
Pacific Northwest Aerospace Market Update

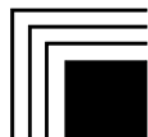
January 2009



Aerospace Trends

Regional Aerospace Acquisitions

Trends in Public Market Valuation



EXVERE inc.
PRIVATE INVESTMENT BANKING

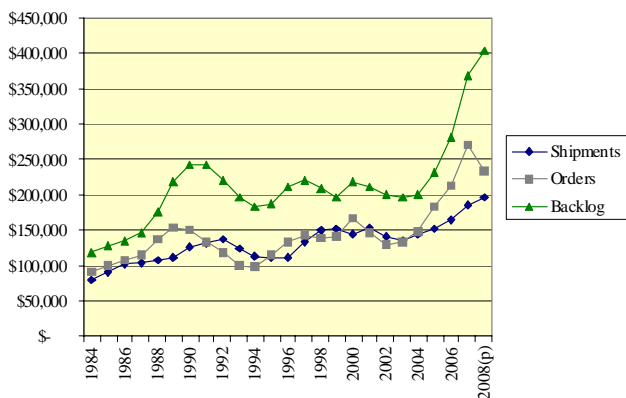
Aerospace Trends

The primary driver for growth for suppliers in the aerospace industry is the demand for new aircraft. Over the past 20 years, annual air travel grew by an average of 4.8 percent despite two major world recessions, terrorist acts, the Asian financial crisis of 1997, the SARS outbreak of 2003, and two Gulf wars. The resilience of air transport growth comes from its intrinsic importance to the livelihood and the economies of countries worldwide. According to analysts, over the next 20 years, passenger travel will grow at 5.0 percent and cargo at 5.8 percent. The fastest growing economies will lead to a transformation into a more geographically balanced market. As a result, analysts anticipate a need for over 14,000 new passenger aircraft over the next 20 years.

Size	2007	2027
747 and larger	560	620
Twin aisle	2,640	6,510
Single aisle	10,770	22,150
Regional jets	3,080	2,630
Total	17,050	31,910

The chart below illustrates the recent surge in backlog following historic lows in orders during the first half of the decade.

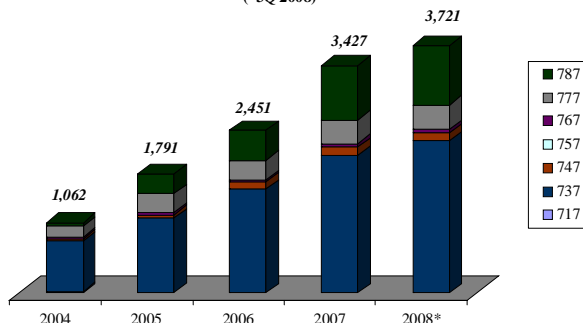
Aerospace Shipments, Orders, and Backlog
(Source AIA)



Despite the long-term prospects, the industry is facing the worst revenue crisis since the end of World War II, as almost all air carriers (aside from U.S. carriers) are predicted to lose money in 2009. Worldwide, airline losses this year are expected to be around \$5.5 billion, of which \$3.9 billion will be from North American airlines. In 2009, the figure is estimated at \$2.5 billion, and would have been much larger if the same North American airlines did not make substantial cuts during 2008.

The immediate impact to suppliers is in question as Boeing and other OEM's currently have record backlogs that will be shipped in 2009 and beyond.

Boeing - Commercial Aircraft Backlog
(*3Q 2008)



This juxtaposition of the market is a result of four factors: increased air travel; an aging commercial fleet; increasing fuel prices; and growth in emerging markets.

Increased Air Travel

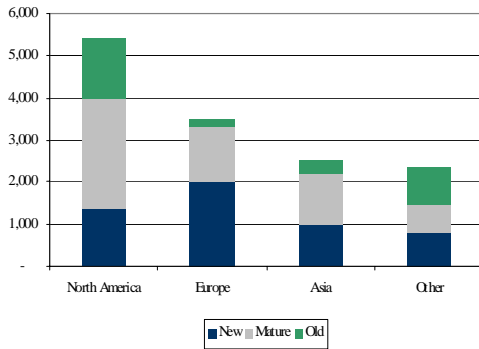
Research firm Avitas anticipates global air-passenger traffic will increase at a CAGR of 6 percent over the next 10 years. Driving this trend is strong economic growth worldwide and the rise of discount airlines such as Southwest, Air Berlin, RyanAir, and JetBlue. By utilizing alternative airports in major regions and avoiding the legacy costs of hub-and-spoke carriers, discount airlines have dramatically lowered the cost of flying, leading to substantial passenger increases, a trend which is expected to continue into the foreseeable future.

Additionally, Avitas sees global air-cargo traffic rising at a 10-year CAGR of 7 percent, reflecting a current and projected surge in international trade. While conversion of existing passenger aircraft will play a big role in increasing the freighter fleet, the industry expects the development of dedicated freighters such as the Boeing 777F, 747-8F, and Airbus A380F to reshape the air-cargo market. The growing demand for air travel will drive major fleet expansion for passenger and cargo airlines.

Aging Commercial Fleet

Due to obsolescence, the domestic airline industry is expected to replace a significant number of aircraft over the next 10 years. Commercial aircraft tend to have higher maintenance and fuel costs in

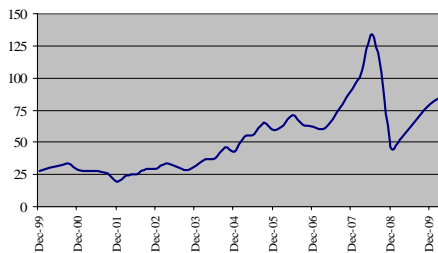
the latter part of their service lives, forcing carriers to replace their fleet in the face of increased passenger demand. As demonstrated in the chart to above, approximately one-third of the fleet is beyond the 14-year threshold generally associated with the largest amount of unscheduled maintenance, while approximately one-quarter is approaching maturity.



Rising Fuel Prices

The development and production of new fuel-efficient aircraft models will further accelerate the replacement cycle. With fuel accounting for nearly 40 percent of total operating costs, next generation, fuel-efficient aircrafts such as Boeing's 787 Dreamliner can provide carriers with a 20 to 30 percent cost savings. This is substantial, even despite the

Crude Oil Prices
Cushing, OK WTI Spot Price FOB (Dollars per Barrel)
(Source: Riplingers/Energy Info Admin)



recent decline in oil prices as prices are predicted to increase and fuel savings will once again become a major determining factor.

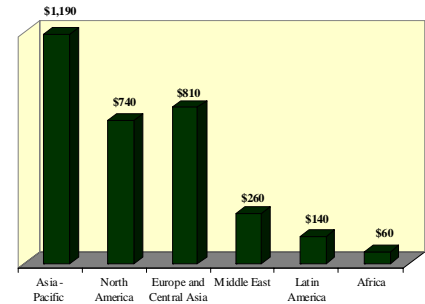
Growth in Emerging Markets

Economic liberalization and high GDP growth rates in emerging markets have contributed to a strong order cycle for all aircraft OEMs. This trend is especially prevalent in Asia, where higher standards of living have led to a direct increase in air travel demand. Supported by robust economic growth, international aircraft orders will help accelerate the current order cycle in coming years.

Consequences of the dynamic changes occurring in the aerospace industry and economy as a whole have created opportunities for the local supplier base. Continued delay of the 787 introduction has critically impacted Tier 2 and Tier 3 suppliers, who are invested heavily

in the infrastructure that is needed to supply this endeavor. Recent reports suggest the 787 will not be ready for its initial test until late 2009, and the first round of deliveries not occurring until summer of 2010. Tier 2 and Tier 3 suppliers have traditionally had a large spread in financial performance, as the companies with true technical leadership are able to achieve superior margins compared to more inefficient, poorly positioned suppliers.

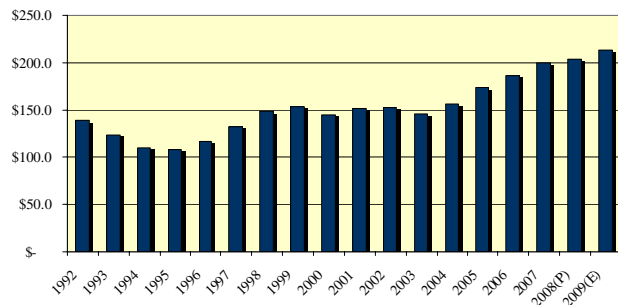
Market Value By Region (\$Bill)
2008-2027



Regional Outlook

Northwest suppliers are facing increasing competition from overseas. Recently, Airbus and China celebrated the opening of the A320 assembly factory in Tianjin, south of Beijing. This follows the opening of an assembly plant by Embraer for the E-145 and plans by Bombardier for China's AVIC to produce a portion of the fuselage for the new C Series jet. Currently, Japan is building the fuselage for the Boeing 767, and the vertical tail for the 737 is built in China.

Aerospace Industry Sales (\$Billions)
(Source AIA/Teal Group)



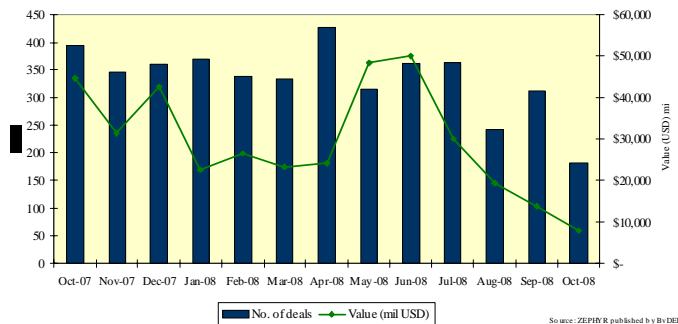
A slight decline in overall production may occur in 2009, but the long-term outlook for local aerospace supplier is still very strong. Boeing and its suppliers are well positioned as the much-delayed 787 should be in demand as airlines begin recovering. Local suppliers now have the opportunity to differentiate themselves through technology and efficient operations. Additionally, the plethora of new aircraft launches – ranging from the Airbus A380 and A350, to the Embraer ERJ 170/175 and the forthcoming 190/195, to the Bombardier 'C' Series – allows suppliers to focus on other OEMs besides Boeing.

M&A Trends

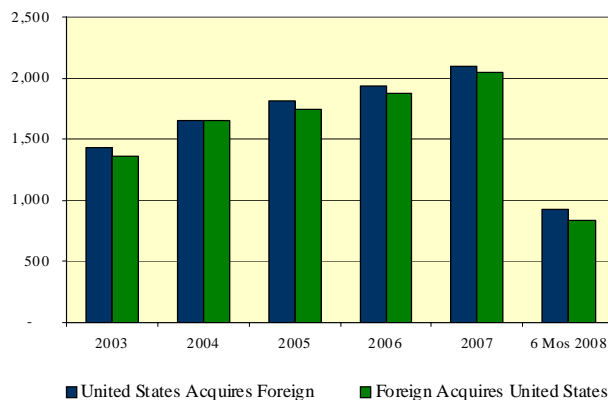
Private Equity

News of the credit crunch and graphs such as the one below are somewhat misleading. The days of private equity's overleveraged buyouts are behind us and more conservative capital structures are the norm. Since private equity buyers still require a return on their investment, the increased equity to leads somewhat reduced valuation multiples. While this equation is generally true, certain private equity groups have the capability to act strategically and capitalize on some of the same synergies that strategic or industry buyers enjoy. The credit crunch has put a temporary brake on private equity's ability to play in the large deal market (in excess of \$1 billion); however plenty of activity remains in the middle and lower middle market. Additionally, private equity investment in the aerospace industry peaked in 2007 (see graph below) which creates numerous potential acquirers looking for strategic companies to add to platform positions.

Private Equity Deals by Volume and Value



Cross Border M&A - Number of Transactions (Source: UNCTAD)



Overall, Chinese and Japanese companies may turn out be the most active buyers in 2009, as both use their excess cash and strong currencies to make purchases abroad (an example being Mitsubishi's recent investment of \$9 billion in Morgan Stanley).

Locally, M&A activity has remained steady with 7 transactions occurring in 2008 and 7 in 2007. Strategic buyers have been the main source of activity, accounting for 11 of the 17 transactions listed below. It is worth noting that five are international buyers and 6 are private equity, or financial buyers.

Strategic and International

Strategic buyers have remained very active in the Pacific Northwest and this trend is expected to continue. Additionally, with the relative strength of the Euro and need for most aerospace components to be dollar-denominated, Exvere anticipates continued interest from international buyers. The cost of a "Greenfield" manufacturing plant and the time and money required to obtain Boeing or Airbus certifications creates strong leverage for local aerospace firms when dealing with international buyers. Additionally, deals involving European buyers and European targets fell by 80 percent from 2006 – 2008, as the EU market was seen as less attractive, and also because the weak dollar has depressed European profits and made North American targets cheaper. Ongoing uncertainty of defense spending in Europe has added to this trend.

Recent PNW Aerospace Acquisitions

Date	Target	Location	Buyers/Investors
Pacific Northwest			
11/25/2008	Accra Manufacturing	Bothell, Washington	Primus International
10/29/2008	LaFarge and Egge, Inc.	Lynnwood, Washington	Graham Capital Group, LLC
10/06/2008	Fatigue Technology, Inc.	Seattle, Washington	Precision Castparts Corp. (NYSE:PCP)
07/22/2008	Insitu, Inc.	Bingen, Washington	Boeing Integrated Defense Systems, Inc.
04/01/2008	Nova Composites, Inc.	Lynnwood, Washington	Park Electrochemical Corp. (NYSE:PKE)
03/04/2008	QPM Aerospace, Inc., Metallic Rod	Monroe, Washington	SKF AB (OM:SKF B)
01/29/2008	Giddens Industries, Inc.	Everett, Washington	Platte River Ventures
01/16/2008	QPM Aerospace, Inc.	Bellevue, Washington	Key Principal Partners
12/24/2007	Unitech Composites, Inc.	Hayden, Idaho	Peninsula Capital ; Mesa Capital ; Acorn Growth
11/01/2007	Erickson Air-Crane Incorporated	Central Point, Oregon	Stonehouse Capital Partners
09/21/2007	Aviation Technical Services, Inc.	Everett, Washington	Macquarie Group, Ltd. (ASX:MQG)
09/21/2007	Columbia Aircraft Manufacturing Corp.	Bend, Oregon	Cessna Aircraft Company
08/21/2007	Op Technologies, Inc.	Beaverton, Oregon	Aerosonic Corp. (AMEX:AIM)
03/14/2007	Precision Machine Works, Inc.	Tacoma, Washington	Platte River Ventures
01/01/2007	Pacific Aerospace & Electronics Inc., US	Wenatchee, Washington	Souriau SAS
09/18/2006	Aerospace Manufacturing Technologies	Arlington, Washington	Senior Operations, Inc.
06/07/2006	Primus International, Inc.	Seattle, Washington	Oak Hill Capital Partners

Denotes Exvere Representation

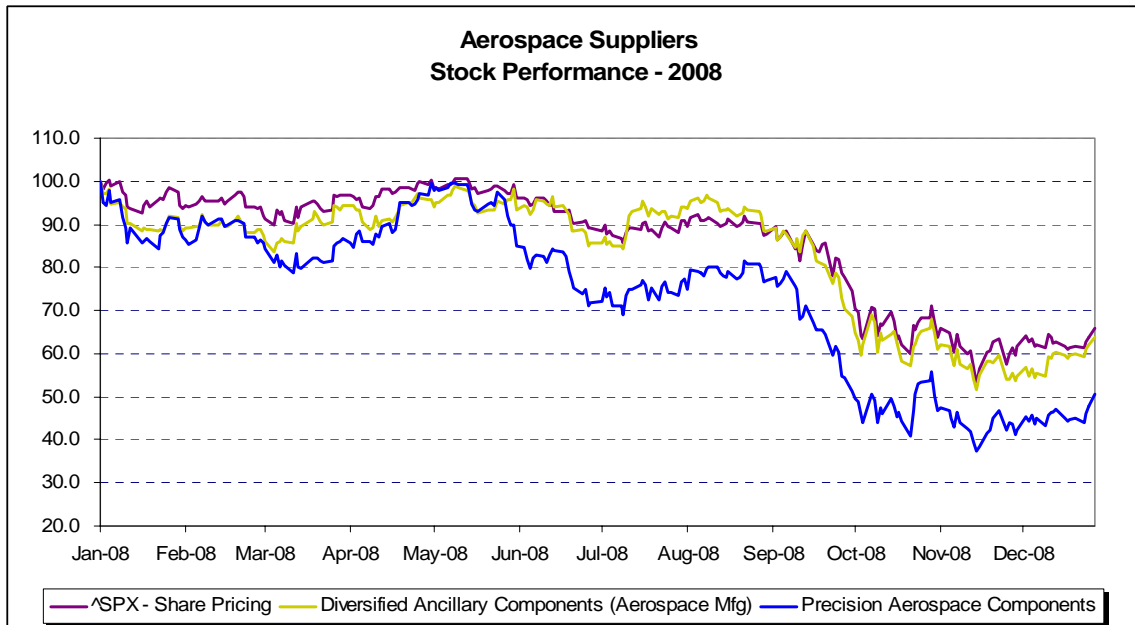
Local Companies in the News

Company	Item	Notes
Accra Manufacturing (Bothell, WA)	Sale	Accra, an early entrant in the 787 program, was sold to Primus International
Esterline Corp. (Seattle, WA)	Acquisition	Bought Racal Acoustics of Great Britain for \$169 million
Esterline Corp. (Seattle, WA)	Announcement	Reported record 4 th quarter profits of \$41.4 million.
Jet Parts Engineering (Seattle, WA)	Announcement	Announces FAA approval of four new PMA parts
Northwest Aerospace Technologies (Everett, WA)	Announcement (Puget Sound Business Journal)	Recognized as one of the fastest growing companies in Washington, with a 159% growth rate between 2005 to 2007
Precision Castparts (Portland, OR)	Acquisition	Precision Castparts acquired both Fatigue Technology (Seattle, WA) and Hackney Ladish (Dallas, TX) in the fourth quarter of 2008.
Royell Manufacturing, Inc. (Everett, WA)	Announcement	Installing the first phase of new 5-axis Manufacturing System.
University Swaging (Seattle, WA)	Move	University Swaging announced it will be relocating from its Ballard location and plans to move to a new 107,000-square-foot building in south Snohomish County in the first quarter of 2009

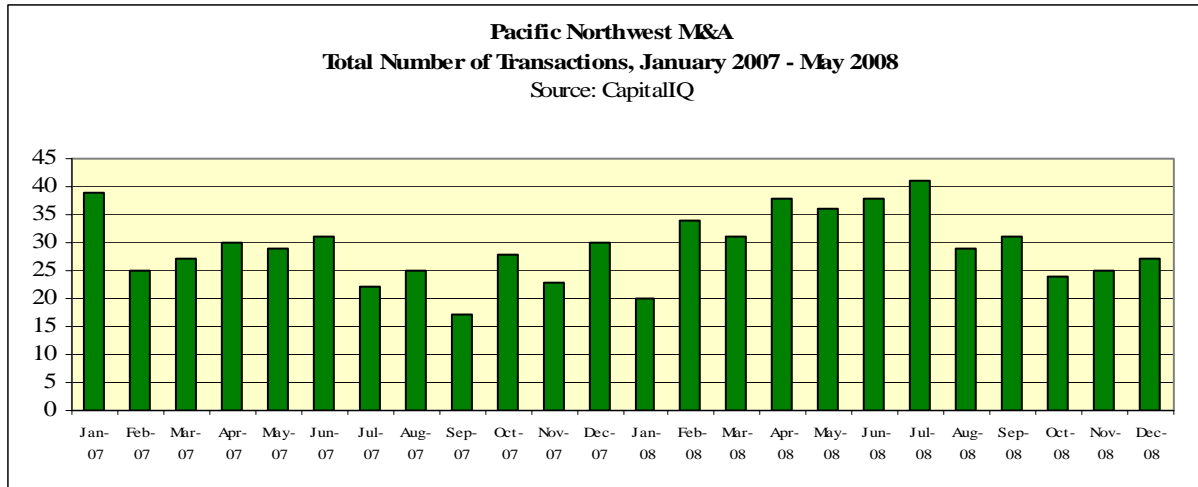
Public Market Valuation Trends

Precision Aerospace Components - Current Valuation Multiples			
Company Name	Revenue Multiple	EBITDA Multiple	Future Revenue Multiple
Barnes Group Inc. (NYSE:B)	0.8x	5.4x	0.9x
Esterline Technologies Corp. (NYSE:ESL)	1.0x	6.1x	0.9x
Goodrich Corp. (NYSE:GR)	0.9x	4.7x	0.8x
Hawk Corp. (AMEX:HWK)	0.5x	3.3x	0.5x
Hexcel Corp. (NYSE:HXL)	0.8x	5.2x	0.8x
Ladish Co. Inc. (NasdaqGS:LDSH)	0.7x	5.7x	0.6x
LMI Aerospace Inc. (NasdaqGS:LMIA)	0.6x	4.0x	0.6x
Precision Castparts Corp. (NYSE:PCP)	1.2x	4.9x	1.2x
Spirit AeroSystems (NYSE:SPR)	0.5x	3.1x	0.5x
Triumph Group Inc. (NYSE:TGI)	0.9x	5.5x	0.8x
High	1.2x	6.1x	1.2x
Low	0.5x	3.1x	0.5x
Mean	0.8x	4.8x	0.8x
Median	0.8x	5.0x	0.8x

Diversified Ancillary Components - Current Valuation Multiples			
Company Name	Revenue Multiple	EBITDA Multiple	Future Revenue Multiple
BE Aerospace Inc. (NasdaqGS:BEAV)	0.9x	5.0x	0.8x
Danaher Corp. (NYSE:DHR)	1.7x	8.9x	1.8x
HEICO Corp. (NYSE:HEI)	2.0x	9.5x	1.9x
Kaydon Corporation (NYSE:KDN)	1.9x	7.3x	1.7x
RBC Bearings Inc. (NasdaqGS:ROLL)	1.4x	6.4x	1.4x
Standex International Corp. (NYSE:SXI)	0.5x	6.0x	NA
Timken Co. (NYSE:TKR)	0.5x	3.2x	0.5x
High	2.0x	9.5x	1.9x
Low	0.5x	3.2x	0.5x
Mean	1.3x	6.6x	1.3x
Median	1.4x	6.4x	1.5x



PNW Mergers and Acquisitions



Locally, transaction volume has been consistent, if not improving, over the past 24 months (see graph above). Exvere believes that, based on the market forces described above, lower middle market transactions will remain relatively resilient despite negative economic news and a tighter lending environment.

Recent Exvere Aerospace/Defense Engagements					
Date	Client	Industry	Products/Services	Counterparty	Transaction
December, 2007	QPM Aerospace	Aerospace & Defense	Precision machining and sheet metal	Key Principal Partners	\$15MM refinancing
January, 2008	QPM Aerospace	Aerospace & Defense	Manufacturing swaged tube	SKF/Aerospace France (Sarma)	Divestiture of swaged tube division
October, 2008	LaFarge & Egge	Aerospace & Defense	Precision sheet metal and tube bending	Graham Capital Group	N/A
December, 2008	Amtech Corp.	Aerospace & Defense	Composites manufacturing for OEMs & military	Blackford Capital LLC	N/A
Current	Project Chinstrap	Aerospace & Defense	Acquisition search for aerospace & military composite companies	TBD	Active acquisition search

Services

Exvere represents owners of companies in major capital transactions (a partial list of transaction types is below). We work closely with our clients to develop targeted lists of strategic and financial counterparties who are qualified to complete the transaction. Exvere employs time-tested processes to structure and negotiate transactions to maximize value for our clients. Finally, we fully participate through completion, assisting with the efficient and timely closing of the transaction.

Transaction Types:

- Mergers of equals
- Business sales (stock and assets)
- Business Unit Divestures
- Management Buy-Outs
- Private Equity Recapitalizations
- Acquisitions

Industries Served:

- Manufacturing
- Distribution
- Building Products
- Construction
- Food & agribusiness
- Healthcare Services
- General Business Services
- Consumer Products
- Aerospace & Defense
- Computer Hardware
- Telecommunications/Networking

History

Founded in Seattle in 1992, Exvere has advised on over 100 capital transactions. In 2006, Exvere formed Exvere Securities, LLC, a FINRA-licensed broker-dealer. The firm has carved out a significant reputation by representing Northwest business owners on mergers and acquisitions, recapitalizations, valuations and financing.

The Exvere Edge

- **Strategic Assessments** — Many owners don't have comprehensive, long-range plans for their businesses. Exvere assists with developing near- and long-term strategies to maximize exit values through our extensive research and analytical capabilities. We also help owners assess appropriate timing considerations and see the business through the eyes of a potential acquirer: normalizing earnings, determining strengths and weaknesses – all of which provides valuable insight and direction resulting in higher valuation at the chosen time of exit.
- **FINRA-Licensed** — Exvere, through its wholly owned subsidiary, Exvere Securities, LLC, is a FINRA-licensed broker-dealer. This certification provides another level of comfort since we are subject to equivalent regulatory and financial standards as are larger brokerage firms. Importantly, this allows us to provide a greater array of options to our clients, such as partnering with international investment banks, public offerings, providing fairness opinions or accessing their extensive research resources.
- **Expertise** — Exvere's staff includes an Accredited Valuation Analyst (AVA), as well as in-house legal counsel. Our success rate for completing each contracted engagement exceeds 90%.