



My Fellow Argon ST Stockholders,

I am pleased to report that we continued to grow the company in fiscal year 2009 and achieved improved financial performance, attained a number of important technical milestones, and provided innovative solutions for our customers. The 2009 financial results are attributable to excellent program performance as well as focused cost control. Improved operating margins resulted in healthy growth to record levels of operating income, earnings per share (EPS), net income, and adjusted earnings before interest taxes depreciation and amortization (EBITDA).

We achieved the following financial highlights during fiscal year 2009:

- Record revenue of \$366 million, reflecting organic growth of more than seven percent over fiscal year 2008
- Record non-GAAP operating income of \$36.8 million for the year, representing a 15 percent increase over fiscal year 2008; GAAP operating income was \$36.2 million for 2009.
- Record adjusted EBITDA of \$50.7 million or 13.8 percent of revenue for the year, representing 13 percent growth over fiscal year 2008
- Record non-GAAP EPS of \$1.10 for the year, representing a 19 percent improvement over fiscal year 2008 ; GAAP EPS was \$1.08 for the year.
- Significant growth in cash balances to \$43.1 million at September 30 (representing an increase of \$27.7 million for the year) with free cash flow conversion of almost 1.2 times for the fiscal year.
- Increased efficiencies, reduced overhead expenses and a healthy balance sheet with no debt.

(Non-GAAP operating income, adjusted EBITDA and non-GAAP EPS are non-GAAP financial measures. Additional information concerning these non-GAAP financial measures and a reconciliation to the most comparable GAAP financial measures may be found in the Company's earnings press release dated December 3, 2009 posted in on our website (www.argonst.com).)

In addition to our financial accomplishments, we improved our market position and enhanced future potential by achieving important milestones on several key programs.

As I reported last year, the Ships Signal Exploitation Equipment (SSEE) Increment F program had completed design and development and had entered the integration and test phase. We have now completed integration as well as multiple successful tests at our facility, on test ranges, and at sea. One SSEE Increment F system is installed on a surface combatant and has achieved positive operational testing and assessment results. Once this testing is completed and documented, the U.S. Navy plans to proceed with their low rate initial production decision. We believe that the signal processing performance and the networking technology demonstrated in this system is critical to future warfighter



needs. This system has also gained significant new and existing foreign customer attention. It is important to note that we consider the validation of the SSEE Increment F system as an important customer acceptance of our next generation Lighthouse 3.0 capabilities and architecture. Consistent with our product line approach, we have already leveraged selected capabilities of this architecture into other Lighthouse product line systems. Additionally, we are working across our customer base to develop transition plans to fully leverage these new capabilities into already fielded systems as well as new systems. These products, combined with current commercial computing hardware and reuse of the core mission software, are allowing significant SIGINT capabilities to be fielded on smaller platforms.

The Common Range Integrated Instrumentation System – Rapid Prototype radios successfully entered production during 2009 with multiple orders resulting in successful deliveries to our customers. The U.S. Army's Operational Test-Tactical Engagement System, or OT-TES program, entered into production qualification testing during the fourth quarter of fiscal 2009. Completion of this testing is expected during the first half of fiscal 2010 which will enable this program to move to the next critical phase of low rate initial production and early user testing. These two systems demonstrate our leading position in providing spectrally efficient communications and networking to support the critical testing of modern technology and training required to develop and deploy new tactics and operations.

Our low earth orbit communication satellite payload development program, ORBCOMM Generation 2 (OG2), delivered a flat satellite in 2009 and is expected to deliver our first payload in the early part of calendar 2010 with launches planned in 2011. We view a successful OG2 program as key to our strategy to support rapidly deployable tactical satellite payloads and to penetrate both commercial and military operationally responsive space initiatives.

In 2009 there was significant change in our country's national ISR requirements and initiatives. Long-term airborne ISR programs such as the Army's Aerial Common Sensor (now terminated) and the Navy's EPX, were deferred or replaced with platforms that can be rapidly built and deployed to support current war efforts. Our airborne technology is being continuously upgraded to meet these rapidly changing needs and will deploy on special platforms in 2010. Program efforts in support of the Army's Guardrail Modernization high band COMINT system continued on schedule.

The Navy has delayed the EPX program while it conducts an analysis of alternatives for the platform and/or capability. Although this specific acquisition has been paused, major aircraft and system primes have yielded numerous pursuit opportunities, both domestic and foreign, where our airborne ISR sensors are well-suited for immediate deployment.

Outside of our large development programs, we see increased government interest in the development and production of products that support evolving ISR needs for detecting, targeting, locating and protection of forces. We continue to expand the breadth of our products in these markets while simultaneously improving their performance. This market includes products or small systems for border

security and port security as well as rapid response development of sensors and sensor systems to support our security forces and warfighters from emergent threats.

As we enter fiscal 2010 I believe that our Company is better positioned for growth in our markets than ever before and that our base capabilities should allow us to continue to increase our market share. However, we are not without challenges. Although our pipeline of opportunities is strong, it is critical that we turn these opportunities into bookings in a timely manner. Our smaller backlog at the end of 2009 creates some uncertainty in terms of revenue generation in 2010 and more dependence on the timeliness of new bookings, hence our continued focus on our business development initiatives.

As a result of changing priorities and budget pressure from a weak domestic economy, there are processes currently underway to evaluate the costs and need of various military platforms, redundant systems, and unneeded or too expensive capabilities. Although this may impact some programs and reprioritize others, the importance of intelligence in the protection of our country from future surprise attacks, and the leverage that ISR provides to the warfighter has fared well in the evaluation of needs in the current world environment.

Current forecasts indicate that the intelligence, surveillance and reconnaissance budgets, particularly when including cyber warfare allocations, are continuing to increase and are expected to continue to increase for at least the next several years. Furthermore, there seems to be a high probability of ISR budget increases even if the Department of Defense budget is nearly flat. We are positioned to fare well in this current environment. For a complete discussion of risk factors that could impact company results, please see our filings with the Securities and Exchange Commission, including our Form 10-K for the fiscal year ended September 30, 2009.

Overall, I am happy to conclude that we made great progress on our goals and objectives during fiscal 2009. Equally important, with strong demand from our existing customers and key initiatives with important new customers, we see future growth in all of our markets and look toward improved performance and growth.

On a final note, in accordance with our goal of being a good corporate citizen, we have decided to communicate this letter to you in electronic form in order to help our environment.

Thank you for your continued support of Argon ST.

Regards,

A handwritten signature in black ink, appearing to read "Perry".