

## In This Issue

Page 1/2/4: Commentary  
 Page 1: Defense 101 - M&A  
 Page 2: Index Leaders/Laggards  
 Page 3: Performance Charts  
 Page 5: Constituent Financial Summary

## SPADE Indexes at the Paris Air Show

SPADE Indexes will be present at the show, operating out of the State of Maryland booth, Hall 3, B15 where our 'Investing in Defense & Security' presentation will be shown. Index Manager, Scott Sacknoff, will be in attendance and available to meet with interested parties. To schedule a meeting between June 18-22, please send an email to [info@spadeindex.com](mailto:info@spadeindex.com)

## SPADE Defense Index Statistics

YTD Return: 14.87%  
 QTR Return: 10.05%  
 May Return: 5.37%  
 5/31/07 Close: 2419.34

All-time Close: 2419.34  
 Date: 31 May 2007

## Commentary

This time of year tends to be relatively quiet -- between quarterly earnings announcements, between when the budget is proposed by the White House and when Congress approves it (and many new contracts are announced), and elections that are many months away. In the early summer months what tends to generate news in the sector are discussion in the House and Senate as to which defense programs have the support to receive more (or less) than that originally proposed by the White House.

Over the next few weeks, much of the sector's focus will turn to the Paris Air Show taking place later this month. I'll have more on this later. The end of June also marks the next rebalance of the SPADE Defense Index, any changes in which

will appear in the July newsletter.

What we've pulled together in this issue of the *SPADE Investor*, is a snapshot of some of the news items and statistics that have caught our eye.

Meanwhile, the first five months of the year have seen the Index produce returns that have *outperformed the S&P500 by nearly 700 basis points* in 2007.

|                 | SPADE Defense | S&P500 |
|-----------------|---------------|--------|
| Month           | 5.37%         | 3.25%  |
| Quarter to Date | 10.05%        | 7.72%  |
| Year to Date    | 14.87%        | 7.92%  |

Below, we've also decided to answer questions that gives insight into the construction of the

Index and how it is crafted, as well as aspects to better understand the defense sector itself.

## SPADE Defense Index Closes at Historical High

On 31 May 2007, the Index closed at another historical high of 2419.34. This followed the Index closing the month of April at historical highs. As the table to the left shows, the Index is outperforming the S&P500 by nearly 700 basis points for the year.

## PPA Passes \$220 Million Level

As mentioned last month, the defense sector continues to attract investors and new assets. The last few months have seen the Powershares Aerospace & Defense ETF (AMEX: PPA), which tracks our SPADE Defense Index, incor-

*continued on page 2*

## Designing a Sector Benchmark

### What's Inside and Why?

When the rules and methodology governing the SPADE Defense Index were being designed, we realized the importance of not only designing an index that reflected long-held principles of indexing and investing but the concept that a true sector benchmark needs to reflect the activities of an industry not a generic classification scheme.

With nearly 20 years of experience in the sector, we recognized the importance of including firms that were involved with all aspects of the defense sector -- not just the manufac-

tures and prime contractors but those involved with defense IT (which represents nearly 20% of revenues from the big 5 prime contractors) and firms focused on outsourced operations and services (a growing part of the defense budget). Both are areas that the defense department deems critical to its future and an Index benchmarking the sector should recognize this.

The Index also includes companies involved with homeland and border security such as those involved with biometrics and ID management -- two areas seeing increased attention (and investment) as border protection is a critical aspect of defending our nation

*continued on page 2*

## Defense 101

### Mergers and Acquisitions and the Role of Small & Mid-Cap Firms

M&A plays a critical role in the defense sector, more than in other industries of comparable size and scope. We can make this statement emphatically for two reasons:

1. The need (and desire) by the DoD to fund small companies to keep the defense industry base diverse and energized with new ideas and capabilities.
2. The need for established companies to easily a> add skilled personnel, b> personnel with approved security clearances, c> increase access to agencies and specific programs, and d> gain backlog from awarded contracts.

It is a cycle driven by DoD investing nearly \$70 billion annually in RDT&E, \$100 billion annually in procurement, plus equivalent sums for operations and services.

Each year the sector sees several hundred M&A transactions (mostly small private firms). While the number of firms in the top-tier and mid-tier suppliers remains small, the vast # of small companies relying on military and government contracts remains significant because of DoD's requirement to provide funds via small business set-asides and contracts requiring small business participation.

For the index, this means the inclusion of small- and mid-cap companies that in many cases are either making acquisitions to fuel their company's growth or are potential acquisition targets themselves.

**May 2007 Leading Gainers**

|   |                     |        |
|---|---------------------|--------|
| 1 | Force Protection    | 31.20% |
| 2 | Cubic               | 24.84% |
| 3 | United Technologies | 22.44% |
| 4 | Taser               | 22.13% |
| 5 | EDO                 | 22.07% |
| 6 | Armor Holdings      | 20.18% |
| 7 | SI International    | 19.24% |
| 8 | Stanley             | 18.86% |

**May 2007 Laggards**

|   |                  |         |
|---|------------------|---------|
| 1 | Argon ST         | [9.00%] |
| 2 | Viasat           | [5.57%] |
| 3 | Mercury Computer | [4.05%] |
| 4 | AeroVironment    | [2.99%] |
| 5 | Harris           | [2.78%] |
| 6 | Applied Signal   | [2.64%] |
| 7 | DirecTV          | [2.01%] |
| 8 | Orbital Sciences | [1.25%] |

**YTD 2007 Leading Gainers**

|   |                     |        |
|---|---------------------|--------|
| 1 | Force Protection    | 64.53% |
| 2 | Armor Holdings      | 56.66% |
| 3 | Precision Castparts | 52.73% |
| 4 | EDO                 | 41.41% |
| 5 | L1 Identity         | 41.31% |
| 6 | Cogent              | 40.24% |
| 7 | Taser               | 38.50% |
| 8 | Goodrich            | 30.60% |

**YTD 2007 Laggards**

|   |                    |          |
|---|--------------------|----------|
| 1 | AeroVironment      | [16.96%] |
| 2 | Mantech            | [13.17%] |
| 3 | KVH Industries     | [12.44%] |
| 4 | MTC Technology     | [11.38%] |
| 5 | American Sci & Eng | [8.96%]  |
| 6 | CACI               | [8.76%]  |
| 7 | DirecTV            | [6.34%]  |
| 8 | SRA                | [5.05%]  |

**Index and Industry Statistics**

**ETF Statistics (AMEX: PPA)**  
**Powershares Aerospace & Defense**  
 Exchange / Ticker Symbol: AMEX / PPA  
 Fee 60 basis  
 Assets (5/31/07) \$228.1 M (up \$26.2 M)  
 Closing Price (5/31/07) \$21.32 (up \$1.12)

**Powershares Aerospace & Defense ETF(PPA)**  
 Average Portfolio Market Cap\* \$11.58 Billion  
 Portfolio P/E\* 17.56  
 Portfolio P/S\* 1.12  
 Portfolio P/B\* 2.87  
 Portfolio P/Cash Flow\* 9.38  
 Earnings Growth Rate (ttm)\* 13.69%  
 3 month Avg Daily Trading Volume 87,920  
*source: Yahoo! Finance - ETF Center \* 30 Apr 07*

**2006 Top Professional Services Contractors**

*source: FedSources*

|    |                       |          |
|----|-----------------------|----------|
| 1  | Haliburton            | \$5,398. |
| 2  | SAIC*                 | \$2,782. |
| 3  | Northrop Grumman*     | \$2,477. |
| 4  | EDS                   | \$2,275. |
| 5  | Lockheed Martin*      | \$2,177  |
| 6  | Computer Sciences*    | \$1,875. |
| 7  | United Space Alliance | \$1,822. |
| 8  | General Dynamics*     | \$1,593. |
| 9  | L-3 Communications*   | \$1,088. |
| 10 | Booz Allen Hamilton   | \$988.   |

\* SPADE Defense Index constituent

**Benchmark (continued)**

When it comes to commercial aviation, the index has significant exposure via defense firms with operating units focused on commercial aircraft, for example, Boeing, Honeywell, Moog, and Goodrich. However, when setting up the Index we made the decision to not include firms whose business is solely focused on the commercial market. Why? Because while the aviation and defense industries come from a 'common' heritage, over the years the drivers for the commercial aviation market have diverged and become independent from the defense marketplace. There are several public companies that manufacture private jets, seats, aircraft lighting, offer aircraft maintenance, etc. but for a benchmark focused on the defense sector, their inclusion seemed only to dilute the underlying core of the index.

In comparison, we highlight the role of the defense space and satellites market as it enables critical activities related to communications, positioning and navigation, intelligence gathering, missile defense monitoring, etc. Importantly, the trends and issues that affect the defense community have significant impact on the space sector, and vice versa. The defense budget, Congressional oversight, increased bandwidth requirements, the ability to collect and analyze imagery, and export licensing, are but a few of the issues that space firms as well as defense suppliers share. In addition, with limited exception, the largest defense companies represented in the Index, all have business operations focused on meeting the government's space and satellite needs.

**Commentary (continued)**

rated into a number of investment portfolios as a core holding. Statistics at the end of May show that there were 10.7 million shares outstanding, with the assets under management reaching the \$220 million level. Since the beginning of 2007, assets under management have doubled while the number of shares outstanding increasing more than 80%.

**Reliance on Contractors Increasing**

According to the General Accountability Office (GAO), over the last decade, the Department of Defense has increased its reliance on contractors to maintain operations while its staff is used for military duty. From fiscal 2000 to 2005, DoD's operations and maintenance costs increased from \$133.4 billion to \$209.5 billion, up 57%.

**Air Force Top Priorities**

In a lunch speech given by the Hon. Sue Payton, Assistant Secretary for Air Force Acquisitions on 11 May 07, she identified that the Air Force's top 5 priorities are:

- KC-X
- CSAR-X
- Space Systems
- F35 Lightning II
- Next Generation Long Range Strike

*(Note: The existing KC-135 aircraft was developed in the Eisenhower era)*

**Government Identity Management Business to Boom**

According to a Stanford Group report, spending on the 10 largest U.S. government identity solutions programs is projected to total \$7.7 billion from 2007 to 2011, with growth accelerating from 2007 to 2009. In addition, \$14 billion will be spent on similar programs internationally and \$250 million at the state level. This includes a range of IT and biometrics programs designed to centralize databases, verify ID's and increase security.

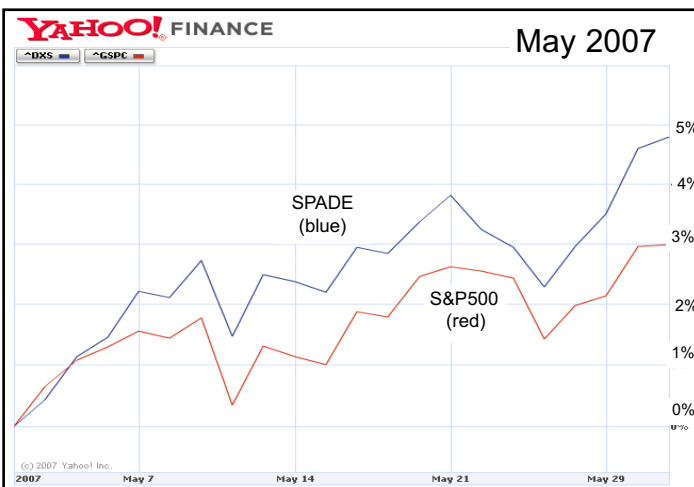
**New Air Force Bomber Plan**

The U.S. Air Force has revised its plan to develop a new supersonic, stealth, long-range bomber in the 2025 to 2037 range to one that can launch in 2018 and then work toward another in 2037. (Definitely a different perspective for those in the finance community who focus on quarterly results!). Importantly, the 2018 deadline means major requirements

| Year     | SPADE   | S&P500   |
|----------|---------|----------|
| 2007 YTD | 14.87%  | 7.92%    |
| 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%   |

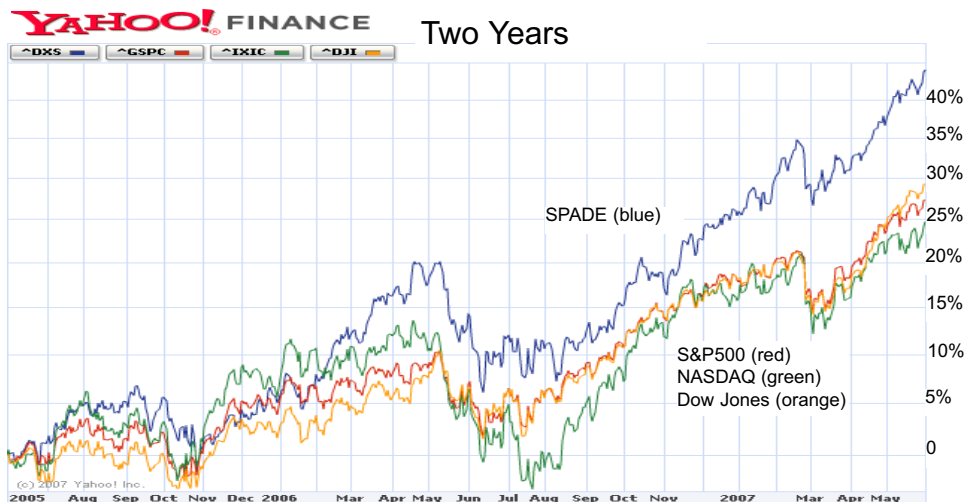
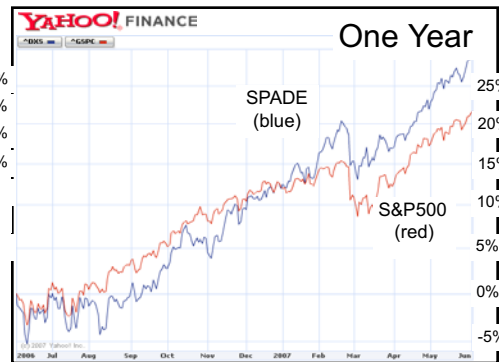
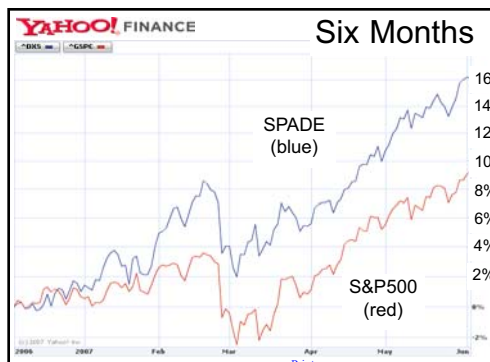
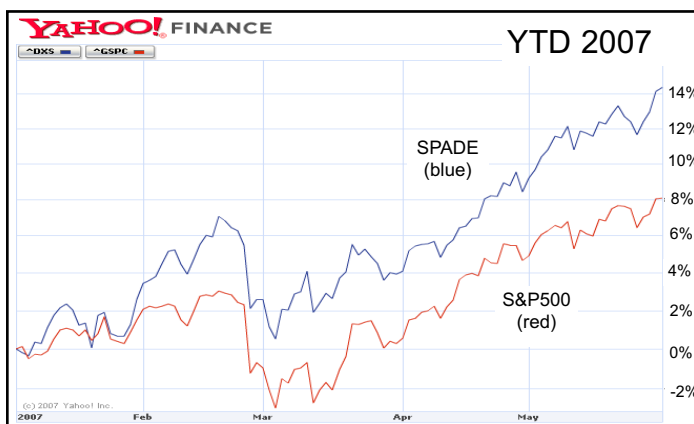
If you didn't receive an email alert that the latest newsletter is available and want to *get on our list*. Email us at: [info@spadeindex.com](mailto:info@spadeindex.com)



YTD through the end of May the SPADE Defense Index is up 14.87%.

The Index has outperformed the S&P500 every year since 2000 -- seven consecutive years and is currently up 700 basis points in year eight.

The Index is continuing to set historic highs as we enter into June!



## 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](http://www.spadeindex.com)

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

## Contact Information

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

## Legal & Disclaimers

© 2007 ISBC  
SPADE & the SPADE Defense Index 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.

will have to be detailed by 2009 and a contract awarded in 2011. The total value of this would likely be in the *tens of billions*.

### Paris Air Show - June 17-24

During this upcoming show it is routine for companies to announce a wide range of signed deals and business partnerships. Attracting several hundred thousand attendees including media (mainstream, business, as well as sector) from around the world, you can expect that a lot of positive news on the sector will come out over the next month.

### Australian Defense Budget Climbs 10.6%

For 2007-2008 July fiscal year, Australia will spend roughly \$18 billion USD, slightly more than 2% of GDP. The budget includes spending 6.6 billion AUD over the next 13 years for 24 Boeing F/A-18F Super Hornet fighter planes under an agreement signed in May.

### 100 Fastest Growing Technology Firms

*Business 2.0*, in its June 2007 issue, cited the following firms. 13 of the 100 are constituents of the SPADE Defense Index.

- #8 Ceradyne (CRDN)
- #10 Armor Holdings (AH)
- #24 American Science & Engineering (ASEI)
- #35 Trimble Navigation (TRMB)
- #45 ManTech International (MANT)
- #50 Garmin (GRMN)
- #61 ViaSat (VSAT)
- #70 Orbital Sciences (ORB)
- #72 L-3 Communications (LLL)
- #81 Argon ST (STST)
- #84 Lockheed Martin (LMT)
- #89 Boeing (BA)
- #100 Harris (HRS)

### The Washington Technology Top 100 list of federal gov't services contractors....

The 'Big 5' aerospace-defense prime contractors (Boeing, General Dynamics, Lockheed, Northrop Grumman, Raytheon) have expanded their IT capabilities over the years acting as lead systems integrators on many programs. According to *WT*, these firms generated more than \$35 billion in service revenue, accounting for roughly 37% of the entire top 100 list. With nearly \$175 billion in total revenues, federal IT business activities represents 20% of the total revenues these firms derive.

### Congress Reviews the '08 Defense Budget

Although the Senate defense spending bill (\$507 B base budget and \$141.8 B Iraq/Afghanistan) and the House's 2008 Defense Authorization Act contain similar top level numbers (\$503.8B & \$141.8 B), there is disagreement on specific programs. Citing various *Defense News* articles as source material, a prime example is the Future Combat Systems program which the House wants to cut \$867 M while the Senate proposes to add \$115M. Similarly, the House added 3 ships to the Navy's request for six,

the Senate cut one.

Specifically, in its initial markup of the 2008 Defense Authorization Act, 'three House Armed Services subcommittees that oversee weapon purchases shifted billions from future weapons that may or may not work to more tested technology that can be used to meet more immediate needs.' In comparison, the Senate is focusing on acquisition reform.

Some of the House-proposed changes are...

1. MRAP - The Mine Resistant Ambush Protected troop carrier is popular in Congress as it has been shown to be safer than armored Humvees. \$4.1 billion was added to the program and on May 17, the House version of the bill authorized \$4.6 billion for 7,700 of the vehicles. In total, the Army seeks to buy 17,700 of these vehicles, spending almost \$20B over the next several years.

2. The Army's Future Combat System program saw \$867 million of the Army's requested \$3.7 billion cut. FCS is an effort to produce a family of 14 new vehicles all connected by a computerized command and control system. As mentioned above, the Senate added \$115 million and preferred to leave the program intact until a 2010 review.

3. C17 Cargo planes - \$2.4 billion added to the Air Force budget to buy 10 planes.

4. The Armed Reconnaissance Helicopter saw the subcommittee cut \$470 M because, to date the program has 'produced no operational aircraft'

5. The Missile Defense Agency had \$764 million of its \$8.9 billion budget request cut. This includes \$400 M of \$517 M for the Airborne Laser program and \$160 M of \$310 M requested for a missile defense system to be installed in Europe.

6. The seapower subcommittee added \$2.7 billion to the Navy including \$1.7 B for an amphibious ship to carry Marines, helicopters, and hovercraft, \$456 M for a cargo carrier and \$588 M to buy a nuclear reactor for a Virginia-class submarine.

### BAE Makes bid for Armor Holdings

BAE Systems, the U.K.-based defense contractor has bid \$4.1 billion in cash and the assumption of \$388 million in debt to acquire Armor Holdings (NYSE: AH). Over the past three years, BAE has sought to bolster its land and armaments business and had already spent an equivalent sum on acquisitions including the UK's Alvis and the U.S.'s United Defense. The deal won't close until later this year at the earliest but analysts expect U.S. authority approval. The deal would make BAE #1 in the worldwide armor market (GD is currently #1) and revenues from its U.S. activities would rise to 42% from 36%. BAE is not listed on U.S. markets although an ADR is being considered. Armor Holdings, per the rules governing the SPADE Defense Index in matters of acquisitions, will remain a constituent until the acquisition closes and they cease to trade.

| Company                              | Ticker | SPADEF Defense Index |                    |                    | % Ch<br>YTD | % Ch<br>MTD | Market<br>Cap | Forward<br>P/E | Price/<br>Sales | Price/<br>Book | Div Yld<br>forward % |
|--------------------------------------|--------|----------------------|--------------------|--------------------|-------------|-------------|---------------|----------------|-----------------|----------------|----------------------|
|                                      |        | Float %<br>31-May    | Price<br>30-Apr-07 | Price<br>31-May-07 |             |             |               |                |                 |                |                      |
| Boeing Co                            | BA     | 5.91%                | 93.00              | 100.59             | 13.23%      | 8.16%       | 79.20         | 16.46          | 1.26            | 14.12          | 1.40%                |
| Honeywell Intl                       | HON    | 5.83%                | 54.18              | 57.91              | 28.01%      | 6.88%       | 45.15         | 16.55          | 1.40            | 4.91           | 1.70%                |
| United Technologies                  | UTX    | 5.68%                | 67.13              | 70.55              | 12.84%      | 5.09%       | 70.16         | 14.85          | 1.40            | 3.81           | 1.50%                |
| Lockheed Martin                      | LMT    | 5.22%                | 96.14              | 98.10              | 6.55%       | 2.04%       | 40.94         | 14.55          | 1.03            | 5.83           | 1.40%                |
| Echostar Communications'a'           | DISH   | 4.39%                | 46.53              | 46.06              | 21.11%      | -1.01%      | 20.58         | 18.42          | 2.06            |                |                      |
| Raytheon Co                          | RTN    | 4.33%                | 53.54              | 55.60              | 5.30%       | 3.85%       | 24.68         | 15.62          | 1.19            | 2.18           | 1.90%                |
| Garmin Ltd                           | GRMN   | 4.33%                | 58.19              | 64.33              | 15.58%      | 10.55%      | 13.91         | 20.10          | 7.23            | 8.29           | 0.80%                |
| Genl Dynamics                        | GD     | 4.26%                | 78.50              | 80.24              | 7.92%       | 2.22%       | 32.48         | 15.00          | 1.30            | 3.19           | 1.40%                |
| Directv Group                        | DTV    | 4.23%                | 23.84              | 23.36              | -6.34%      | -2.01%      | 28.59         | 16.11          | 1.88            | 4.13           |                      |
| Precision Castparts                  | PCP    | 4.17%                | 104.11             | 119.56             | 52.73%      | 14.84%      | 16.40         | 17.38          | 2.98            | 5.62           | 0.10%                |
| Northrop Grumman                     | NOC    | 4.16%                | 73.64              | 75.61              | 11.68%      | 2.68%       | 26.09         | 13.90          | 0.86            | 1.59           | 2.00%                |
| Itt Indus                            | ITT    | 4.05%                | 63.81              | 67.30              | 18.44%      | 5.47%       | 12.23         | 16.83          | 1.51            | 4.20           | 0.80%                |
| L-3 Communications Hldgs             | LLL    | 3.99%                | 89.93              | 95.26              | 16.48%      | 5.93%       | 11.92         | 14.86          | 0.92            | 2.18           | 1.10%                |
| Computer Sciences                    | CSC    | 3.88%                | 55.54              | 55.40              | 3.80%       | -0.25%      | 9.60          | 13.41          | 0.67            | 1.56           |                      |
| Rockwell Collins                     | COL    | 3.82%                | 65.67              | 70.67              | 11.66%      | 7.61%       | 11.83         | 18.50          | 2.88            | 8.64           | 0.90%                |
| Goodrich Corp                        | GR     | 3.38%                | 56.84              | 59.49              | 30.60%      | 4.66%       | 7.45          | 15.66          | 1.23            | 3.58           | 1.40%                |
| Harris Corp                          | HRS    | 3.03%                | 51.35              | 49.92              | 8.85%       | -2.78%      | 6.70          | 15.46          | 1.66            | 3.31           | 0.90%                |
| Ball Corp                            | BLL    | 2.59%                | 50.69              | 55.36              | 26.97%      | 9.21%       | 5.65          | 14.27          | 0.80            | 4.61           | 0.70%                |
| Oshkosh Truck                        | OSK    | 2.07%                | 55.94              | 61.69              | 27.41%      | 10.28%      | 4.57          | 13.01          | 1.04            | 3.96           | 0.60%                |
| Alliant Techsystems                  | ATK    | 1.51%                | 93.13              | 101.00             | 29.17%      | 8.45%       | 3.35          | 14.49          | 0.94            | 5.97           |                      |
| Trimble Navigation Ltd * (2:1 split) | TRMB   | 1.47%                | 28.68              | 29.19              | 3.77%       | 1.78%       | 3.49          | 21.15          | 3.51            | 3.65           |                      |
| Armor Holdings                       | AH     | 1.38%                | 71.50              | 85.93              | 56.66%      | 20.18%      | 3.06          | 14.74          | 1.09            | 3.45           |                      |
| Flir Systems                         | FLIR   | 1.24%                | 40.49              | 41.36              | 29.94%      | 2.15%       | 2.74          | 21.88          | 4.40            | 6.31           |                      |
| URS Corporation                      | URS    | 1.20%                | 43.70              | 50.28              | 17.34%      | 15.06%      | 2.67          | 17.89          | 0.61            | 1.71           |                      |
| Drs Technologies                     | DRS    | 0.94%                | 50.31              | 51.35              | -2.52%      | 2.07%       | 2.08          | 13.55          | 0.72            | 1.39           | 0.20%                |
| SAIC                                 | SAI    | 0.90%                | 18.29              | 20.15              | 13.27%      | 10.17%      | 8.40          | 21.21          | 1.00            | 5.35           |                      |
| Force Protection                     | FRPT   | 0.88%                | 21.70              | 28.47              | 63.53%      | 31.20%      | 1.94          | 19.50          | 7.88            | 9.28           |                      |
| Moog Inc.                            | MOGA   | 0.83%                | 42.52              | 43.06              | 12.75%      | 1.27%       | 1.83          | 15.89          | 1.23            | 2.22           |                      |
| Ceradyne Inc                         | CRDN   | 0.83%                | 58.85              | 67.57              | 19.59%      | 14.82%      | 1.84          | 13.87          | 2.58            | 4.11           |                      |
| Teledyne Technologies                | TDY    | 0.73%                | 44.11              | 46.08              | 14.83%      | 4.47%       | 1.61          | 16.40          | 1.08            | 3.51           |                      |
| Caci Intl                            | CAI    | 0.72%                | 45.73              | 51.55              | -8.76%      | 12.73%      | 1.59          | 18.48          | 0.84            | 1.92           |                      |
| L-1 Identify Solutions               | ID     | 0.70%                | 19.22              | 21.38              | 41.31%      | 11.24%      | 1.56          | 57.78          | 7.38            | 1.47           |                      |
| Cogent Inc.                          | COGT   | 0.66%                | 14.04              | 15.44              | 40.24%      | 9.97%       | 1.46          | 31.51          | 13.07           | 2.86           |                      |
| Sra International'a'                 | SRX    | 0.65%                | 24.43              | 25.39              | -5.05%      | 3.93%       | 1.45          | 21.70          | 1.17            | 2.41           |                      |
| Orbital Sciences Corp                | ORB    | 0.55%                | 20.87              | 20.61              | 11.77%      | -1.25%      | 1.22          | 22.16          | 1.47            | 2.98           |                      |
| Esterline Technologies               | ESL    | 0.53%                | 41.73              | 45.50              | 13.10%      | 9.03%       | 1.16          | 14.92          | 1.11            | 1.54           |                      |
| Mantech International'a'             | MANT   | 0.49%                | 30.68              | 31.98              | -13.17%     | 4.24%       | 1.09          | 15.68          | 0.94            | 2.27           |                      |
| DynCorp                              | DCP    | 0.45%                | 15.00              | 17.34              | 9.26%       | 15.60%      | 0.99          | 17.52          | 0.46            | 2.68           |                      |
| Viasat Inc                           | VSAT   | 0.43%                | 34.30              | 32.39              | 8.65%       | -5.57%      | 0.94          | 18.30          | 1.83            |                |                      |
| Gencorp                              | GY     | 0.34%                | 13.32              | 13.41              | -4.35%      | 0.68%       | 0.73          | 34.38          | 1.18            |                |                      |
| Edo Corp                             | EDO    | 0.32%                | 27.50              | 33.57              | 41.41%      | 22.07%      | 0.71          | 15.19          | 0.82            | 2.47           | 0.40%                |
| United Industrial                    | UIC    | 0.30%                | 48.92              | 59.90              | 18.03%      | 22.44%      | 0.63          | 16.73          | 1.06            | 23.00          | 0.70%                |
| Cubic Corp                           | CUB    | 0.30%                | 20.13              | 25.13              | 15.81%      | 24.84%      | 0.67          | 18.08          | 0.79            | 1.96           | 0.70%                |
| TASER International Inc.             | TASR   | 0.30%                | 8.63               | 10.54              | 38.50%      | 22.13%      | 0.65          | 28.49          | 9.87            | 6.78           |                      |
| Ladish Co                            | LDSH   | 0.29%                | 40.66              | 44.39              | 19.71%      | 9.17%       | 0.64          | 15.80          | 1.71            | 3.74           |                      |
| Argon St                             | STST   | 0.24%                | 26.21              | 23.85              | 10.72%      | -9.00%      | 0.53          | 19.23          | 2.06            | 1.92           |                      |
| American Science & Engineering       | ASEI   | 0.23%                | 47.00              | 54.18              | -8.96%      | 15.28%      | 0.49          | 22.39          | 3.13            | 2.86           |                      |
| Osi Systems                          | OSIS   | 0.20%                | 26.41              | 26.77              | 27.90%      | 1.36%       | 0.45          | 30.77          | 0.89            | 1.89           |                      |
| Si International                     | SINT   | 0.18%                | 26.46              | 31.55              | -2.68%      | 19.24%      | 0.41          | 16.69          | 0.86            | 1.63           |                      |
| Stanley Inc.                         | SXE    | 0.17%                | 15.11              | 17.96              | 6.21%       | 18.86%      | 0.39          | 17.61          | 0.95            | 2.89           |                      |
| MTC Technologies Inc.                | MTCT   | 0.14%                | 20.66              | 20.87              | -11.38%     | 1.02%       | 0.31          | 15.69          | 0.74            | 1.76           |                      |
| Mercury Computer Sys                 | MRCY   | 0.13%                | 13.57              | 13.02              | -2.54%      | -4.05%      | 0.29          | 56.61          | 1.28            | 1.50           |                      |
| Herley Industries                    | HRLY   | 0.10%                | 15.45              | 15.74              | -2.78%      | 1.88%       | 0.22          | 18.52          | 1.32            | 1.09           |                      |
| Applied Signal Technology            | APSG   | 0.09%                | 16.67              | 16.23              | 15.43%      | -2.64%      | 0.20          | 23.52          | 1.11            | 1.75           | 2.90%                |
| Kvh Industries                       | KVHI   | 0.06%                | 9.35               | 9.29               | -12.44%     | -0.64%      | 0.14          | 17.87          | 1.73            | 1.73           |                      |
| AeroVironment (IPO 23Jan07)          | AVAV   | 0.00%                | 21.40              | 20.76              | -16.96%     | -2.99%      | 0.39          | 22.57          | 2.61            | 3.07           |                      |