although further analysis of the budget is still required, the initial appearance is that this budget should be viewed as a long-term positive for the sector.

Avg. Market Cap.	8.80
Portfolio P/E	12.67
Portfolio P/S	0.64
Portfolio P/B	2.25
Portfolio P/Cash Flow	6.37
Earnings Growth Rate (ttm)	11.74%

source: Yahoo! Finance (11/30/09)

QDR

The Pentagon's QDR maintains the requirement of fighting two major wars simultaneously but it adds an emphasis on "conduction a wide range of operations including homeland defense, disaster relief, and non-traditional warfare.

Defense Secretary Gates said that the two-war scenarios dating back to the Cold War, "didn't represent the real world" and felt "too confining" for the current reality faced by the military. "Because America's adversaries have been adopting a wide range of strategies and capabilities that can be brought to bear against the United States and its forces, allies, and interests, it is no longer appropriate to speak of 'major regional conflicts' as the sole or even the primary template for sizing, shaping, and evaluating U.S. forces".

Historical Quarterly Performance of the SPADE Defense Index

Quarter	SPADE	S&P500
4Q09	5.34%	5.49%
3Q09	16.36%	14.98%
2Q09	17.78%	15.22%
1Q09	[15.71%]	[11.67%]
4Q08	[18.14%]	[22.45%]
3Q08	[8.13%]	[9.00%]
2Q08	[4.69%]	[3.23%]
1Q08	[13.53%]	[9.92%]
4Q07	[4.22%]	[3.82%]
3Q07	[2.39%]	[2.99%]
2Q07	10.76%	5.81%
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%

Quarter	SPADE	S&P500
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%]

Quarter	SPADE	S&P500
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%

INSIDE THE MARKET

Blackhawk Helicopter - Sikorsky (United Technologies) - announced the creation of Sikorsky Innovations, a \$1 billion effort to transform the Blackhawk helicopter into a computerized “optionally piloted helicopter” capable of flying with one pilot, two pilots, or none at all. - *Houston Chronicle* 2/1

C130J - Lockheed Martin stated that demand for the transport plane is strong and is negotiating the sale of 35 planes to customers outside the U.S. located in the Middle East, North Africa, and Asia - *Wall St. Journal* 2/2

Littoral Combat Ship - the Navy released its RFP for 10 ships. Bids from companies, such as Lockheed Martin and General Dynamics, are due by march 29. The Navy plans to choose one design in late spring or early summer. *Defense News* 1/26

The Air Force chief scientist is preparing a report on “game-changing” technologies under their Air Force **2030 Technology Horizons** initiative. Technologies mentioned include a tiny drone aircraft with flapping wings and cruise missiles that fly at 4,000 mph.

Japanese Missile Defense - Lockheed Martin said that despite defense spending cuts by the Japanese government, missile defense sales should hold steady for 2010. Missile defenses, including the Patriot and THAAD systems, accounted for roughly 10% of Lockheed’s 2009 sales. *Defense News* 1/7

Work on the Boeing **787 Dreamliner** is providing a lifeline to some supplies. “As [Boeing] starts to ramp up on deliveries, we’ll start to see some of that major revenue flow in,” Todd Brindlinger, Hamilton Sundstrand (NYSE: UTX) whose firm could see as much as \$15 billion from its 787 contracts.

QUARTERLY REPORTING - SELECTED COMMENTS

Lockheed Martin - Earned \$827 million in Q4 beating analysts expectations (\$2.17/share vs. \$1.99/share). Strong sales of fighter aircraft and transports helped boost revenues by 13%. For 2010 Lockheed raised its profit forecast by 10 cents/share.

Raytheon - Exceeded Wall Street expectation with 4Q income of \$504 million and an increase of 17%. It left the forecast for 2010 at \$4.75 - \$4.90.

General Dynamics - Although growing in most areas of the business, the company reported flat results due to a 37% decline in its Gulfstream business aviation group. For 2010, the firm said that Gulfstream increased its backlog in the fourth quarter indicating the worst may be behind the division.

Boeing - Showed a \$1.27 billion profit in 4Q and a 42% jump in quarterly revenue. The firm also stated that profits were likely not to exceed \$4 per share in 2010 below what analysts were anticipating.

Rockwell Collins - Reported a \$121 million profit that was higher than analysts had expected even though profits fell 20% in the fiscal first quarter due to the “after effects of the global recession and delays in passing the 2010 Defense Appropriations bill.” The company reiterated its 2010 guidance citing global defense spending and improvements in commercial aerospace market.

Textron - The maker of Bell helicopters and Cessna jets cut its fourth quarter loss by nearly 70% following a year of cost cutting moves. Excluding special charges, the firm expects to earn 30-50 cents in 2010.

MERGERS & ACQUISITIONS

ManTech (NASDAQ: MANT) acquired Sensor Technologies, a systems engineering and technology contractor to the U.S. Army for \$242 million. The move was seen as fitting the firm’s plans of focusing on high-end defense and intelligence markets. The firm saw a 23% increase in 3Q earnings.

SAIC acquired Shield Technologies (a cybersecurity provider) and Spectrum San Diego (ultra-low-dose X-ray scanning systems) for undisclosed amounts.

Defense Budget Winners and Losers

President Barack Obama proposed spending a record \$708 billion in defense for 2011, a 3.4% increase over the Pentagon's base budget along with a request for an additional \$159 billion to fund U.S. military operations in Iraq, Afghanistan, and Pakistan.

The F-35 Joint Strike Fighter - Budgeted to receive \$11 Billion in FY-2011 however on the negative side, Defense Secretary Robert Gates stated that he is unsure the project can avoid an automatic cost review under the Nunn-McCurdy law and the Pentagon will withhold \$614 million in performance incentives for F-35 contractors led by Lockheed Martin. (Washington Post 2/2). The *Wall Street Journal* on 1/29 stated that the \$300 billion program is key to the company's future but development costs are increasing faster than expected which could reduce the number of planes purchased.

MQ9-Reaper UAV - Plans to double the Pentagon's purchase. Other UAVs will also see continued gains.

Special Operations - Seeks to hire 2,800 new personnel and equipment to support them.

Long-Range Bomber - \$4 billion toward its development over the 2011 - 2015 timeperiod.

Military Transport Planes - According to *AviationWeek*, more than 900 new planes worth \$74 billion are expected for delivery in the 2010 decade. The heavy segment makes up about 85% of the value of overall production. (*AvWeek* 1/29)

European Missile Defense - Raytheon and Lockheed Martin would see their sales of interceptor missiles triple and quadruple respectively under the Pentagon's revised plan for European missile defense. Plans that see defenses against short- and medium-range missiles start with a sea-based deployment on Aegis-class destroyers and cruisers. *Business Week / Bloomberg* 1/14

Helicopters -- The Army plans to step up production of Boeing's Chinook CH-47F helicopter from 2.5 per month to 3.5 per month to make up a 50-aircraft deficit. Boeing has said that 290 of the 452 aircraft under the 5-year contract have been delivered. *AvWeek* 1/6

Boeing - Reuters stated that although the C-17 transport plane was terminated, the budget calls for \$2.5 billion in additional funding for the electronic attack variant of its F/A-18 fighter over the next 2 years and additional orders for the CH-47 Chinook and AH-64 Apache helicopters to replace aircraft lost in battle.

Government Space / NASA

- The FY-2011 budget will add \$6 billion over 5 years
- Shift's focus to "game changing" technology
- Ends the Constellation program
- Expands the International Space Station
- Expands robotic solar system exploration and astronomical observatories

The White House proposed a modest increase to NASA while cancelling its Constellation project aimed at returning America to the Moon by 2020. Trend continues a new strategy with every administration. The impact is a negative to firms with a strong position on the program (such as Alliant TechSystems) but with resources shifting to smaller programs and more science satellite missions, this could open up spending elsewhere. With NASA, time will tell. Overall NASA spent roughly \$9 billion on Constellation to date for development of technologies.

Homeland Security

- The Department of Homeland Security will receive \$56.3 billion in FY-2011 and \$43.6 billion in discretionary spending, a boost of 3% over 2010 levels.
- \$734 Million for up to 1000 advanced imaging technology scanning machines
- \$538 Million to construct a fifth Coast Guard National Security Cutter.

The FY-11 budget contains \$214.7 million for 500 full-body scanners destined for U.S. airports that will screen for non-metallic materials such as PETN explosive. According to DHS, 75% of high-risk airports will get new scanning technology under the budget plan along with 60% of second-tier airports. In addition, the budget contains more money for explosive detection systems and federal air marshals. *USA Today*, 2/2

With the global market for security devices expected to surge -- 15% annual growth for biometric technologies -- security companies are evaluating technologies for the next breakthrough that make scanning faster and more effective including 3D baggage imaging and sniffers for explosive residue. *BusinessWeek* 1/8

FY-2011 Homeland Security Budget Request (\$B)

	2009	2010E	2011E
DHS Total Discretionary	\$48.967	\$51.404	\$53.248

FY-2011 NASA Budget Request (\$M)

	2009	2010E	2011E
Science	4,503	4,469	5,006
Exploration	3,505	3,746	4,263
Aeronautics	500	501	1,152
Space Operations	5,765	6,147	4,888
Education	169	183	146
Corss Agency Support	3,306	3,194	3,111
Construction	---	448	397
Inspector General	34	36	37
TOTAL	\$17,782	18,724	19,000

About

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

The Index is designed to reflect the broad diversity of activities that is representative of companies involved with defense, homeland security, and space – including industrial firms that manufacture aircraft, tanks, ships, and missiles and those involved with current and next generation systems related to network centric warfare and information technology; intelligence, surveillance, and reconnaissance; satellites; border security; and defense systems that protect the lives of our servicemen and servicewomen.

Licensed Products

Exchange Traded Fund - ETF

Licensed to Powershares, their Aerospace & Defense Portfolio ETF (NYSE: **PPA**) is designed to track the performance of the SPADE Defense Index.

Rules

The Index was designed to be RIC (Registered Investment Company) compliant for the purpose of enabling financial products. Companies are required to meet a variety of eligibility criteria including market valuation, liquidity, and listing on a major U.S. exchange. Full details are available on our website.

- * Market Cap: Minimum \$100M
- * Share Price: Minimum \$5.00
- * Sufficient Liquidity

Cancelled Programs

According to the White House Budget Request...

Joint Strike Fighter Alternate Engine - This has been proposed in the past and DoD has not requested it since before the 2007 budget. Congress continues to fund the program but its cancellation would save \$465 million.

Net Enabled Command Capability (NECC) - Cancelled as it was highly unlikely to be completed on schedule. DoD will upgrade its current control capability - GCCS. Saves \$9 million.

Navy CG(X) Cruiser - Envisioned as a multi-mission ship with an emphasis on air and ballistic missile defense, it was designed to replace the existing Ticonderoga Class Cruisers. Projected high cost and risk in technology and design will see the Navy look to other programs to fill the gap. Saves \$46 million.

EP-X Manned Airborne Intelligence, Surveillance, and Reconnaissance Aircraft - Designed to replace the current EP-3 aircraft, the program does not meet acquisition requirements stating that it can be met with known and affordable technologies. Resources (\$12 million in 2010) will likely go to a new effort.

Third Generation Infrared Surveillance Program (3GIRS) - The satellite program was launched as a backup plan in case of continued delays with the Space Based Infrared System (SBIRS). With SBIRS making progress, the technology from 3GIRS will be incorporated into SBIRS.

NASA Constellation Systems Program - A program designed to return astronauts to the Moon by 2020 will be replaced by a new approach that embraces commercial space technology, international partnerships, and a focus on game-changing technologies. The program received \$3.466 billion in 2010.

C-17 Transport Aircraft Production - In 2007, DoD decided to cease production after its completed its planned purchase of 180 aircraft. Congress continues to add funding. In 2010, \$2.5 billion was allotted.

Emergency Operations Center Grant Program - The DHS program was cancelled since it did not give awards to state and local communities based on risk assessment instead seeking 'diversity'.

Programs Reduced

Expeditionary Fighting Vehicle - Delay procurement one year while continuing RDT&E funding. The platform is the Marine's next generation armored, amphibious, troop-carrying assault vehicle. Savings will be \$50 million.

Navy's Command Ship Replacement (LCC-R) - Delay the procurement beyond 2015 due to changes in the Navy's plan. Saves approximately \$3.8 billion in procurement over the next five years.

EPA Homeland Security Activities - Activities have mostly been completed or handled by other agencies. Will save \$35 million.

Other Savings

Air Force Cellular Airtime Optimization - DoD could save \$2 million per year by placing users on plans appropriate to usage.

Unemployment Compensation Process for the Army - New procedures are anticipated to free up \$15.3 million annually.

Contact Information

SPADE Indexes
 1725 'I' Street, NW, Suite 300
 Washington, DC 20006
 Tel: (202) 349-3917
 info@spadeindex.com
 http://www.spadeindex.com
 Scott Sacknoff: Index Manager

Legal & Disclaimers

© 2010 ISBC -- SPADE, the SPADE icon, and "The SPADE Investor" newsletter are registered trademarks of the ISBC. The ISBC is the owner of the trademark, service marks, and copyrights related to its indices. This newsletter does not constitute an offer of an investment product. The ISBC makes no representation regarding the advisability of investing in vehicles based on the SPADE Defense Index. All information is provided 'as is' for informational purposes only and is not intended for trading purposes or advice. Neither the ISBC nor any related party is liable for any informational error, incompleteness or for any actions taken based on information contained herein.

Feb-10		SPADEFENSE INDEX					Market	Forward	Price/	Price/	PEG	
Company	Ticker	Float %	Price	Price	% Ch	% Ch	Cap	P/E	Sales	Book	5 yr	Div Yld
		31-Jan-10	31-Dec-09	31-Jan-10	YTD	MTD	intraday	(ttm)	ttm	mrq	expected	forward %
Boeing Co	BA	7.55%	54.13	60.60	11.95%	11.95%	42.27	13.84	0.69		1.71	2.80%
United Technologies	UTX	6.58%	69.41	67.48	-2.78%	-2.78%	61.74	14.70	1.16	3.07	1.68	2.20%
Honeywell Intl	HON	6.45%	39.20	38.64	-1.43%	-1.43%	29.48	13.19	0.96	3.20	1.81	3.10%
Lockheed Martin	LMT	6.21%	75.35	74.52	-1.10%	-1.10%	28.17	9.70	0.66	9.17	1.12	3.40%
General Dynamics	GD	5.64%	68.17	66.85	-1.94%	-1.94%	25.79	9.55	0.82	2.23	1.31	2.30%
Northrop Grumman	NOC	4.62%	55.85	56.60	1.34%	1.34%	17.76	10.14	0.51	1.43	1.19	3.00%
Raytheon Co	RTN	4.61%	51.52	52.43	1.77%	1.77%	20.09	9.95	0.83	2.12	1.21	2.40%
Precision Castparts	PCP	4.32%	110.35	105.25	-4.62%	-4.62%	14.81	14.00	2.62	2.72	0.99	0.10%
L-3 Communications Hldgs	LLL	3.96%	86.95	83.34	-4.15%	-4.15%	9.69	9.74	0.64	1.54	1.09	1.70%
Itt Indus	ITT	3.94%	49.74	48.31	-2.87%	-2.87%	8.83	12.05	0.81	2.47	1.99	1.70%
SAIC	SAI	3.94%	18.94	18.33	-3.22%	-3.22%	7.26	133.00	0.68	3.81	1.11	
Goodrich Corp	GR	3.94%	64.25	61.91	-3.64%	-3.64%	7.70	12.43	1.13	2.65	1.51	1.70%
Rockwell Collins	COL	3.92%	55.36	53.19	-3.92%	-3.92%	8.36	13.67	1.87	6.48	1.26	1.80%
Computer Sciences	CSC	3.64%	57.53	51.30	-10.83%	-10.83%	7.82	9.94	0.50	1.26	1.12	
Harris Corp	HRS	3.07%	47.55	42.92	-9.74%	-9.74%	5.65	10.08	1.16	3.01	0.69	2.10%
Textron	TXT	2.88%	18.81	19.53	3.83%	3.83%	5.29	13.75	0.46	1.79	3.15	0.40%
Ball Corp	BLL	2.60%	51.70	50.79	-1.76%	-1.76%	4.78	10.54	0.66	3.22	1.44	0.80%
Flir Systems	FLIR	2.44%	32.73	29.58	-9.62%	-9.62%	4.49	18.96	4.00	4.03	1.19	
URS Corporation	URS	2.05%	44.52	44.88	0.81%	0.81%	3.77	13.77	0.38	0.70	1.43	
Oshkosh Truck	OSK	1.75%	37.03	36.07	-2.59%	-2.59%	3.23	11.83	0.62	6.40	0.47	
Elbit Systems	ESLT	1.43%	65.05	62.42	-4.04%	-4.04%	2.64	10.02				2.31%
Alliant Techsystems	ATK	1.41%	88.27	78.97	-10.54%	-10.54%	2.60	8.67	0.56	3.18	0.69	
Mantech International'a'	MANT	0.93%	48.34	47.91	-0.89%	-0.89%	1.72	13.61	0.87	2.20	1.40	
Caci Intl	CACI	0.78%	48.85	47.97	-1.80%	-1.80%	1.44	12.90	0.51	1.36	1.12	
Moog Inc.	MOGA	0.74%	29.23	30.18	3.25%	3.25%	1.37	11.56	0.76	1.31	1.30	
Teledyne Technologies	TDY	0.73%	38.36	37.26	-2.87%	-2.87%	1.34	11.68	0.78	2.30	3.74	
Esterline Technologies	ESL	0.61%	40.77	37.76	-7.38%	-7.38%	1.12	10.35	0.79	0.90	1.02	
Cubic Corp	CUB	0.57%	37.30	39.05	4.69%	4.69%	1.04	15.81	1.03	2.49	1.57	0.50%
Digital Globe	DGI	0.57%	24.20	23.53	-2.77%	-2.77%	1.06	28.01	3.81	2.31	1.51	
Comtech	CMTL	0.54%	35.04	35.36	0.91%	0.91%	1.00	15.44	1.90	1.57	0.45	
Sra International'a'	SRX	0.53%	19.10	17.22	-9.84%	-9.84%	0.98	12.85	0.63	1.29	1.01	
Cogent Inc.	COGT	0.50%	10.39	10.33	-0.58%	-0.58%	0.93	20.66	7.06	1.70	1.90	
Orbital Sciences Corp	ORB	0.49%	15.26	15.81	3.60%	3.60%	0.90	20.80	0.79	1.84	1.73	
AAR Corp	AIR	0.49%	22.98	23.17	0.83%	0.83%	0.88	12.13	0.65	1.23	1.25	
Viasat Inc	VSAT	0.47%	31.78	27.33	-14.00%	-14.00%	0.87	14.09	1.37	1.76	1.30	
Triumph Group	TGI	0.46%	48.25	50.93	5.55%	5.55%	0.85	10.15	0.69	1.02	3.10	0.30%
AeroVironment	AVAV	0.40%	29.08	34.07	17.16%	17.16%	0.73	24.16	3.41	3.58	1.58	
American Science & Engineering	ASEI	0.37%	75.84	77.64	2.37%	2.37%	0.69	18.49	2.90	3.43	1.20	1.00%
L-1 Identity Solutions	ID	0.37%	7.49	7.49	0.00%	0.00%	0.68	149.80	1.07	0.94		
DynCorp	DCP	0.37%	14.35	12.01	-16.31%	-16.31%	0.68	6.86	0.21	1.25	0.66	
Stanley Inc.	SXE	0.34%	27.41	26.18	-4.49%	-4.49%	0.63	12.96	0.78	2.58	0.93	
Argon St	STST	0.30%	21.71	25.36	16.81%	16.81%	0.55	19.36	1.54	1.77	1.67	
Ceradyne Inc	CRDN	0.27%	19.22	19.54	1.66%	1.66%	0.50	26.77	1.14	0.78	2.60	
GeoEye	GEOY	0.27%	27.88	25.37	-9.00%	-9.00%	0.49	16.46	2.04	1.89	1.00	
Osi Systems	OSIS	0.25%	27.28	26.47	-2.97%	-2.97%	0.46	16.44	0.83	1.70	1.10	
NCI Information Technology	NCIT	0.22%	27.65	29.80	7.78%	7.78%	0.40	16.74	0.91	3.48	1.22	
TASER International Inc.	TASR	0.19%	4.38	5.64	28.77%	28.77%	0.35	51.27	3.80	3.26		
Force Protection	FRPT	0.19%	5.21	5.09	-2.30%	-2.30%	0.36	10.60	0.38	1.22	0.67	
Gencorp	GY	0.18%	7.00	5.60	-20.00%	-20.00%	0.33	7.47	0.44	65.58		
Mercury Computer Sys	MRCY	0.15%	11.01	11.94	8.45%	8.45%	0.28	18.37	1.52	1.86	2.41	
VSE Corporation	VSEC	0.14%	45.08	50.54	12.11%	12.11%	0.26	8.11	0.24	2.70		0.40%
Ladish Co	LDSH	0.13%	15.05	15.45	2.66%	2.66%	0.25	27.11	0.65	1.10	154.50	
Applied Signal Technology	APSG	0.13%	19.28	17.79	-7.73%	-7.73%	0.24	15.74	1.18	1.72	1.20	2.80%
EMS Tech	ELMG	0.11%	14.50	12.82	-11.59%	-11.59%	0.20	15.26	0.54	0.75	0.67	
Ducommun	DCO	0.10%	18.71	17.98	-3.90%	-3.90%	0.19	8.06	0.44	0.79	0.66	1.70%
Herley Industries	HRLY	0.09%	13.89	12.24	-11.88%	-11.88%	0.17	10.37	0.99	1.09	3.17	
Integral Systems	ISYS	0.07%	8.66	7.42	-14.32%	-14.32%	0.13	13.49	0.81	1.12	1.06	

Data Provided by Yahoo Finance & Capital IQ, and Forward P/E by Thompson