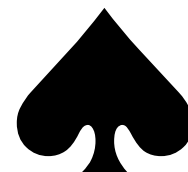


# SPADE INVESTOR



March 2006

Defense \* Homeland Security \* Space

www.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 most 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 Index

## Options

Index and ETF options are traded by the American Stock Exchange using the underlying symbols.

## 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: Min \$100M
- \* Share Price: Min \$5.00
- \* Volume: 50,000 avg daily shares

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Scott Sacknoff: Index Manager

## SPADE Defense Index Statistics

YTD Return: 6.18%  
MTD Return: 4.55%  
2/28/06 Close: 1873.99

All-time High\*: 1906.46  
Date: 3/3/06  
*\*12th ATH in 2006*

### Index Factoid

The SPADE Defense Index has outperformed the S&P 500 from 2000-2005 and in 18 of the last 22 quarters !

## ETF Statistics (AMEX: PPA)

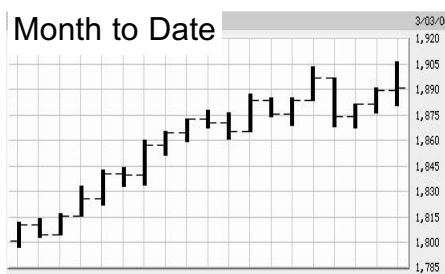
### Powershares Aerospace & Defense Portfolio

Exchange / Ticker Symbol: AMEX / PPA  
Fee: 63 basis

Assets (2/28/06) \$64.428 M  
Closing Price 2/28/06 \$16.52  
Trading Volume (Feb 06)\* 109,973  
Volume Increase from Jan 414%

\* source: Yahoo Finance

### Month to Date



### Year to Date



## INSIGHT

Defense and homeland security continues to be front and center in the media. If anyone was beginning to doubt whether interest in industry was beginning to wane all one needed to do was listen to the news. The last 30 days have seen new broadcasts from Al Qaeda, continued issues with Iraq and Iran, terrorist acts against oil fields in Saudi Arabia and in Africa, and the acquisition of a company that manages a number of high profile ports in the U.S. by a Middle-East nation.

### The FY-07 Budget

But when it comes to the performance of companies involved with defense, homeland security, and space, all eyes were focused on one event -- the release of the President's FY-07 budget request in early February.

There are obviously a few steps left in the process, most namely Congressional approval, but no activity moves defense stocks like a new budget showing the Department of Defense plans for the next several years.

I was at the SG Cowen Aerospace/Defense Conference for investors and the consensus among company executives was that the budget came in much stronger than anticipated. Although several had gotten information about a week earlier, most analysts had believed that the budget would show a 'reduction' of around \$30 billion, mostly by shifting future acquisitions that have not yet occurred for major systems into the future.

If this sounds like a lot of bookkeeping jargon, you are correct. To those not familiar with government accounting, keep in mind that a 'budget reduction' is actually a decline from what previously had been approved. The FY-06 budget had forecast a gain of around \$90 billion for the DoD budget through FY-11. In this example, the \$30 billion budget decline would still translate into an overall \$60 billion gain.

Now it is quite possible that Congress may very well have its own ideas and use the 'unforeseen' budget to its advantage. This being an election year, it is possible that they

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

#### Top 10 Industry Sectors (12/30/05)

Industrials	65.12%
Consumer Discretionary	17.77%
Information Technology	13.96%
Materials	1.90%
Telecom Services	1.25%

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#### INSIGHT (continued)

could negotiate the budget back to the level that many in the industry expected and put the money back into Medicare and social programs. This would give them the ability to state that they are reigning in defense spending and supporting social programs, but time will tell.

The FY-07 budget was a sign to investors that while the run in the sector might be slowing in some areas, it is far from over.

When it comes to homeland security, while there are concerns about how the money is being spent, it is an area that is not politically acceptable to cut. The current budget shows gains of \$2 billion in FY06 and FY07 and this pattern is likely in the future. A number of DoD line items in the R&D budget indicate an increase in funding on projects that relate to national security.

In space, NASA's \$2 billion budget gains were expected but the more interesting figure for investors was the August 2005 'State of the Space Industry' forecast estimating \$40 billion in growth in the global market for services that employ satellites. Of course, a healthy commercial market leads to a healthier industrial base for defense and civil systems.

#### ETF Sees Rising Interest Among Investors

According to Yahoo! Finance, volume during the month of February averaged 109,773 shares vs. 21,350 shares in January.

This is obviously a very good sign for all of us directly or indirectly involved with the SPADE. Whether it is a result of our marketing and promotion of the Index or if they were simply waiting to see what the government's budget had to offer, there has been a significant uptick in the number of professional and/or institutional investors trading in the product. (The hint was the number of trades coming in blocks of 5,000, 10,000, and 20,000 shares).

#### New Sector IPOs?

At a defense investor's event sponsored by Friedman Billings Ramsey, I heard an interesting conversation between two attendees in which they said that smaller defense IT companies were not as likely to go public due to the several-hundred thousand dollar a year cost of complying with Sarbanes-Oxley. So do not expect a wave of new defense IPOs.

#### Homeland Security and the Ports Deal

Lastly, selling our port operations to a foreign entity will be an ongoing debate for the next several weeks at least. Like many, I have serious reservations on the issue. But the increased focus on port security, an obvious weakness when it comes to homeland security, can only benefit our national security and the companies involved in this area. -- Scott Sacknoff

Get on our list: newsletter-subscribe@spadeindex.com

#### Index & ETF Statistics

Index Constituents: 59  
# Offering Dividends: 21  
% Dividend Rate: 0.53%

Average Market Capitalization: 18.9 B  
Avg. P/E Ratio: 18.95  
Return on Equity: 15.71  
Avg. Price to Book Ratio: 4.43

#### Department of Defense

Discretionary Budget Authority (\$B)

	FY-05A	FY-06E	FY-07E
O&M	138.2	142.6	152.3
P-1	79.1	76.2	84.2
R-1	68.2	70.9	73.2

#### Total Including Supplementals & Emergency Funding

\$478.9 \$536.6 \$489.3

O&M - Operations & Maintenance  
P-1 - Procurement  
R-1 - R&D, Test, Evaluation

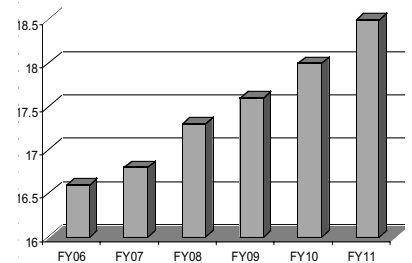
#### Department of Homeland Security

##### Total Budget Authority

FY05A	\$38.37 Billion
FY06E	\$40.35 Billion
FY07E	\$42.70 Billion

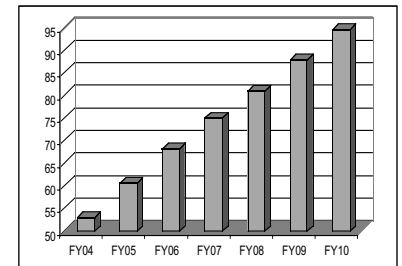
Lehman Brothers has estimated that the total worldwide market for security is nearly \$120 B.

#### NASA - FY07 Budget (\$B)



An additional \$2 billion is forecast to be added to NASA's budget as it continues to develop new vehicles for space exploration.

#### State of the Space Industry (\$B)



According to the 2005 'State of the Space Industry', global revenues for commercial space services are forecast to rise from \$53 billion in 2004 to \$94.7 billion in 2010. This represents satellites used for TV, radio, Internet access, imagery and broadcasting.

Mar-06		SPADE							Market					Revenue					
Company	Ticker	Float %	Price	Price	Price	% Ch	% Ch	52-week	Cap	P/E	Sales	Price/	Book	Div Yld	Revenue	Growth	Total Cash	Gross Profit	EBITDA
		28-Feb	Dec 31 CL	Jan 31 CL	Feb 28 CL	YTD	MTD	Change %	intraday	(ttm, intraday)	ttm	mrq	forward %	ttm	Y o Y	mrq	ttm	ttm	
United Technologies	UTX	7.07%	55.91	58.37	58.5	4.63%	0.22%	17.12	59400	19.34	1.4	3.51	1.5	42730	14.5%	2250	11790	6420	
Boeing Co	BA	7.07%	70.24	68.31	72.69	3.49%	6.41%	33.4	58680	22.69	1.09	5.36	1.6	54850	6.7%	5970	7780	3710	
Honeywell Intl	HON	6.84%	37.25	38.42	40.95	9.93%	6.59%	8.68	34510	21.09	1.27	3.11	2.2	27650	9.6%	1230	5020	3270	
Lockheed Martin	LMT	6.29%	63.63	67.65	72.87	14.52%	7.72%	22.47	31780	17.79	0.87	4.7	1.6	37210	2.6%	2670	1970	3690	
Genl Dynamics	GD	4.92%	114.05	116.36	123.27	8.08%	5.94%	17.17	24810	17.08	1.18	3.15	1.3	21240	18.7%	1750	3120	2540	
Directv Group	DTV	4.77%	14.12	13.83	15.76	11.61%	13.96%	4.93	21920	65.39	1.67	2.77		13160	6.9%	4380	1680	1440	
Raytheon Co	RTN	4.64%	40.15	40.97	43.4	8.09%	5.93%	13.14	19390	22.59	0.9	1.83	2	21890	8.9%	1200	3310	2120	
Northrop Grumman	NOC	4.62%	60.11	62.13	64.1	6.64%	3.17%	19.23	22480	16.63	0.75	1.35	1.6	30720	20.0%	1610	5130	2950	
Echostar Communications'a	DISH	4.15%	27.18	27.6	29.37	8.06%	6.41%	-2.1	13220	9.46	1.64			8180	14.3%	1520	1610	1840	
Computer Sciences	CSC	3.95%	50.64	50.7	54.34	7.31%	7.18%	15.62	10130	12.12	0.7	1.57		14610	2.5%	773	2740	2140	
L-3 Communications Hldgs	LLL	3.91%	74.35	81.02	83.11	11.78%	2.58%	14.98	9980	19.81	1.08	2.35	0.9	9440	51.7%	226	961	1140	
Itt Indus	ITT	3.81%	102.82	102.5	52.5	2.12%	2.44%	18.79	9850	13.77	0.66	1.8	1.7	7430	1.1%	451	2300	985.2	
Rockwell Collins	COL	3.62%	46.47	46.92	53.15	14.37%	13.28%		9125		0.55	1.88		3070	44.6%	134	476	565.8	
Garmin Ltd	GRMN	2.92%	66.35	62.21	68.82	3.72%	10.63%	33.92	7430	24.13	7.39	6.56	0.7	1030	44.5%	366	411	381.8	
Precision Castparts	PCP	2.77%	51.81	49.95	53.04	2.37%	6.19%	41.69	7110	22.7	2.13	3.57	0.2	3400	16.2%	119	654	614.4	
Sirius Satellite Radio	SIRI	2.68%	6.7	5.67	5.11	-23.73%	-9.88%	-13.24	6800		28.75	12.11		242	217.3%	940	-54	-574.5	
Harris Corp	HRS	2.40%	43.01	46.43	45.68	6.21%	-1.62%	33.43	6120	32.1	1.98	4.13	0.7	3200	14.2%	278	824	454.8	
Goodrich Corp	GR	2.02%	41.1	39.37	41.84	1.80%	6.27%	10.95	5160	19.68	0.98	3.59	1.9	5400	11.4%	251	1430	780.4	
Xm Satellite Radio Holdings'a	XMSR	1.93%	27.28	26.18	22.09	-19.02%	-15.62%	-33.6	4910		8.63	59.59		558	113.1%	711	43	375.8	
Ball Corp	BLL	1.74%	39.72	40.5	42.6	7.25%	5.19%	-2.67	4440	17.88	0.77	5.32	0.9	5750	2.2%	61	929	712.7	
Oshkosh Truck	OSK	1.64%	44.59	49.31	56.73	27.23%	15.05%	51.18	4180	24.29	1.35	4.8	0.7	3110	22.5%	81	495	321.45	
PanAmSat Holding Corp.	PA	1.21%	24.5	24.73	25.11	2.49%	1.54%		3080	60.07	3.65	2.96	6.2	839.5	1.0%	88	668	629.2	
Alliant Techsystems	ATA	1.10%	76.17	77.5	76.42	0.33%	-1.39%	9.48	2790	16.61	0.91	3.63		3100	12.5%	39	631	421.1	
Trimble Navigation Ltd	TRMB	0.87%	35.49	40.02	40.91	15.27%	2.22%	11.41	2200	27.4	2.85	3.87		775	14.8%	74	325	144	
Andrew Corp	ANDW	0.85%	10.73	12.97	13.7	27.68%	5.63%	8.39	2160	43.18	1.07	1.39		2000	8.6%	163	437	189.4	
Cogent Inc.	COGT	0.85%	22.68	24.03	23.26	2.56%	-3.20%	-14.74	2160	65.52	14.88	5		145	64.0%	305	58	74.2	
Drs Technologies	DRS	0.81%	51.42	49.69	52.77	2.63%	6.20%	24.78	2100	21.55	1.48	2.05	0.2	1450	15.2%	260	1310	200.4	
Anteon International	ANT	0.81%	54.35	55.15	55.29	1.73%	0.25%	44.59	2060	27.52	1.42	6.38		1450	17.3%	75	175	137.6	
Armor Holdings	AH	0.81%	42.65	47.67	58.73	37.70%	23.20%	46.46	2050	15.88	1.26	3.1		1640	34.1%	427	261	260.6	
Sra International'a	SRX	0.74%	30.54	31.76	34.52	13.03%	8.69%	13.22	1900	32.5	1.8	3.94		1050	44.6%	112	229	109.8	
Caci Intl	CAI	0.71%	57.38	57.1	60.27	5.04%	5.55%	10.79	1820	20.86	1.09	2.73		1690	7.7%	137	604	187.3	
Flir Systems	FLIR	0.71%	22.33	23.7	25.84	15.72%	9.03%	-18.67	1790	23.38	3.58	4.98		509	8.7%	107	54	140.8	
Ceradyne Inc	CRDN	0.63%	43.8	57.24	60.88	39.00%	6.36%	105.4	1500	38.51	4.2	9.36		338	67.6%	12	69	85.4	
	MOG_																		
Moog Inc.	A	0.54%	28.38	33.51	33.56	18.25%	0.15%	8.21	1300	19.88	1.16	2.43		1110	24.4%	37	328	155	
Teledyne Technologies	TDY	0.44%	29.1	32.68	33.13	13.85%	1.38%	5.75	1110	17.91	0.96	3.54		1210	7.7%	9	271	125.4	
Gencorp	GY	0.42%	17.75	20.03	19.25	8.45%	-3.89%	1.1	1060		1.71			624	36.2%	91	-115	22	
Esterline Technologies	ESL	0.41%	37.19	41.37	41.64	11.97%	0.65%	20.7	1060	18.16	1.28	1.72		835	17.8%	181	262	117.6	
Intergraph Corp	INGR	0.41%	49.81	38.21	36.26	-27.20%	-5.10%	22.54	1050	10.09	1.83	2.52		578	-2.0%	307	276	68.9	
Mantech International'a	MANT	0.37%	27.86	27.96	28.1	0.86%	0.50%	12.18	929	21.16	0.96	2.49		980	13.6%	6	129	93.8	
Orbital Sciences Corp	ORB	0.33%	12.84	12.9	15.23	18.61%	18.06%	42.34	839	33.77	1.21	2.14		703	13.9%	159	109	66.9	
Viasat Inc	VSAT	0.29%	26.73	25.2	26.85	0.45%	6.55%	34.25	737	31.29	1.86	3		407	26.6%	22	84	44.2	
AMERICAN SCIENCE & ENGINEERI	ASEI	0.26%	62.37	64.25	76.09	22.00%	18.43%	69.01	622	20.05	4.07	6.15		150	64.1%	75	30	43.2	
SafeNet Inc.	SFNT	0.25%	32.22	31.42	24.92	-22.66%	-20.69%	-20	628	155.75	2.4	1.08		263	20.8%	325	102	45.7	
Argon St	STST	0.23%	30.98	28.63	29.71	-4.10%	3.77%	-13.18	653	27.48	2.37	2.71		283	20.5%	30	49	40.3	
Edo Corp	EDO	0.23%	27.06	27.63	29.13	7.65%	5.43%	-8.71	589	25.51	0.9	2.43	0.4	648	18.2%	109	143	69	
TASER International Inc.	TASR	0.23%	6.96	9.44	9.56	37.36%	1.27%	-2747	587	597.5	12.79	5.87		48	-34.5%	16	45	3.1	
United Industrial	UIC	0.23%	41.37	45.43	51.66	24.87%	13.71%	52.21	582	20.5	1.29	23.01	0.8	449	28.0%	79	96	60.3	
Cubic Corp	CUB	0.23%	19.96	22.29	21.62	8.32%	-3.01%	13.55	578	34.21	0.7	1.86	0.8	809	2.7%	26	132	22.96	
Essex Corp.	KEYW	0.19%	17.05	20.45	22.5	31.96%	10.02%	16.28	481	76.79	3.83	3.64		129	156.3%	25	14	10	
MTC Technologies Inc.	MTCT	0.17%	27.38	29.31	27.59	0.77%	-5.87%	-15.6	435	20.9	1.34	2.86		353	36.7%	12	43	42.6	
Si International	SINT	0.14%	30.57	30.41	32.56	6.51%	7.07%	25.13	368	22.47	0.92	2.19		398	67.3%	34	96	38.4	
Mercury Computer Sys	MRCY	0.14%	20.63	19.36	17.24	-16.43%	-10.95%	-42.44	362	17.21	1.39	1.81		265	5.3%	116	166	43.9	
Viisage Technology Inc.	VISG	0.14%	17.61	17.97	18.38	4.37%	2.28%	24.4	354		5.04	1.36		70	-28.1%	13	19	7	
Osi Systems	OSIS	0.13%	18.39	21.96	20.75	12.83%	-5.51%	22.2	340		0.83	1.46		414	14.2%	17	142	5.15	
Herley Industries	HRLY	0.11%	16.51	17.47	18.81	13.93%	7.67%	3.69	272	25.25	1.75	1.38		160	24.9%	21	45	21.73	
Applied Signal Technology Inc.	APSG	0.11%	22.7	23.17	23.44	3.26%	1.17%	1.65	270	29.82	1.74	2.78	2.1	156	46.0%	30	53	18.83	
NCI INC-CLASS A	NCIT	0.07%	13.73	13.66	13.96	1.68%	2.20%		186	14.62	0.99	32		190	13.1%	13	27	11.9	
Kvh Industries	KVHI	0.06%	9.79	11.07	10.5	7.25%	-5.15%	2.94	153	52.5	2.16	2.15		71	11.3%	50	20	4.15	