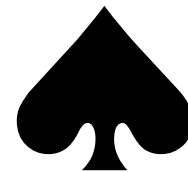


SPADE INVESTOR



May 2007

Defense * Homeland Security * Space

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New on the Website

'Investing in the Defense & Security' presentation -- Given in March to the New York Society of Security Analysts (NYSSA) and April 10th at the InformedInvestors.com conference on security and defense.

SPADE Defense Index Statistics

YTD Return:	8.88%
April Return:	4.32%
4/30/07 Close:	2293.13
Intraday All-time High*:	2316.17
Date:	30 Apr 2007

Private Equity Takes Another

Safenet (formerly NASDAQ: SFNT) was acquired by Vector Capital, a private equity firm, for \$634 million. Effective 13 April 2007, SafeNet was removed from the SPADE Defense Index leaving it with 57 constituents. In addition to offering commercial security products, the firm developed encryption devices and software employed by the National Security Agency.

PPA Passes \$200 Million Level

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, incorporated into a number of investment portfolios as a core holding. Statistics at the end of April show that there were 10 million shares outstanding, with the

assets under management reaching the \$200 million level. Since the beginning of 2007, assets under management have increased \$92 million (84%) while the number of shares outstanding increasing 69%.

SPADE Defense Index Sets All-Time High

On 30 April 2007, the Index hit an intraday level of 2316.17, setting a new historical high.

Commentary

The War Over Funding

As prior commentaries have indicated, we did not expect any major changes to the defense sector with the Democratic control of Congress. And what is playing out now, a battle between the White House and Congress over authorizing supplemental funds to keep funding the wars in Iraq and Afghanistan, was expected.

To recap, both the House and Senate have approved a \$124.2 billion bill to fund the wars but included language setting an October 1 date for withdrawing troops and a full withdrawal by March 2008. President Bush has stated that any bill with a specific withdrawal dates handicaps the military leadership and he will veto them.

We can expect a lot of talk and posturing over the next couple of months, but here is what you need to know....

1. The Army has stated it has enough money to keep fighting into July
2. Congress could approve a smaller amount as a stopgap to the supplement while they debate the issue of withdrawal. This would provide funding for the troops, keep the debate on withdrawals alive, and require President Bush to approach Congress and request additional funds a month or two later. It

would also give the Democrats the ability to take the high ground on the debate by supporting the troops and continuing to push the agenda to bring the soldiers back home.

While the Democratic leadership in Congress could back down, it is unlikely. Likewise, the past seven years have shown that President Bush is equally not likely to change his position.

As support for the war wanes, the popularity of the White House declines, and we get closer to the 2008 elections, it is possible that some Republicans may break from their support of the president. That is what DC's policy analysts expect.

Only time will tell how the situation will resolve itself. The only guarantee is that it will resolve itself and that there will be a lot of talk from politicians between now and then.

China's Defense Budget Rises 17.8%

The growth in the Chinese defense budget and its recent activities continue to be a major area of interest for U.S. DoD planners and strategists. China's recent test in which it destroyed one of its satellites in orbit from the ground raised significant concerns among U.S. military officials and it was the main topic of conversation among those of us who attended the recent National Space Symposium in Colorado Springs (home of the U.S. Space Command).

China's 2007 defense budget, which is the 2nd largest in the world, is forecast to rise to an estimated \$44.94 billion (up \$6.79 billion) or 17.8% although many analysts believe that this budget is about 3 times the official number. (...and that doesn't include factoring the relative output a dollar produces in China compared with that of Western nations).

Are Defense Stocks Too Rich?

I was on seekingalpha.com the other day and in chatting with a money manager and contributor to the site, he mentioned that he thought defense stocks were becoming too rich.

Now, I've heard this several times over the past two years and with the sector on a seven-year run, one would expect the P/E ratio to steadily increase until the market feels that it is truly overvalued. To see if the facts bear this out, we decided to do a quick check and relay our observations.

What we noticed is that with the SPADE Defense Index once again hitting and passing through historical highs this month, the sector's growth has been there to keep the P/E in check.

First, a quick review of Yahoo! Finance's ETF Center shows that the Powershares Defense ETF (AMEX: PPA) had a P/E of 17.45 on May 3rd; a decline from 18.83 on February 28 -- higher than the historical broad market average but still not outrageous.

Apr 2007 Leading Gainers

1	Teledyne Technologies	17.82%
2	Honeywell	17.63%
3	L-1 Identity Solutions	16.41%
4	Force Protection	15.67%
5	FLIR Systems	13.51%
6	Orbital Sciences	11.37%
7	Ball Corporation	10.56%
8	Goodrich	10.41%

Apr 2007 Laggards

1	United Industrial	[11.38%]
2	American Science	[10.77%]
3	Mantech	[8.17%]
4	SI International	[7.84%]
5	Applied Signal	[7.03%]
6	Cubic	[6.98%]
7	AeroVironment	[6.39%]
8	Gencorp	[3.76%]

YTD 2007 Leading Gainers

1	Precision Castparts	33.00%
2	Armor Holdings	30.36%
3	Cogent	27.52%
4	FLIR Systems	27.21%
5	L-1 Identity Solutions	27.03%
6	OSI Systems	26.18%
7	Goodrich	24.79%
8	Force Protection	24.64%

YTD 2007 Laggards

1	American Science	[21.02%]
2	CACI	[19.06%]
3	SI International	[18.38%]
4	Mantech	[16.70%]
5	Aerovironment	[14.40%]
6	MTC Technologies	[12.27%]
7	KVHI Industries	[11.88%]
8	Stanley	[10.64%]

Index and Industry Statistics

ETF Statistics (AMEX: PPA)
Powershares Aerospace & Defense
 Exchange / Ticker Symbol: AMEX / PPA
 Fee: 60 basis
 Assets (4/30/07): \$201.9 M (up \$25.7M)
 Closing Price (4/30/07): \$20.20 (up \$0.84)
 Trading Volume (Apr 07): 1,790,000

Powershares Aerospace & Defense ETF(PPA)
 Average Portfolio Market Cap* \$13.26 Billion
 Portfolio P/E* 17.45
 Portfolio P/S* 1.25
 Portfolio P/B* 2.97
 Portfolio P/Cash Flow* 10.12
 Earnings Growth Rate (ttm)* 13.69%
 3 month Avg Daily Trading Volume 110,474
*source: Yahoo! Finance - ETF Center * 3 May 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

Commentary (continued)

With 57 stocks currently comprising the Index, I turned to the last page of this SPADE Investor newsletter, which provides a summary spreadsheet of each of the company’s that comprise the index, to see if I could determine any trends.

What I found was the following:

- 27% of the companies had P/E’s <16
- 13% of the companies had P/E’s 16-20
- 22% of the companies had P/E’s >20

Most of the P/E’s that were above 20 were companies with a market capitalization below \$1.5 billion and all were \$3.5 billion or less. The ‘Big 5’ defense contractors had P/E’s of the following:

- Northrop Grumman (13.51)
- Lockheed Martin (14.29)
- Raytheon (15.21)
- General Dynamics (14.73)
- Boeing (15.30)

...Needless to say, based solely on the numbers, the current P/E’s of defense sector companies hardly seem to signal an overvalued sector.

Next, we reviewed the spreadsheet to identify which companies in the Index are more richly valued in

terms of P/E. This revealed that the high P/E companies were comprised of essentially the small companies operating in homeland and border security and biometrics. Among these were...

- L-1 Identity (56.53)
- Cogent (29.25)
- OSI Systems (29.34)
- Taser (23.32)
- Applied Signal (24.16)
- Mercury Computer (38.77)

... but each is considered by analysts that cover the companies to be “growth” firms and firms defined as growth firms have historically had higher P/E’s.

So what does this all mean?

The last few months (and year’s for the that matter) have shown that the defense sector is in the midst of a multi-year cycle that has rewarded investors. A review of the P/E of the companies that comprise the SPADE Defense Index indicate that even with gains that have surpassed the S&P 500 for each of the last seven years, the sector is tracking higher than the 15.04 represented by the SPY (S&P500 ETF) but at 17.45 is still not high relative to historical averages. As one money manager commented in a recent speech, P/E by itself is not necessarily the only consideration in determining whether a company or a sector is overvalued.

DoD Changing Its Plans for Future Conflicts

According to Ryan Henry, DoD’s principal deputy undersecretary of defense for policy, the Bush administration plan to add 92,000 soldiers and Marines is designed to shift the military’s force structure from one that is ‘garrisoned forward for high kinetic, major combat operations to one that has more of its mass back in the U.S., but rotates forward [when needed]’.

Historical Force Structure

- DoD 1-4-2-1 Force Structure
- Defend U.S. Soil
 - Fight aggression through forward deployments to places such as Europe, Northeast Asia, Middle East/ Southeast Asia, and the East Asian littoral.
 - First two major conventional combat operations at nearly the same time
 - Rapidly win in one of those convention fights

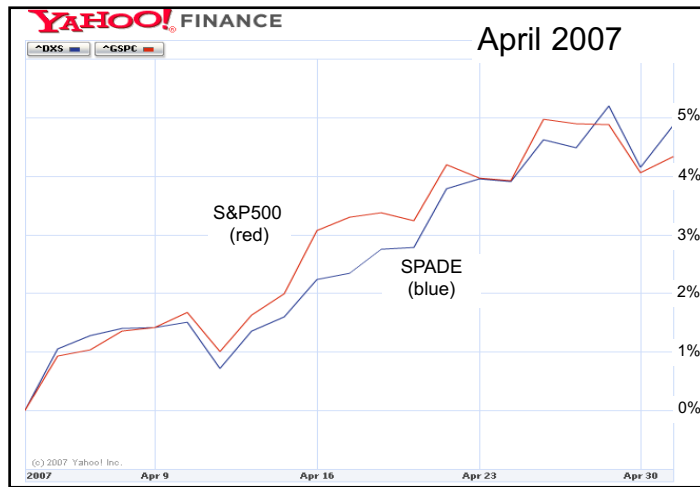
Today

The Pentagon scrapped those plans in the 2006 Quadrennial Defense Review (QDR). A CSIS analysis of the QDR stated that the U.S. military policy is shaped for three main types of missions:

- Homeland Defense
- War on Terrorism / Irregular Warfare
- Conventional Campaigns

Year	SPADE	S&P500
2007 YTD	8.88%	4.52%
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%

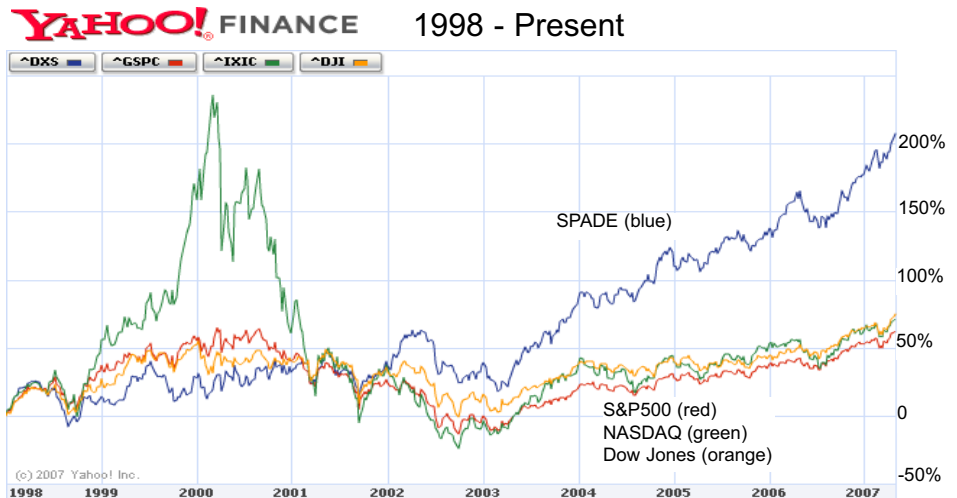
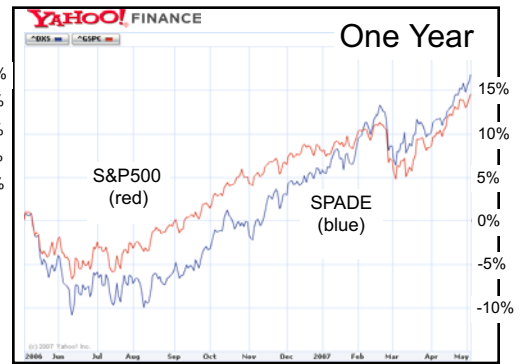
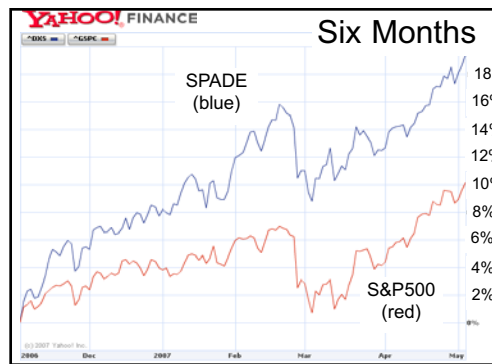
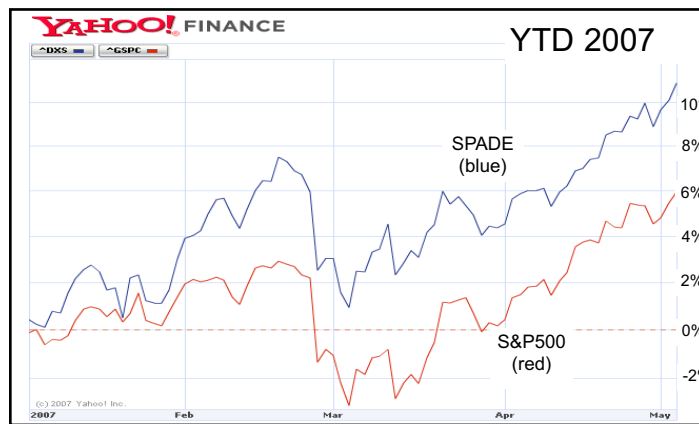


YTD through the end of April, the SPADE Defense Index is up 8.88%.

The Index has outperformed the S&P500 for seven consecutive years

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

Much of the Index's recent outperformance over the last year have come in the past six months.



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

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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Program Cost Statistics

The costs of many U.S. defense programs tends to vary from their initial estimate, whether due to program changes, quantity of acquisition, technical issues or cost overruns. The April

16th *Defense News*, provided excerpts from the the Pentagon's most recent *Selection Acquisition Report* highlighted the following programs.

PROGRAM	Change	New Budget
C-130 Avionics	up \$1.0 B	\$5.9 B
Expeditionary Fighting Vehicle	up \$3.8 B	\$11.9 B
Force XXI Battle Command Brigade & Below	up \$100 M	\$2.6 B
Joint Air to Surface Standoff Missile	up \$882 M	\$5.7 B
Joint Primary Aircraft Training Sys.	up \$600 M	\$5.5 B
Warfighter Info Network - Tactical	up \$2.1 B	\$16.3 B
Joint Strike Fighter	up \$23.3 B	\$299 B
Ballistic Missile Defense System	up \$17.3 B	\$103.2 B
Army Reconnaissance Helicopter	up \$1.7 B	\$5.3 B
Army Medium Tactical Vehicles	up \$3.3 B	\$20.8 B
Future Combat Systems	down 2.6 B	\$161.9 B
V-22 Ospray	up \$4.1 B	\$54.6 B
F/A -18 E/F Super Hornet	up \$2.3 B	\$46.3 B
EELV Launch Vehicle	up \$3.8 B	\$35.7 B
F-22A Raptor	up \$2.6 B	\$65.2 B
NPOESS Weather Satellite	down \$2.6 B	\$11.1 B
Land Warrior (pgm terminated)	down \$3.3 B	\$671 M

Largest U.S. Defense Programs

credit: Defense News 12 Mar 07, 16 Apr 07

	PROGRAM	COST	PRIME
1	F-35 Joint Strike Fighter	\$299.0 B	Lockheed Martin
2	Future Combat System	\$161.9 B	Boeing, SAIC
3	SSN-774 Submarine	\$98.5 B	General Dynamics, Northrop Grumman
4	Ballistic Missile Defense System	\$103.2 B	Boeing, Lockheed Martin, Northrop Grumman
5	C-17A Airlifter	\$66.0 B	Boeing
6	F-22A Fighter	\$65.3 B	Lockheed Martin
7	DDG-51 Destroyer	\$63.0 B	General Dynamics, Northrop
8	F/18 E/F/G Aircraft	\$57.1 B	Boeing
9	V-22/MV22 Osprey Helicopter	\$54.6 B	Bell, Boeing
10	Trident II sublaunch ballistic Missile	\$38.9 B	Lockheed Martin

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

May-07		SPADEF Defense Index					Market	Forward	Price/	Price/		
Company	Ticker	Float %	Price	Price	% Ch	% Ch	Cap	P/E	Sales	Book		Div Yld
		30-Apr	30-Mar-07	30-Apr-07	YTD	MTD	intraday	(ttm, intraday)	ttm	mrq		forward %
Boeing Co	BA	5.77%	88.91	93.00	4.68%	4.60%	73.23	15.30	1.18	13.20		1.50%
Honeywell Intl	HON	5.76%	46.06	54.18	19.76%	17.63%	42.25	15.61	1.33	4.67		2.20%
United Technologies	UTX	5.70%	65.00	67.13	7.37%	3.28%	66.76	14.22	1.37	3.72		1.60%
Lockheed Martin	LMT	5.39%	97.02	96.14	4.42%	-0.91%	40.12	14.29	1.02	5.74		1.40%
Echostar Communications'a'	DISH	4.68%	43.43	46.53	22.35%	7.14%	20.76	17.90	2.10			
Directv Group	DTV	4.56%	23.07	23.84	-4.41%	3.34%	29.31	16.00	1.99	4.39		
Raytheon Co	RTN	4.40%	52.46	53.54	1.40%	2.06%	23.76	15.21	1.17	2.14		1.90%
Genl Dynamics	GD	4.39%	76.40	78.50	5.58%	2.75%	31.77	14.73	1.31	3.22		1.50%
Northrop Grumman	NOC	4.27%	74.22	73.64	8.77%	-0.78%	25.41	13.51	0.85	1.57		2.00%
Garmin Ltd	GRMN	4.13%	54.15	58.19	4.55%	7.46%	12.58	18.47	7.14	8.13		0.90%
Computer Sciences	CSC	4.11%	52.13	55.54	4.07%	6.54%	9.62	13.45	0.67	1.55		
Itt Indus	ITT	4.05%	60.32	63.81	12.30%	5.79%	11.60	16.62	1.51	4.12		0.90%
L-3 Communications Hldgs	LLL	3.97%	87.47	89.93	9.97%	2.81%	11.20	14.05	0.88	2.13		1.10%
Precision Castparts	PCP	3.83%	104.05	104.11	33.00%	0.06%	14.28	18.83	3.02	5.36		0.10%
Rockwell Collins	COL	3.75%	66.93	65.67	3.76%	-1.88%	10.99	17.24	2.74	8.22		0.90%
Goodrich Corp	GR	3.41%	51.48	56.84	24.79%	10.41%	7.11	15.16	1.16	3.38		1.40%
Harris Corp	HRS	3.29%	50.95	51.35	11.97%	0.79%	6.89	16.15	1.84	3.89		0.80%
Ball Corp	BLL	2.50%	45.85	50.69	16.26%	10.56%	5.23	13.48	0.79	4.54		0.80%
Oshkosh Truck	OSK	1.98%	53.00	55.94	15.53%	5.55%	4.14	11.85	1.15	3.78		0.70%
Trimble Navigation Ltd * (2:1 split)	TRMB	1.52%	26.84	28.68	3.27%	6.86%	3.39	21.89	3.68	4.38		
Alliant Techsystems	ATK	1.47%	87.92	93.13	19.11%	5.93%	3.07	15.34	0.89	5.43		
Flir Systems	FLIR	1.28%	35.67	40.49	27.21%	13.51%	2.68	22.88	4.83	6.92		
Armor Holdings	AH	1.22%	67.33	71.50	30.36%	6.19%	2.54	12.33	0.90	2.96		
URS Corporation	URS	1.10%	42.59	43.70	1.98%	2.61%	2.29	15.83	0.55	1.53		
Drs Technologies	DRS	0.97%	52.17	50.31	-4.50%	-3.57%	2.04	14.88	0.77	1.42		0.20%
Moog Inc.	MOGA	0.86%	41.65	42.52	11.34%	2.09%	1.80	16.23	1.36	2.33		
SAIC	SAI	0.86%	17.32	18.29	2.81%	5.60%	1.80	19.25	0.22	1.11		
Ceradyne Inc	CRDN	0.76%	54.74	58.85	4.16%	7.51%	1.60	13.05	2.42	3.94		
Teledyne Technologies	TDY	0.73%	37.44	44.11	9.92%	17.82%	1.54	15.70	1.06	3.43		
Force Protection	FRPT	0.70%	18.76	21.70	24.64%	15.67%	1.47	19.55	7.89	6.99		
Caci Intl	CAI	0.67%	46.86	45.73	-19.06%	-2.41%	1.41	16.27	0.77	1.80		
L-1 Identify Solutions	ID	0.67%	16.51	19.22	27.03%	16.41%	1.39	56.53	8.66	1.33		
Sra International'a'	SRX	0.66%	24.36	24.43	-8.64%	0.29%	1.38	20.53	1.14	2.38		
Cogent Inc.	COGT	0.63%	13.45	14.04	27.52%	4.39%	1.33	29.25	12.36	2.55		
Orbital Sciences Corp	ORB	0.59%	18.74	20.87	13.18%	11.37%	1.23	22.68	1.41	2.84		
Esterline Technologies	ESL	0.51%	41.07	41.73	3.73%	1.61%	1.07	13.68	1.05	1.47		
Mantech International'a'	MANT	0.50%	33.41	30.68	-16.70%	-8.17%	1.04	15.42	0.95	2.36		
Viasat Inc	VSAT	0.48%	32.97	34.30	15.06%	4.03%	1.00	22.72	2.00	3.17		
DynCorp	DCP	0.41%	15.09	15.00	-5.48%	-0.60%	0.86	15.00	0.41	2.39		
Gencorp	GY	0.36%	13.84	13.32	-4.99%	-3.76%	0.75	34.15	1.18			
Argon St	STST	0.28%	26.46	26.21	21.68%	-0.94%	0.58	21.14	2.42	2.24		
Ladish Co	LDSH	0.28%	37.64	40.66	9.65%	8.02%	0.59	14.42	1.57	3.37		
Edo Corp	EDO	0.28%	26.20	27.50	15.84%	4.96%	0.58	13.96	0.83	2.15		0.50%
United Industrial	UIC	0.26%	55.20	48.92	-3.61%	-11.38%	0.55	14.96	0.98	8.88		0.80%
Cubic Corp	CUB	0.26%	21.64	20.13	-7.24%	-6.98%	0.54	16.50	0.65	1.60		0.90%
TASER International Inc.	TASR	0.26%	8.03	8.63	13.40%	7.47%	0.54	23.32	7.42	5.09		
American Science & Engineering	ASEI	0.21%	52.67	47.00	-21.02%	-10.77%	0.43	17.87	2.97	2.76		
Osi Systems	OSIS	0.21%	26.44	26.41	26.18%	-0.11%	0.45	29.34	0.94	1.98		
AeroVironment (IPO 23Jan07)	AVAV	0.19%	22.86	21.40	-14.40%	-6.39%	0.40	23.26	2.73	3.22		
Si International	SINT	0.16%	28.71	26.46	-18.38%	-7.84%	0.34	13.93	0.77	1.48		
Stanley Inc.	SXE	0.15%	15.60	15.11	-10.64%	-3.14%	0.32	18.20	0.87	2.56		
MTC Technologies Inc.	MTCT	0.15%	21.03	20.66	-12.27%	-1.76%	0.31	14.97	0.74	1.74		
Mercury Computer Sys	MRCY	0.14%	13.87	13.57	1.57%	-2.16%	0.30	38.77	1.43	1.55		
Herley Industries	HRLY	0.10%	15.62	15.45	-4.57%	-1.09%	0.21	18.18	1.31	1.08		
Applied Signal Technology	APSG	0.10%	17.93	16.67	18.56%	-7.03%	0.20	24.16	1.24	1.96		2.70%
Kvh Industries	KVHI	0.07%	9.32	9.35	-11.88%	0.32%	0.14	17.98	1.81	1.80		
SafeNet Inc.	SFNT		28.30		-100.00%	-100.00%						