

FORM 10-Q

AEROFLEX INC - ARXX

Filed: February 11, 2010 (period: December 31, 2009)

Quarterly report which provides a continuing view of a company's financial position

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended
Commission File Number 033-88878

December 31, 2009

AEROFLEX INCORPORATED

(Exact name of Registrant as specified in its Charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

11-1974412
(I.R.S. Employer
Identification No.)

35 South Service Road
P.O. Box 6022
Plainview, N.Y.
(Address of principal executive offices)

11803-0622
(Zip Code)

(516) 694-6700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

February 11, 2010
(Date)

1,000
(Number of Shares)

**AEROFLEX INCORPORATED
AND SUBSIDIARIES**

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**Aeroflex Incorporated
and Subsidiaries**
Unaudited Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	December 31, 2009	June 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 68,799	\$ 57,748
Accounts receivable, less allowance for doubtful accounts of \$3,027 and \$2,250	117,281	130,429
Inventories	134,901	135,603
Deferred income taxes	37,022	35,164
Prepaid expenses and other current assets	11,563	9,938
Total current assets	369,566	368,882
Property, plant and equipment, net	98,203	100,907
Non-current marketable securities, net	16,899	17,677
Deferred financing costs, net	23,369	25,754
Other assets	18,011	15,425
Intangible assets with definite lives, net	261,701	292,553
Intangible assets with indefinite lives	111,894	112,266
Goodwill	428,886	428,133
Total assets	\$ 1,328,529	\$ 1,361,597
Liabilities and Stockholder's Equity		
Current liabilities:		
Current portion of long-term debt	\$ 4,203	\$ 5,590
Accounts payable	27,138	36,574
Advance payments by customers and deferred revenue	32,490	33,418
Income taxes payable	4,135	5,080
Accrued payroll expenses	16,016	18,876
Accrued expenses and other current liabilities	50,005	47,938
Total current liabilities	133,987	147,476
Long-term debt	889,990	883,758
Deferred income taxes	149,133	143,048
Defined benefit plan obligations	5,988	6,079
Other long-term liabilities	11,582	21,476
Total liabilities	1,190,680	1,201,837
Stockholder's equity:		
Common stock, par value \$.10 per share; authorized 1,000 shares; issued and outstanding 1,000 shares	-	-
Additional paid-in capital	397,759	396,573
Accumulated other comprehensive income (loss)	(46,640)	(54,700)
Accumulated deficit	(213,270)	(182,113)
Total stockholder's equity	137,849	159,760
Total liabilities and stockholder's equity	\$ 1,328,529	\$ 1,361,597

See notes to unaudited condensed consolidated financial statements.

Aeroflex Incorporated and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations
(In thousands)

	Three Months Ended December 31,	
	2009	2008
Net sales	\$ 166,739	\$ 156,815
Cost of sales	80,145	83,656
Gross profit	<u>86,594</u>	<u>73,159</u>
Selling, general and administrative costs	31,573	34,174
Research and development costs	17,261	17,075
Amortization of acquired intangibles	15,514	14,622
	<u>64,348</u>	<u>65,871</u>
Operating income	<u>22,246</u>	<u>7,288</u>
Other income (expense)		
Interest expense	(21,418)	(21,250)
Other income (expense), net	422	9,327
Total other income (expense)	<u>(20,996)</u>	<u>(11,923)</u>
Income (loss) before income taxes	1,250	(4,635)
Provision (benefit) for income taxes	<u>11,864</u>	<u>(528)</u>
Net income (loss)	<u>\$ (10,614)</u>	<u>\$ (4,107)</u>

See notes to unaudited condensed consolidated financial statements.

Aeroflex Incorporated and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations
(In thousands)

	Six Months Ended December 31,	
	2009	2008
Net sales	\$ 296,855	\$ 297,660
Cost of sales	145,267	157,142
Gross profit	<u>151,588</u>	<u>140,518</u>
Selling, general and administrative costs	61,811	65,658
Research and development costs	34,442	34,104
Amortization of acquired intangibles	31,119	32,590
Loss on liquidation of foreign subsidiary (Note 10)	7,696	-
	<u>135,068</u>	<u>132,352</u>
Operating income	<u>16,520</u>	<u>8,166</u>
Other income (expense)		
Interest expense	(42,457)	(42,465)
Other income (expense), net	479	12,413
Total other income (expense)	<u>(41,978)</u>	<u>(30,052)</u>
Income (loss) before income taxes	(25,458)	(21,886)
Provision (benefit) for income taxes	5,699	(10,882)
Net income (loss)	<u>\$ (31,157)</u>	<u>\$ (11,004)</u>

See notes to unaudited condensed consolidated financial statements.

**Aeroflex Incorporated
and Subsidiaries**
Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Six Months Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ (31,157)	\$ (11,004)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	41,774	43,651
Loss on liquidation of foreign subsidiary	7,696	-
Deferred income taxes	2,437	(18,808)
Share based compensation	1,045	977
Amortization of deferred financing costs	2,386	2,399
Paid in kind interest	8,857	7,889
Other, net	646	96
Change in operating assets and liabilities, net of effects from purchases of businesses:		
Decrease (increase) in accounts receivable	12,136	12,687
Decrease (increase) in inventories	(358)	(4,698)
Decrease (increase) in prepaid expenses and other assets	(4,319)	1,224
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(19,030)	7,247
Net cash provided by (used in) operating activities	22,113	41,660
Cash flows from investing activities:		
Capital expenditures	(8,401)	(8,353)
Proceeds from sale of marketable securities	1,000	-
Proceeds from the sale of property, plant and equipment	845	866
Other, net	(11)	(12)
Net cash provided by (used in) investing activities	(6,567)	(7,499)
Cash flows from financing activities:		
Debt repayments	(4,012)	(4,129)
Debt financing costs	-	(340)
Net cash provided by (used in) financing activities	(4,012)	(4,469)
Effect of exchange rate changes on cash and cash equivalents	(483)	(10,177)
Net increase (decrease) in cash and cash equivalents	11,051	19,515
Cash and cash equivalents at beginning of period	57,748	54,149
Cash and cash equivalents at end of period	\$ 68,799	\$ 73,664

See notes to unaudited condensed consolidated financial statements.

AEROFLEX INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

We design, engineer and manufacture microelectronics and test solution and measurement equipment that are sold primarily to the broadband communications, aerospace and defense markets. Our fiscal year ends on June 30.

The accompanying unaudited condensed consolidated financial information of Aeroflex Incorporated and subsidiaries (the "Company", "we", or "our") has been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and the rules and regulations of the United States Securities and Exchange Commission ("SEC"), and reflects all adjustments, consisting only of normal recurring adjustments, which in management's opinion are necessary to state fairly the Company's financial position as of December 31, 2009, results of operations for the three and six month periods ended December 31, 2009 and 2008 and cash flows for the six month periods ended December 31, 2009 and 2008. The June 30, 2009 balance sheet information has been derived from audited financial statements, but does not include all information or disclosures required by U.S. GAAP.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of sales and expenses during the reporting period. Actual results may differ from those estimates, and such differences may be material to the financial statements.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 (the "Fiscal 2009 Form 10-K").

Results of operations for interim periods are not necessarily indicative of results to be expected for the full fiscal year or any future periods.

Revenue Recognition

We recognize revenue, net of trade discounts and allowances, when (1) persuasive evidence of an arrangement exists, (2) delivery of the product has occurred or the services have been performed, (3) the selling price is fixed or determinable, and (4) collectability of the resulting receivable is reasonably assured.

Our product revenue is generated predominantly from the sales of various types of microelectronic products and test and measurement equipment. For arrangements other than certain long-term contracts, revenue (including shipping and handling fees) is recognized when products are shipped and title has passed to the customer. If title does not pass until the product reaches the customer's delivery site, recognition of the revenue is deferred until that time. Certain of our sales are to distributors, which have a right to return some portion of product within eighteen months of sale. We recognize revenue on these sales at the time of shipment to the distributor, as the returns under these arrangements have historically been insignificant and can be reasonably estimated. A provision for such estimated returns is recorded at the time revenues are recognized. For transactions that include customer-specified acceptance criteria, including those where acceptance is required upon achievement of performance milestones, revenue is recognized after the acceptance criteria have been met.

Long-term contracts are accounted for by determining estimated contract profit rates and use of the percentage-of-completion method to recognize revenues and associated costs as work progresses. We measure the extent of progress toward completion generally based upon one of the following methods (based upon an assessment of which method most closely aligns to the underlying earnings process): (i) the units-of-delivery method, (ii) the cost-to-cost method (using the ratio of contract costs incurred as a percentage of total estimated costs at contract completion based upon engineering and production estimates), or (iii) the achievement of contractual milestones. Provisions for anticipated losses or revisions in estimated profits on contracts-in-process are recorded in the period in which such anticipated losses or revisions become evident.

Where an arrangement includes only a software license, revenue is recognized when the software is delivered and title has been transferred to the customer or, in the case of electronic delivery of software, when the customer is given access to the licensed software programs. We also evaluate whether persuasive evidence of an arrangement exists, collection of the receivable is probable, the fee is fixed or determinable and whether any other undelivered elements of the arrangement exist for which a portion of the total fee would be allocated based on vendor-specific objective evidence of the fair value of the undelivered element. When a customer purchases software together with post contract support, we allocate a portion of the fee to the post contract support for its fair value based on the contractual renewal rate. Post contract support fees are deferred in Advance Payments by Customers and Deferred Revenue in the consolidated balance sheets, and recognized as revenue ratably over the term of the related contract.

Service revenue is derived from extended warranty, customer support and training. Service revenue is deferred and recognized over the contractual term or as services are rendered and accepted by the customer. For example, customer support contracts are recognized ratably over the contractual term, while training revenue is recognized as the training is provided to the customer. In addition, the four revenue recognition criteria described above must be met before service revenue is recognized.

We use vendor-specific objective evidence of selling price, verifiable objective evidence of selling price, such as third party selling prices, or estimated selling price, in that order, to allocate revenue to elements in multiple element arrangements. Revenue is recognized on only those elements that meet the four criteria described above.

Effective July 1, 2009, we no longer use the residual method to determine the portion of the arrangement consideration to allocate to undelivered elements of a multiple element arrangement.

At December 31, 2009, we have \$32.5 million in Advance Payments by Customers and Deferred Revenue, which is comprised of \$15.3 million of customer advance payments primarily for the purchase of materials, \$7.4 million of deferred service and software support revenue, \$3.6 million of deferred warranty revenue and \$6.2 million of revenue deferred due to software arrangements for which there is no vendor specific objective evidence of fair value of the undelivered elements of the arrangements, contingent revenue, billings for which the related product has not been delivered or product delivered to a customer that has not been accepted or is incomplete. We generally sell non-software service and extended warranty contracts on a standalone basis. The amount of deferred revenue at December 31, 2009 and revenue for the three and six months ended December 31, 2009 derived from non-software multiple element arrangements was insignificant.

The adoption on July 1, 2009 of the guidance issued by the Financial Accounting Standards Board ("FASB") in Accounting Standard Updates 2009-13 and 2009-14 did not have a material impact on our pattern or timing of revenue recognition and is not expected to have a material impact on revenues in future periods. We have one test equipment product line, which includes software that is more than incidental to the hardware component that, prior to July 1, 2009, was accounted for as a software product for revenue recognition purposes. Effective July 1, 2009, the new revenue recognition guidance provides that products such as these that contain software which is essential to overall product functionality are outside the scope of software revenue recognition guidance and are now accounted for under new rules pertaining to revenue arrangements with multiple deliverables. Although this change had no impact on revenue recognized for the three and six months ended December 31, 2009, if this product were delivered in a multiple element arrangement in the future, certain revenue recognition could be accelerated. We do not believe that this will result in a material impact on our revenues.

2. Accounting Pronouncements

Recently Adopted Accounting Pronouncements

On July 1, 2009, we adopted the authoritative implementation guidance issued by the FASB for fair value measurement for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009, we adopted the authoritative guidance issued by the FASB on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized and measured as a result of business combinations. It also requires the fair value of contingent consideration to be recorded on the acquisition date, the capitalization of in-process research and development at fair value and the expensing of acquisition-related costs as incurred. Adoption of the new guidance, which is effective for acquisitions consummated by us after June 30, 2009, did not have an impact on our consolidated financial statements.

On July 1, 2009, we adopted the authoritative guidance issued by the FASB for the determination of the useful life of intangible assets. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This guidance also adds certain disclosures to those already prescribed. The guidance for determining useful lives must be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements must also be applied prospectively to all intangible assets recognized as of the effective date. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In September 2009, we adopted the authoritative guidance issued by the FASB which establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with U.S. GAAP. This guidance explicitly recognizes the rules and interpretive releases of the SEC under federal securities laws as authoritative GAAP for SEC registrants. The Company has updated references to U.S. GAAP in its financial statements issued for the period ended December 31, 2009. The adoption did not have an impact on our consolidated financial statements.

In October 2009, the FASB issued authoritative guidance on revenue recognition that becomes effective for us commencing July 1, 2010. However, earlier adoption was permitted. Under the new guidance on sales arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration and the use of the relative selling price method is required. The new guidance eliminated the residual method of allocating arrangement consideration to deliverables and includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We chose to early adopt such authoritative guidance on a prospective basis effective July 1, 2009 and, therefore, it has been applied to multiple deliverable revenue arrangements and arrangements for the sale of tangible products with software components entered into or materially modified on or after July 1, 2009. The adoption of this new guidance did not have a material impact on our financial statements.

In December 2007, the FASB issued guidance which requires that the non-controlling interests in consolidated subsidiaries be presented as a separate component of stockholders' equity in the balance sheet, that the amount of consolidated net earnings attributable to the parent and the non-controlling interest be separately presented in the statement of earnings, and that the amount of consolidated other comprehensive income attributable to the non-controlling interest be separately disclosed. The standard also requires gains or losses from the sale of stock of subsidiaries where control is maintained to be recognized as an equity transaction. The guidance was effective beginning with the first quarter of the fiscal year 2010 financial reporting. In connection with the adoption of this guidance, we did not apply the presentation or disclosure provisions to our one non-controlling interest as the effect on our financial statements was insignificant.

Recently Issued Accounting Pronouncements Not Yet Adopted

In January 2010, the FASB issued authoritative guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements on a gross basis of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance will become effective for us beginning with the third quarter of the fiscal year 2010 financial reporting, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us beginning with the third quarter of the fiscal year 2011 financial reporting. The adoption of this new guidance will not have a material impact on our financial statements.

In June 2009, the FASB issued authoritative guidance on the consolidation of variable interest entities, which is effective for us beginning July 1, 2010. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We believe adoption of this new guidance will not have a material impact on our financial statements.

3. Intangible Assets

Intangible Assets with Definite Lives

The components of amortizable intangible assets are as follows:

	December 31, 2009		June 30, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Developed technology	\$ 197,803	\$ 78,950	\$ 197,684	\$ 62,021
Customer related intangibles	216,784	82,251	216,956	69,339
Non-compete arrangements	10,212	3,621	10,090	2,692
Tradenames	2,185	461	2,105	230
Total	\$ 426,984	\$ 165,283	\$ 426,835	\$ 134,282

The aggregate amortization expense for amortizable intangible assets was \$15.5 million and \$14.6 million for the three months ended December 31, 2009 and 2008, respectively, and \$31.1 million and \$32.6 million for the six months ended December 31, 2009 and 2008, respectively.

The estimated aggregate amortization expense for each of the twelve month periods ending December 31, is as follows:

	(In thousands)
2010	\$ 61,277
2011	60,720
2012	57,938
2013	43,348
2014	20,300

Goodwill

The carrying amount of goodwill, by segment, is as follows:

	Microelectronic Solutions	Test Solutions	Total
	(In thousands)		
Balance at June 30, 2009	\$ 266,813	\$ 161,320	\$ 428,133
Adjustment to goodwill for acquisitions	313	455	768
Impact of foreign currency translation	437	(452)	(15)
Balance at December 31, 2009	\$ 267,563	\$ 161,323	\$ 428,886

4. Restructuring Charges

The following table sets forth the charges and payments related to the restructuring liability for the periods indicated:

	Balance June 30, 2009	Six Months Ended December 31, 2009			Balance December 31, 2009
	Restructuring Liability	Net Additions	Cash Payments	Effect of foreign currency	Restructuring Liability
			(In thousands)		
Work force reduction	\$ 756	\$ 225	\$ (970)	\$ 2	\$ 13
Closure of facilities	1,722	26	(302)	(24)	1,422
Total	\$ 2,478	\$ 251	\$ (1,272)	\$ (22)	\$ 1,435

5. Inventories

Inventories consist of the following:

	December 31, 2009	June 30, 2009
	(In thousands)	
Raw materials	\$ 64,142	\$ 67,388
Work in process	47,824	47,185
Finished goods	22,935	21,030
	\$ 134,901	\$ 135,603

6. Product Warranty

We warrant our products against defects in design, materials and workmanship, generally for one year from their date of shipment. A provision for estimated future costs relating to these warranties is recorded in cost of sales when the related revenue is recognized. Quarterly we analyze our warranty liability for reasonableness based on a 15-month history of warranty costs incurred, the nature of the products shipped subject to warranty and anticipated warranty trends.

Activity related to our product warranty liability, which is reflected in Accrued Expenses and Other Current Liabilities in the accompanying consolidated balance sheets, was as follows:

	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
	(In thousands)	
Balance at beginning of period	\$ 2,645	\$ 2,944
Provision for warranty obligations	968	1,256
Cost of warranty obligations	(1,083)	(1,446)
Foreign currency impact	(10)	(244)
Balance at end of period	\$ 2,520	\$ 2,510

7. Derivative Financial Instruments

We address certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We enter into interest rate swap derivatives to manage the effects of interest rate movements on portions of our debt. We also enter into foreign currency forward contracts, not designated as hedging instruments, to protect us from fluctuations in exchange rates.

The fair values of our derivative financial instruments included in the consolidated balance sheets as of December 31, 2009 and June 30, 2009 are presented as follows:

(In thousands)	Asset (Liability) Derivatives			
	December 31, 2009		June 30, 2009	
	Balance Sheet Location	Fair Value ⁽¹⁾	Balance Sheet Location	Fair Value ⁽¹⁾
Derivatives designated as hedging instruments:				
Interest rate swap contracts	Accrued expenses and other current liabilities	\$ (4,925)	Accrued expenses and other current liabilities	\$ (615)
Interest rate swap contracts	Other long-term liabilities	(7,785)	Other long-term liabilities	(15,006)
Total derivatives designated as hedging instruments		(12,710)		(15,621)
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	Prepaid expenses and other current assets	36	Accrued expenses and other current liabilities	(195)
Total derivatives, net		\$ (12,674)		\$ (15,816)

⁽¹⁾ See Note 8 for further information about how the fair values of derivative assets and liabilities are determined.

The amounts of the gains and losses related to our derivative financial instruments designated as hedging instruments for the three and six months ended December 31, 2009 and 2008 are as follows:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized on Derivatives in Other Comprehensive Income (Effective Portion) ⁽¹⁾			
	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
	(In thousands)			
Interest rate swap contracts	\$ (1,191)	\$ (18,724)	\$ (4,271)	\$ (22,519)

Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) ⁽¹⁾			
	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
	(In thousands)			
Interest expense	\$ (3,781)	\$ (1,192)	\$ (7,182)	\$ (2,082)

⁽¹⁾ See Note 11 for additional information on changes to accumulated other comprehensive income (loss).

The amounts of the gains and losses related to our derivative financial instruments not designated as hedging instruments for the three and six months ended December 31, 2009 and 2008 are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Earnings on Derivative	Amount of Gain or (Loss) Recognized in Earnings on Derivative			
		Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
		(In thousands)			
Foreign currency forward contracts	Other income (expense)	\$ (87)	\$ (639)	\$ 231	\$ (804)

Interest Rate Swap Cash-Flow Hedges

We enter into interest rate swap contracts to manage the effects of interest rate movements on portions of our debt. Such contracts effectively fix the borrowing rates on floating rate debt to limit the exposure against the risk of rising rates. We do not enter into interest rate swap contracts for speculative purposes and we have entered into transactions with counterparties that are rated investment grade. Our interest rate swap contracts, all of which were entered into in fiscal 2008 for an aggregate notional amount of \$475 million, have varying maturities through February 2011.

Foreign Currency Contract Derivatives

Foreign currency contracts are used to protect us from fluctuations in exchange rates. We enter into foreign currency contracts, which are not designated as hedges. The change in fair value is included in income as it occurs, within other income (expense). As of December 31, 2009, we had \$26.7 million of notional value foreign currency forward contracts maturing through January 29, 2010. Notional amounts do not quantify risk or represent assets or liabilities of the Company, but are used in the calculation of cash settlements under the contracts.

8. Fair Value Measurements

We account for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring the fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1:	Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.
Level 2:	Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3:	Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instruments' valuation.

The following table presents for each hierarchy level, financial assets and liabilities measured at fair value on a recurring basis:

As of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
Assets:				
Non-current marketable securities	\$ -	\$ -	\$ 16,899	\$ 16,899
Foreign currency forward contracts	-	36	-	36
Total Assets	\$ -	\$ 36	\$ 16,899	\$ 16,935
Liabilities:				
Interest rate swap contracts	\$ -	\$ 12,710	\$ -	\$ 12,710

As of June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
Assets:				
Non-current marketable securities	\$ -	\$ -	\$ 17,677	\$ 17,677
Liabilities:				
Foreign currency forward contracts	\$ -	\$ 195	\$ -	\$ 195
Interest rate swap contracts	-	15,621	-	15,621
Total Liabilities	\$ -	\$ 15,816	\$ -	\$ 15,816

The following table presents the changes in the carrying value of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended December 31, 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	<i>Auction Rate Securities</i>	
	(In thousands)	
Balance at June 30, 2009	\$	17,677
Redeemed by the issuer at par		(1,000)
Total unrealized gain (loss) in accumulated other comprehensive income (loss)		222
Balance at December 31, 2009	\$	16,899

Non-Current Marketable Securities – Non-current marketable securities consist of auction rate securities that currently have no active market from which we could obtain pricing. We have classified auction rate securities as Level 3 as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities. To date, we have collected all interest payments on all of our auction rate securities when due. Furthermore, we have the intent and are able to hold these securities until the credit markets recover, or until their maturities, which range from 2029 through 2042, if necessary. However, based on a discounted cash flow analysis, which considered, among other items, the collateral underlying the securities, the credit worthiness of the issuer, the timing of future cash flows and liquidity risks, at December 31, 2009 we have a \$2.0 million valuation allowance against the auction rate securities.

As fair values have continued to be below cost, we have considered various factors in determining that at December 31, 2009 a credit loss did not exist and there was no requirement to recognize an other than temporary impairment charge, including the length of time and the extent to which the fair value has been below the cost basis, the timely receipt of all interest payments, the rating of the security, the relatively low volatility of the security's fair value, the current financial condition of the issuer and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

In July 2009, \$1.0 million of our auction rate securities were redeemed by the issuer at par. In January 2010, an additional \$4.0 million of our auction rate securities were redeemed by the issuer at 92% of par. The resulting \$320,000 realized loss will be recorded in the statement of operations in the third quarter of fiscal 2010. The \$4.0 million of auction rate securities redeemed in January 2010 are classified as non-current marketable securities as of December 31, 2009, as we were not aware at the balance sheet date that these auction rate securities would be redeemed.

Foreign Currency Forward Contracts – The fair value of our foreign currency forward contracts were valued using a pricing model with all significant inputs based on observable market data such as measurement date spot and forward rates.

Interest Rate Swap Contracts – The fair value of our outstanding interest rate swap contracts were based on valuations received from the counterparties and corroborated by measurement date equivalent swap rates.

9. Long Term Debt and Credit Agreements

The fair value of our debt instruments are summarized as follows:

	December 31, 2009	
	Carrying Amount	Estimated Fair Value
	(In thousands)	
Senior secured B-1 term loan	\$ 389,943	\$ 352,899
Senior secured B-2 term loan	121,857	105,407
Senior unsecured notes	225,000	228,375
Senior subordinated unsecured term loan	156,308	133,643
Other	1,085	1,085
Total debt	<u>\$ 894,193</u>	<u>\$ 821,409</u>

The carrying value of debt of \$889.3 million as of June 30, 2009 had a fair value of \$661.9 million.

The estimated fair values of each of our debt instruments are based on quoted market prices for the same or similar issues. Fair value estimates related to our debt instruments are made at a specific point in time based on relevant market information. These estimates are subjective in nature and involve uncertainties and matters of significant judgments and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

As of December 31, 2009, we are in compliance with all of the covenants contained in our loan agreements.

Interest paid was \$30.6 million and \$21.1 million for the six months ended December 31, 2009 and 2008, respectively. Accrued interest of \$14.2 million and \$14.0 million was included in accrued expenses and other current liabilities at December 31, 2009 and June 30, 2009, respectively.

10. Loss on Liquidation of Foreign Subsidiary

In connection with the acquisition of one of our Wireless businesses in the U.K. in 2003, we set up a foreign partnership to finance the acquisition. We invested \$19.5 million in the partnership and the partnership advanced those funds to our foreign holding company in the form of a loan, the proceeds of which was used for the acquisition.

During the quarter ended September 30, 2009, the loan was fully repaid to the partnership, with interest, and we received a return of capital and dividends. The partnership is substantially liquidated.

As a result of changes in foreign currency rates, there was a cumulative translation adjustment of \$7.7 million remaining after substantially all of the assets have been returned to us and substantially all of the liabilities have been satisfied. In accordance with U.S. GAAP, this remaining cumulative translation adjustment has been expensed in the period during which the substantial liquidation of the partnership occurred and presented as a non-cash loss on liquidation of foreign subsidiary in our Condensed Consolidated Statement of Operations for the six months ended December 31, 2009. This loss is not deductible for income tax purposes.

11. Comprehensive Income

The components of comprehensive income (loss) are as follows:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
	(In thousands)			
Net income (loss)	\$ (10,614)	\$ (4,107)	\$ (31,157)	\$ (11,004)
Increase (decrease) in fair value of interest rate swap contracts, net of tax provision (benefit) of \$961, \$(6,487), \$1,086 and \$(7,562)	1,629	(11,045)	1,825	(12,875)
Valuation allowance against non-current marketable securities	(47)	(1,005)	222	(2,203)
Foreign currency translation adjustment, net of tax provision of \$617, \$0, \$617 and \$0	129	(34,199)	6,013	(55,981)
Total comprehensive income (loss)	\$ (8,903)	\$ (50,356)	\$ (23,097)	\$ (82,063)

Accumulated other comprehensive income (loss) is as follows:

	Unrealized Gain (Loss) on Interest Rate Swap Contracts (net of tax)	Valuation Allowance Against Non-Current Marketable Securities	Minimum Pension Liability Adjustment (net of tax)	Foreign Currency Translation Adjustment (net of tax)	Total (net of tax)
	(In thousands)				
Balance, June 30, 2009	\$ (9,602)	\$ (2,268)	\$ (499)	\$ (42,331)	\$ (54,700)
Six months' activity	1,825	222	-	6,013	8,060
Balance, December 31, 2009	\$ (7,777)	\$ (2,046)	\$ (499)	\$ (36,318)	\$ (46,640)

The valuation allowance for non-current marketable securities is not adjusted for income taxes as it would create a capital loss carryforward upon realization for which we would record a valuation allowance against the related deferred tax asset.

Prior to fiscal 2009, the foreign currency translation adjustments were not adjusted for income taxes as they related to indefinite investments in non-U.S. subsidiaries. Deferred U.S. income taxes have been provided on undistributed foreign earnings for years subsequent to fiscal 2008 since we expect that substantially all of these earnings will be distributed to the U.S. As of December 31, 2009, we have recorded a deferred U.S. income tax on the foreign currency translation adjustment created by the post-fiscal 2008 undistributed foreign earnings.

12. Legal Matters

In March 2005, we sold the net assets of our shock and vibration control device manufacturing business (“VMC”). Under the terms of the sale agreements, we retained certain liabilities relating to adverse environmental conditions that existed at the premises occupied by VMC as of the date of sale and recorded a liability for the estimated remediation costs. The accrued environmental liability at December 31, 2009 is \$1.1 million, of which \$322,000 is expected to be paid within one year.

During the quarter ended March 31, 2007, we became aware that certain RadHard bidirectional multipurpose transceivers sold by us since 1999 may have been subject to the licensing jurisdiction of the U.S. Department of State in accordance with the International Traffic in Arms Regulations (“ITAR”). Accordingly, we filed a Voluntary Disclosure with the Directorate of Defense Trade Controls, Department of State, describing the details of the possible inadvertent misclassification. Simultaneously, we filed a Commodity Jurisdiction request providing detailed information and data supporting our contention that the product is not subject to ITAR and requesting a determination that such product is not ITAR controlled. On November 15, 2007, we were informed that the U.S. Department of State had determined in response to our Commodity Jurisdiction request, that the product is subject to the licensing jurisdiction of the U.S. Department of State in accordance with ITAR. We requested reconsideration of this determination. On February 7, 2008, we filed an addendum to the above referenced Voluntary Disclosure advising the Directorate of Defense Trade Controls that other products sold by us, similar in nature to the transceiver described above, may also be subject to the ITAR. The Directorate of Defense Trade Controls agreed to extend our time to file such addendum to the Voluntary Disclosure until a decision was rendered with respect to our request for reconsideration of the determination in connection with the above-referenced Commodity Jurisdiction request. On August 5, 2008, we received a letter from the Office of Defense Trade Controls Compliance (“DTCC”) requesting that we provide documentation and/or information relating to our compliance initiatives after November 15, 2007 as well as the results of any product reviews conducted by us, and indicating that a civil penalty against us could be warranted in connection with this matter following the review of such materials. We have provided all of the materials and documentation requested by the DTCC. Our request for reconsideration was denied by the Directorate of Defense Trade Controls on August 19, 2008 which determined that the product is subject to the licensing jurisdiction of the Department of State in accordance with ITAR. Accordingly, on September 18, 2008, we filed an addendum to our Voluntary Disclosure identifying other products that may have been subject to the licensing jurisdiction of the U.S. Department of State in accordance with the ITAR but were inadvertently misclassified. At this time it is not possible to determine whether any fines or other penalties will be asserted against us or the materiality of any outcome.

We are involved in various other ITAR related matters, including some recently identified with the prior practices of a newly acquired business, which have been disclosed to the U.S. Department of State. Although we are in the process of addressing these matters, we cannot provide assurance that we will be able to adequately correct all possible ITAR violations. At this time it is not possible to determine whether any fines or other penalties will be asserted against us related to these other ITAR matters, or the materiality of any outcome.

On October 14, 2009, BAE Systems Information and Electronic Systems (“BAE”) commenced an action against both us and one of our subsidiaries in the United States District Court for the District of Delaware. BAE essentially is alleging that under a subcontract it entered into with us in 2002, BAE provided to us certain proprietary information and know how relating to a high performance direct infrared countermeasure system for use in military aircraft and certain other platforms (“DIRCM System”), which enabled us to fabricate for BAE an assembly component of the third generation of the DIRCM System. BAE is alleging that, in violation of the provisions of the subcontract and a Proprietary Information Agreement, we fabricated or facilitated the fabrication of one or more items that were identical or substantially identical to items that we exclusively fabricated for BAE under the subcontract. BAE further claims that our actions ostensibly enabled a prime competitor of BAE to build and market, in competition with BAE, an infrared countermeasure system that included an unlawful copy of the component. Based on these allegations, BAE has asserted claims against us for patent infringement, trade secret misappropriation, breach of contract, conversion and unjust enrichment and has requested, by way of relief, unspecified damages, injunctive relief and an accounting. We have evaluated BAE’s claims and believe that there is no basis for the allegations or claims made by BAE. Nevertheless, there can be no assurance that we will prevail in the matter. We do not believe that the ultimate resolution of this matter will have a material adverse effect on our financial position, results of operations, liquidity or capital resources.

We are also involved in various other claims and legal actions that arise in the ordinary course of business. We do not believe that the ultimate resolution of any of these actions will have a material adverse effect on our financial position, results of operations, liquidity or capital resources.

13. Business Segments

Our business segments and major products included in each segment, are as follows:

Microelectronic Solutions

- Microelectronic Components, Sub-assemblies and Modules
- Integrated Circuits
- Motion Control Systems

Test Solutions

- Instrument Products and Test Systems

We are a manufacturer of advanced technology systems and components for commercial industry, government and defense contractors. Approximately 32% and 39% of our sales for the three months ended December 31, 2009 and 2008, and 34% and 36% of our sales for the six months ended December 31, 2009 and 2008, respectively, were to agencies of the United States government or to prime defense contractors or subcontractors of the United States government. No customer constituted more than 10% of sales during any of the periods presented. Inter-segment sales were not material and have been eliminated from the tables below.

The majority of our operations are located in the United States; however, we also have operations in Europe and Asia, with our most significant foreign operations in the United Kingdom ("U.K."). Net sales from facilities located in the U.K. were approximately \$29.6 million and \$33.4 million for the three months ended December 31, 2009 and 2008 and \$55.9 million and \$67.8 million for the six months ended December 31, 2009 and 2008, respectively. Total assets of the U.K. operations were \$167.9 million as of December 31, 2009 and \$188.2 million as of June 30, 2009.

Net sales, based on the customers' locations, attributed to the United States and other regions are as follows:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
	(In thousands)			
United States of America	\$ 92,204	\$ 97,042	\$ 172,389	\$ 172,057
Europe and Middle East	34,242	22,777	62,709	59,898
Asia and Australia	36,590	34,176	56,105	61,062
Other regions	3,703	2,820	5,652	4,643
	<u>\$ 166,739</u>	<u>\$ 156,815</u>	<u>\$ 296,855</u>	<u>\$ 297,660</u>

Selected financial data by segment is as follows:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
	(In thousands)			
Net sales:				
Microelectronic solutions ("AMS")	\$ 79,160	\$ 70,752	\$ 146,521	\$ 138,332
Test solutions ("ATS")	87,579	86,063	150,334	159,328
Net sales	<u>\$ 166,739</u>	<u>\$ 156,815</u>	<u>\$ 296,855</u>	<u>\$ 297,660</u>
Segment adjusted operating income:				
- AMS	\$ 21,887	\$ 15,371	\$ 36,911	\$ 29,984
- ATS	20,186	15,974	28,151	25,604
- General corporate expense	(2,258)	(3,870)	(5,189)	(6,567)
Adjusted operating income	<u>39,815</u>	<u>27,475</u>	<u>59,873</u>	<u>49,021</u>
Amortization of acquired intangibles				
- AMS	(8,743)	(8,462)	(17,579)	(19,139)
- ATS	(6,771)	(6,160)	(13,540)	(13,451)
Share based compensation				
- Corporate	(556)	(489)	(1,045)	(977)
Restructuring charges				
- ATS	(64)	(1,808)	(251)	(2,210)
Merger related expenses - Corporate	(771)	(2,172)	(1,464)	(2,806)
Loss on liquidation of foreign subsidiary - ATS	-	-	(7,696)	-
Current period impact of acquisition related adjustments:				
Inventory - AMS	-	-	(246)	-
Depreciation - AMS	(265)	(286)	(540)	(572)
Depreciation - ATS	(311)	(676)	(817)	(1,414)
Depreciation - Corporate	(55)	(55)	(110)	(110)
Deferred revenue - ATS	(33)	(79)	(65)	(176)
Operating income (GAAP)	<u>22,246</u>	<u>7,288</u>	<u>16,520</u>	<u>8,166</u>
Interest expense	(21,418)	(21,250)	(42,457)	(42,465)
Other income (expense), net	422	9,327	479	12,413
Income (loss) before income taxes	<u>\$ 1,250</u>	<u>\$ (4,635)</u>	<u>\$ (25,458)</u>	<u>\$ (21,886)</u>

Management evaluates the operating results of the two segments based upon pre-tax operating income, before costs related to restructuring, amortization of acquired intangibles, share-based compensation, loss on liquidation of foreign subsidiary costs, merger related expenses and the impact of any acquisition related adjustments.

14. Guarantor/Non-Guarantor Financial Information

The following supplemental condensed consolidating financial information sets forth, on an unconsolidated basis, the balance sheets at December 31, 2009 and June 30, 2009, the statements of operations for the three and six months ended December 31, 2009 and 2008 and the statements of cash flows for the six months ended December 31, 2009 and 2008 for Aeroflex Incorporated (the "Parent Company"), the guarantor subsidiaries and, on a combined basis, the non-guarantor subsidiaries. The supplemental condensed consolidating financial information reflects for all fiscal periods presented, the investments of the Parent Company in the guarantor subsidiaries as well as the investments of the Parent Company and the guarantor subsidiaries in the non-guarantor subsidiaries, in all cases using the equity method. For purposes of this footnote, guarantor subsidiaries refer to the subsidiaries of the Parent Company that have guaranteed principal debt obligations of the Parent Company. The Parent Company's purchase price allocation adjustments, including applicable intangible assets, arising from business acquisitions have been pushed down to the applicable subsidiary columns (see Note 3).

Condensed Consolidating Statement of Operations For the Three Months Ended December 31, 2009 (In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ -	\$ 120,120	\$ 47,969	\$ (1,350)	\$ 166,739
Cost of sales	-	60,394	20,974	(1,223)	80,145
Gross profit	-	59,726	26,995	(127)	86,594
Selling, general and administrative costs	3,640	18,942	8,991	-	31,573
Research and development costs	-	11,460	5,801	-	17,261
Amortization of acquired intangibles	-	13,276	2,238	-	15,514
Operating income (loss)	(3,640)	16,048	9,965	(127)	22,246
Other income (expense):					
Interest expense	(21,399)	(17)	(2)	-	(21,418)
Other income (expense), net	(40)	480	(18)	-	422
Intercompany charges	19,797	(19,318)	(479)	-	-
Income (loss) before income taxes	(5,282)	(2,807)	9,466	(127)	1,250
Provision (benefit) for income taxes	(364)	2,199	2,046	7,983	11,864
Equity income (loss) of subsidiaries	(5,696)	6,932	-	(1,236)	-
Net income (loss)	\$ (10,614)	\$ 1,926	\$ 7,420	\$ (9,346)	\$ (10,614)

**Condensed Consolidating Statement of Operations
For the Three Months Ended December 31, 2008**

(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ -	\$ 112,157	\$ 45,852	\$ (1,194)	\$ 156,815
Cost of sales	-	58,298	26,554	(1,196)	83,656
Gross profit	-	53,859	19,298	2	73,159
Selling, general and administrative costs	6,586	18,345	9,243	-	34,174
Research and development costs	-	11,275	5,800	-	17,075
Amortization of acquired intangibles	-	12,563	2,059	-	14,622
Operating income (loss)	<u>(6,586)</u>	<u>11,676</u>	<u>2,196</u>	<u>2</u>	<u>7,288</u>
Other income (expense):					
Interest expense	(21,227)	(23)	-	-	(21,250)
Other income (expense), net	(725)	123	9,929	-	9,327
Intercompany charges	14,726	(14,653)	(73)	-	-
Income (loss) before income taxes	(13,812)	(2,877)	12,052	2	(4,635)
Provision (benefit) for income taxes	(4,387)	(218)	1,507	2,570	(528)
Equity income (loss) of subsidiaries	5,318	10,663	-	(15,981)	-
Net income (loss)	<u>\$ (4,107)</u>	<u>\$ 8,004</u>	<u>\$ 10,545</u>	<u>\$ (18,549)</u>	<u>\$ (4,107)</u>

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**Condensed Consolidating Statement of Operations
For the Six Months Ended December 31, 2009**

(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ -	\$ 218,015	\$ 81,359	\$ (2,519)	\$ 296,855
Cost of sales	-	111,714	35,967	(2,414)	145,267
Gross profit	-	106,301	45,392	(105)	151,588
Selling, general and administrative costs	7,808	37,156	16,847	-	61,811
Research and development costs	-	22,146	12,296	-	34,442
Amortization of acquired intangibles	-	26,659	4,460	-	31,119
Loss on liquidation of foreign subsidiary	-	7,696	-	-	7,696
Operating income (loss)	<u>(7,808)</u>	<u>12,644</u>	<u>11,789</u>	<u>(105)</u>	<u>16,520</u>
Other income (expense):					
Interest expense	(42,421)	(34)	(2)	-	(42,457)
Other income (expense), net	341	374	(236)	-	479
Intercompany charges	<u>39,591</u>	<u>(38,636)</u>	<u>(955)</u>	<u>-</u>	<u>-</u>
Income (loss) before income taxes	(10,297)	(25,652)	10,596	(105)	(25,458)
Provision (benefit) for income taxes	(4,799)	(492)	2,265	8,725	5,699
Equity income (loss) of subsidiaries	<u>(25,659)</u>	<u>7,634</u>	<u>-</u>	<u>18,025</u>	<u>-</u>
Net income (loss)	<u>\$ (31,157)</u>	<u>\$ (17,526)</u>	<u>\$ 8,331</u>	<u>\$ 9,195</u>	<u>\$ (31,157)</u>

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Condensed Consolidating Statement of Operations
For the Six Months Ended December 31, 2008
(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ -	\$ 207,798	\$ 92,659	\$ (2,797)	\$ 297,660
Cost of sales	-	108,752	51,240	(2,850)	157,142
Gross profit	-	99,046	41,419	53	140,518
Selling, general and administrative costs	10,459	36,330	18,869	-	65,658
Research and development costs	-	22,442	11,662	-	34,104
Amortization of acquired intangibles	-	27,876	4,714	-	32,590
Operating income (loss)	<u>(10,459)</u>	<u>12,398</u>	<u>6,174</u>	<u>53</u>	<u>8,166</u>
Other income (expense):					
Interest expense	(42,410)	(45)	(10)	-	(42,465)
Other income (expense), net	(662)	365	12,710	-	12,413
Intercompany charges	36,912	(36,226)	(686)	-	-
Income (loss) before income taxes	(16,619)	(23,508)	18,188	53	(21,886)
Provision (benefit) for income taxes	(5,434)	(8,061)	2,703	(90)	(10,882)
Equity income (loss) of subsidiaries	181	15,891	-	(16,072)	-
Net income (loss)	<u>\$ (11,004)</u>	<u>\$ 444</u>	<u>\$ 15,485</u>	<u>\$ (15,929)</u>	<u>\$ (11,004)</u>

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Condensed Consolidating Balance Sheet

As of December 31, 2009

(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 53,071	\$ (640)	\$ 16,368	\$ -	\$ 68,799
Accounts receivable, net	-	74,068	43,213	-	117,281
Inventories	-	101,847	34,057	(1,003)	134,901
Deferred income taxes	5,365	25,706	5,951	-	37,022
Prepaid expenses and other current assets	2,742	5,285	3,536	-	11,563
Total current assets	61,178	206,266	103,125	(1,003)	369,566
Property, plant and equipment, net	12,561	66,118	19,524	-	98,203
Non-current marketable securities, net	16,899	-	-	-	16,899
Deferred financing costs, net	23,369	-	-	-	23,369
Other assets	13,256	4,417	338	-	18,011
Intangible assets with definite lives, net	-	226,566	35,135	-	261,701
Intangible assets with indefinite lives	-	85,404	26,490	-	111,894
Goodwill	(10)	389,422	39,474	-	428,886
Total assets	\$ 127,253	\$ 978,193	\$ 224,086	\$ (1,003)	\$ 1,328,529
Liabilities and Stockholder's Equity					
Current liabilities:					
Current portion of long-term debt	\$ 3,863	\$ 340	\$ -	\$ -	\$ 4,203
Accounts payable	32	13,877	13,229	-	27,138
Advance payments by customers and deferred revenue	-	17,110	15,380	-	32,490
Income taxes payable	(591)	(98)	4,824	-	4,135
Accrued payroll expenses	958	13,716	1,342	-	16,016
Accrued expenses and other current liabilities	25,885	11,176	12,944	-	50,005
Total current liabilities	30,147	56,121	47,719	-	133,987
Long-term debt	889,245	745	-	-	889,990
Deferred income taxes	(13,219)	138,492	15,135	8,725	149,133
Defined benefit plan obligations	5,988	-	-	-	5,988
Other long-term liabilities	8,776	1,300	1,506	-	11,582
Intercompany investment	(268,858)	46,154	222,704	-	-
Intercompany receivable/payable	(847,317)	882,523	(34,723)	(483)	-
Total liabilities	(195,238)	1,125,335	252,341	8,242	1,190,680
Stockholder's equity	322,491	(147,142)	(28,255)	(9,245)	137,849
Total liabilities and stockholder's equity	\$ 127,253	\$ 978,193	\$ 224,086	\$ (1,003)	\$ 1,328,529

Condensed Consolidating Balance Sheet

As of June 30, 2009

(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 31,221	\$ (15)	\$ 26,542	\$ -	\$ 57,748
Accounts receivable, net	-	86,530	43,899	-	130,429
Inventories	-	103,674	32,827	(898)	135,603
Deferred income taxes	3,452	25,681	6,031	-	35,164
Prepaid expenses and other current assets	2,623	2,542	4,773	-	9,938
Total current assets	37,296	218,412	114,072	(898)	368,882
Property, plant and equipment, net	12,720	67,624	20,563	-	100,907
Non-current marketable securities, net	17,677	-	-	-	17,677
Deferred financing costs, net	25,754	-	-	-	25,754
Other assets	12,551	2,243	631	-	15,425
Intangible assets with definite lives, net	-	253,225	39,328	-	292,553
Intangible assets with indefinite lives	-	85,404	26,862	-	112,266
Goodwill	(10)	388,913	39,230	-	428,133
Total assets	\$ 105,988	\$ 1,015,821	\$ 240,686	\$ (898)	\$ 1,361,597
Liabilities and Stockholder's Equity					
Current liabilities:					
Current portion of long-term debt	\$ 5,250	\$ 340	\$ -	\$ -	\$ 5,590
Accounts payable	285	20,553	15,736	-	36,574
Advance payments by customers and deferred revenue	-	17,433	15,985	-	33,418
Income taxes payable	587	-	4,493	-	5,080
Accrued payroll expenses	1,600	15,148	2,128	-	18,876
Accrued expenses and other current liabilities	25,418	11,079	11,441	-	47,938
Total current liabilities	33,140	64,553	49,783	-	147,476
Long-term debt	883,013	745	-	-	883,758
Deferred income taxes	(11,453)	138,725	15,776	-	143,048
Defined benefit plan obligations	6,079	-	-	-	6,079
Other long-term liabilities	16,825	1,271	3,380	-	21,476
Intercompany investment	(268,635)	41,022	227,613	-	-
Intercompany receivable/payable	(880,752)	902,126	(20,891)	(483)	-
Total liabilities	(221,783)	1,148,442	275,661	(483)	1,201,837
Stockholder's equity	327,771	(132,621)	(34,975)	(415)	159,760
Total liabilities and stockholder's equity	\$ 105,988	\$ 1,015,821	\$ 240,686	\$ (898)	\$ 1,361,597

Condensed Consolidating Statement of Cash Flows
For the Six Months Ended December 31, 2009
(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flows from operating activities:					
Net income (loss)	\$ (31,157)	\$ (17,526)	\$ 8,331	\$ 9,195	\$ (31,157)
Changes in operating assets and liabilities and non-cash items included in net income (loss)					
	<u>56,201</u>	<u>22,336</u>	<u>(16,072)</u>	<u>(9,195)</u>	<u>53,270</u>
Net cash provided by (used in) operating activities	<u>25,044</u>	<u>4,810</u>	<u>(7,741)</u>	<u>-</u>	<u>22,113</u>
Cash flows from investing activities:					
Capital expenditures	(171)	(6,172)	(2,058)	-	(8,401)
Proceeds from sale of marketable securities	1,000	-	-	-	1,000
Proceeds from the sale of property, plant and equipment	-	737	108	-	845
Other, net	<u>(11)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11)</u>
Net cash provided by (used in) investing activities	<u>818</u>	<u>(5,435)</u>	<u>(1,950)</u>	<u>-</u>	<u>(6,567)</u>
Cash flows from financing activities:					
Debt repayments	<u>(4,012)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,012)</u>
Net cash provided by (used in) financing activities	<u>(4,012)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,012)</u>
Effect of exchange rate changes on cash and cash equivalents					
	<u>-</u>	<u>-</u>	<u>(483)</u>	<u>-</u>	<u>(483)</u>
Net increase (decrease) in cash and cash equivalents	21,850	(625)	(10,174)	-	11,051
Cash and cash equivalents at beginning of period	<u>31,221</u>	<u>(15)</u>	<u>26,542</u>	<u>-</u>	<u>57,748</u>
Cash and cash equivalents at end of period	<u>\$ 53,071</u>	<u>\$ (640)</u>	<u>\$ 16,368</u>	<u>\$ -</u>	<u>\$ 68,799</u>

Condensed Consolidating Statement of Cash Flows
For the Six Months Ended December 31, 2008

(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flows from operating activities:					
Net income (loss)	\$ (11,004)	\$ 444	\$ 15,485	\$ (15,929)	\$ (11,004)
Changes in operating assets and liabilities and non-cash items included in net income (loss)	23,477	5,928	7,330	15,929	52,664
Net cash provided by (used in) operating activities	12,473	6,372	22,815	-	41,660
Cash flows from investing activities:					
Capital expenditures	(11)	(5,041)	(3,301)	-	(8,353)
Proceeds from the sale of property, plant and equipment	-	687	179	-	866
Other, net	(12)	-	-	-	(12)
Net cash provided by (used in) investing activities	(23)	(4,354)	(3,122)	-	(7,499)
Cash flows from financing activities:					
Debt repayments	(4,125)	(4)	-	-	(4,129)
Debt financing costs	(340)	-	-	-	(340)
Net cash provided by (used in) financing activities	(4,465)	(4)	-	-	(4,469)
Effect of exchange rate changes on cash and cash equivalents	-	-	(10,177)	-	(10,177)
Net increase in cash and cash equivalents	7,985	2,014	9,516	-	19,515
Cash and cash equivalents at beginning of period	39,285	(2,379)	17,243	-	54,149
Cash and cash equivalents at end of period	\$ 47,270	\$ (365)	\$ 26,759	\$ -	\$ 73,664

15. Subsequent Events

The Company evaluated all events or transactions that occurred after December 31, 2009 up through February 11, 2010, the date the Company issued these consolidated financial statements. Based on that evaluation, we have determined no material events or transactions occurred after December 31, 2009 up through February 11, 2010 that would affect the December 31, 2009 consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Report contains "forward-looking statements." All statements other than statements of historical fact are forward-looking statements for purposes of the U.S. federal and state securities laws. These statements may be identified by the use of forward looking terminology such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "potential," "predict," "should" or "will" or the negative thereof or other variations thereon or comparable terminology.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

- adverse developments in general business, economic and political conditions domestically or internationally;
- our ability to make payments on our significant indebtedness;
- our ability to remain competitive in the markets we serve;
- our failure to comply with regulations such as ITAR and any changes in regulations;
- our inability to continue to develop, manufacture and market innovative products and services that meet customer requirements for performance and reliability;
- our exposure to foreign currency exchange rate risks;
- our exposure to auction rate securities and the impact this exposure has on our liquidity;
- our failure to realize anticipated benefits from completed acquisitions, divestitures or restructurings, or the possibility that such acquisitions, divestitures or restructurings could adversely affect us;
- the loss of key employees;
- terrorist acts or acts of war; and
- other risks and uncertainties, including those listed under the caption "Risk Factors" disclosed in our Fiscal 2009 Form 10-K.

Overview

We are a leading provider of highly specialized microelectronics and test and measurement equipment, primarily to the global aerospace and defense and broadband communications markets. We also design application specific integrated circuits (“ASICs”) for CT scan equipment for the medical industry. Founded in 1937, we have developed a substantial intellectual property portfolio that includes more than 150 patents, extensive know-how, years of collaborative research and development with our customers and a demonstrated history in space, validating the high quality performance of our products. We believe that the combination of our leading market positions, complementary portfolio of products, years of experience and engineering capabilities provides us with a competitive advantage and enables us to deliver high performance, high value products to our customers.

Results of Operations

The following table sets forth our historical results of operations as a percentage of net sales for the periods indicated below:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
Net sales	100.0%	100.0%	100.0%	100.0%
Costs of sales	48.1	53.3	48.9	52.8
Gross profit	51.9	46.7	51.1	47.2
Operating expenses:				
Selling, general and administrative costs	18.9	21.8	20.8	22.0
Research and development costs	10.4	10.9	11.6	11.5
Amortization of acquired intangibles	9.3	9.3	10.5	11.0
Loss on liquidation of foreign subsidiary	-	-	2.6	-
Total operating expenses	38.6	42.0	45.5	44.5
Operating income (loss)	13.3	4.7	5.6	2.7
Interest expense	(12.9)	(13.6)	(14.3)	(14.3)
Other income (expense), net	0.3	6.0	0.1	4.2
Income (loss) before income taxes	0.7	(2.9)	(8.6)	(7.4)
Provision (benefit) for income taxes	7.1	(0.3)	1.9	(3.7)
Net income (loss)	(6.4)%	(2.6)%	(10.5)%	(3.7)%

Statements of Operations

Management evaluates the operating results of the Company's two segments based upon pre-tax operating income, before costs related to restructuring, amortization of acquired intangibles, share-based compensation, loss on liquidation of foreign subsidiary, merger related expenses and the impact of any acquisition related adjustments.

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
(In thousands)				
Net sales:				
Microelectronic solutions ("AMS")	\$ 79,160	\$ 70,752	\$ 146,521	\$ 138,332
Test solutions ("ATS")	87,579	86,063	150,334	159,328
Net sales	<u>\$ 166,739</u>	<u>\$ 156,815</u>	<u>\$ 296,855</u>	<u>\$ 297,660</u>
Segment adjusted operating income:				
- AMS	\$ 21,887	\$ 15,371	\$ 36,911	\$ 29,984
- ATS	20,186	15,974	28,151	25,604
- General corporate expense	<u>(2,258)</u>	<u>(3,870)</u>	<u>(5,189)</u>	<u>(6,567)</u>
Adjusted operating income	39,815	27,475	59,873	49,021
Amortization of acquired intangibles				
- AMS	(8,743)	(8,462)	(17,579)	(19,139)
- ATS	(6,771)	(6,160)	(13,540)	(13,451)
Share based compensation				
- Corporate	(556)	(489)	(1,045)	(977)
Restructuring charges				
- ATS	(64)	(1,808)	(251)	(2,210)
Merger related expenses - Corporate	(771)	(2,172)	(1,464)	(2,806)
Loss on liquidation of foreign subsidiary - ATS	-	-	(7,696)	-
Current period impact of acquisition related adjustments:				
Inventory - AMS	-	-	(246)	-
Depreciation - AMS	(265)	(286)	(540)	(572)
Depreciation - ATS	(311)	(676)	(817)	(1,414)
Depreciation - Corporate	(55)	(55)	(110)	(110)
Deferred revenue - ATS	<u>(33)</u>	<u>(79)</u>	<u>(65)</u>	<u>(176)</u>
Operating income (GAAP)	22,246	7,288	16,520	8,166
Interest expense	(21,418)	(21,250)	(42,457)	(42,465)
Other income (expense), net	422	9,327	479	12,413
Income (loss) before income taxes	<u>\$ 1,250</u>	<u>\$ (4,635)</u>	<u>\$ (25,458)</u>	<u>\$ (21,886)</u>

Three Months Ended December 31, 2009 Compared to Three Months Ended December 31, 2008

Net Sales. Net sales increased 6% to \$166.7 million for the three months ended December 31, 2009 from \$156.8 million for the three months ended December 31, 2008.

Net sales in the microelectronic solutions ("AMS") segment increased 12% to \$79.2 million for the three months ended December 31, 2009 from \$70.8 million for the three months ended December 31, 2008. Increases in sales volumes of integrated circuits (\$4.0 million) and microelectronic modules (\$3.8 million), combined with sales of \$2.7 million from Airflyte Electronics, acquired in June 2009, were offset by the reduction of \$2.0 million in sales of components due to decreased sales volumes and price concessions created by industry competition.

Net sales in the test solutions ("ATS") segment increased 2% to \$87.6 million for the three months ended December 31, 2009 from \$86.1 million for the three months ended December 31, 2008. The increase was primarily due to additional sales of wireless products of \$7.4 million combined with sales of \$3.8 million from VI Technology, acquired in March 2009, and was largely offset by a reduction in sales of PXI and other test equipment products.

Gross Profit. Gross profit equals net sales less cost of sales. Cost of sales includes materials, direct labor, amortization of capitalized software development costs and overhead expenses such as engineering labor, fringe benefits, depreciation, allocable occupancy costs and manufacturing supplies.

On a consolidated basis, gross margin was 51.9% for the three months ended December 31, 2009 and 46.7% for the three months ended December 31, 2008. Gross margin was adversely affected by purchase accounting adjustments aggregating \$402,000 in 2009 and \$572,000 in 2008.

Three Months Ended December 31,	Gross Profit					
	AMS	% of Net Sales	ATS	% of Net Sales	Total	% of Net Sales
	(In thousands, except percentages)					
2009	\$ 39,202	49.5%	\$ 47,392	54.1%	\$ 86,594	51.9%
2008	\$ 33,076	46.7%	\$ 40,083	46.6%	\$ 73,159	46.7%

Gross margins in the AMS segment were 49.5% in 2009 and 46.7% in 2008. The increase in gross margins is principally attributable to (i) increased sales of integrated circuits and microelectronics modules (which have margins higher than the segment average) and decreased sales of components and motion control products (which have margins lower than the segment average).

Gross margins in the ATS segment were 54.1% in 2009 and 46.6% in 2008. The increase in gross margins is principally attributable to increased sales of wireless test products, which have margins higher than the segment average.

Selling, General and Administrative Costs. Selling, general and administrative costs include office and management salaries, fringe benefits, commissions, insurance and professional fees.

On a consolidated basis SG&A costs decreased \$2.6 million. As a percentage of sales, SG&A costs decreased 290 basis points from the three months ended December 31, 2008 to the three months ended December 31, 2009.

Three Months Ended December 31,	Selling, General and Administrative Costs						
	AMS	% of Net Sales	ATS	% of Net Sales	Corporate	Total	% of Net Sales
	(In thousands, except percentages)						
2009	\$ 10,595	13.4%	\$ 17,338	19.8%	\$ 3,640	\$ 31,573	18.9%
2008	\$ 10,723	15.2%	\$ 16,865	19.6%	\$ 6,586	\$ 34,174	21.8%

In the AMS segment, SG&A costs decreased \$128,000 or 1%. As a percentage of sales, SG&A costs decreased 180 basis points for AMS. The components product group reduced SG&A costs by \$799,000, as compared to the prior year, primarily due to cost savings initiatives. These savings, in the AMS segment, are partially offset by additional costs of \$408,000 related to Airflyte Electronics, acquired in June 2009.

In the ATS segment, SG&A costs increased \$473,000 or 3%. As a percentage of sales, SG&A costs increased 20 basis points for ATS. The increase primarily relates to additional costs of \$684,000 related to VI Technology, acquired in March 2009.

Corporate general and administrative expenses decreased \$2.9 million, primarily due to reductions in merger related expenses (\$1.4 million) and various other expenses including professional fees and employee related expenses.

Research and Development Costs. Research and development costs include materials, engineering labor and allocated overhead. On a consolidated basis, research and development costs decreased 50 basis points as a percentage of sales.

Three Months Ended December 31,	Research and Development Costs					
	AMS	% of Net Sales	ATS	% of Net Sales	Total	% of Net Sales
	(In thousands, except percentages)					
2009	\$ 6,986	8.8%	\$ 10,275	11.7%	\$ 17,261	10.4%
2008	\$ 7,268	10.3%	\$ 9,807	11.4%	\$ 17,075	10.9%

AMS segment self-funded research and development costs decreased \$282,000, or 4%, primarily due to lower spending on components. As a percentage of sales, research and development costs decreased 150 basis points.

ATS segment self-funded research and development costs increased \$468,000, or 5%, primarily due to efforts aimed at enhancing existing next generation radio test products. As a percentage of sales, research and development costs increased 30 basis points.

Amortization of Acquired Intangibles. Amortization of acquired intangibles increased \$892,000 in the three months ended December 31, 2009 primarily due to increases for recently acquired businesses. By segment, amortization increased \$281,000 in the AMS segment primarily due to additional amortization of \$290,000 for Airflyte Electronics, acquired in June 2009. Amortization increased \$611,000 in the ATS segment, primarily due to additional amortization of \$594,000 for VI Technology, acquired in March 2009.

Other Income (Expense). Interest expense was \$21.4 million in 2009 and \$21.3 million in 2008. Other income (expense) of \$422,000 for the three months ended December 31, 2009 consisted primarily of \$768,000 of interest and miscellaneous income offset by \$346,000 of foreign currency transaction losses. Other income (expense) of \$9.3 million for the three months ended December 31, 2008 consisted primarily of \$8.8 million of foreign currency transaction gains and \$506,000 of interest and miscellaneous income.

Provision for Income Taxes. The income tax provision was \$11.9 million for the three months ended December 31, 2009 on pre-tax income of \$1.3 million. We had an income tax benefit for the three months ended December 31, 2008 of \$528,000, an effective income tax rate of 11.4%. The effective income tax rate for both periods differed from the amount computed by applying the U.S. Federal income tax rate to income before income taxes primarily due to foreign, state and local income taxes. The combination of U.S. tax benefits on domestic losses and foreign and domestic taxes on foreign earnings (as we expect that substantially all these earnings will be distributed to the U.S.) distorts the effective tax rate.

In the three months ended December 31, 2009, we paid income taxes of \$1.5 million and received tax refunds of \$29,000 related to federal, state and foreign income taxes. In the three months ended December 31, 2008, we paid income taxes of \$372,000.

Net income (loss). The net loss was \$10.6 million for the three months ended December 31, 2009 and \$4.1 million for the three months ended December 31, 2008.

Six Months Ended December 31, 2009 Compared to Six Months Ended December 31, 2008

Net Sales. Net sales were \$296.9 million for the six months ended December 31, 2009 and \$297.7 million for the six months ended December 31, 2008.

Net sales in the AMS segment increased 6% to \$146.5 million for the six months ended December 31, 2009 from \$138.3 million for the six months ended December 31, 2008. Increases in sales volumes of \$6.4 million of integrated circuits and \$6.0 million of microelectronic modules, combined with sales of \$5.3 million from Airflyte Electronics, acquired in June 2009, were partially offset by a reduction of \$7.1 million in sales of components, due to decreased sales volumes and price concessions created by industry competition, and a \$2.6 million reduction in motion control products.

Net sales in the ATS segment decreased 6% to \$150.3 million for the six months ended December 31, 2009 from \$159.3 million for the six months ended December 31, 2008. Increases in wireless test products, synthetic test products and additional sales of \$7.3 million from VI Technology, acquired in March 2009, were more than offset by the decrease in sales volumes of PXI and other test equipment products.

Gross Profit. On a consolidated basis, gross margin was 51.1% for the six months ended December 31, 2009 and 47.2% for the six months ended December 31, 2008.

Six Months Ended December 31,	Gross Profit					
	AMS	% of Net Sales	ATS	% of Net Sales	Total	% of Net Sales
	(In thousands, except percentages)					
2009	\$ 70,201	47.9%	\$ 81,387	54.1%	\$ 151,588	51.1%
2008	\$ 65,096	47.1%	\$ 75,422	47.3%	\$ 140,518	47.2%

Gross margins in the AMS segment were 47.9% in 2009 and 47.1% in 2008. Margins were favorably impacted by increased sales of microelectronic modules and integrated circuits (which have margins higher than the segment average), offset by unfavorable product mix and sale price reductions for certain products in components.

Gross margins in the ATS segment were 54.1% in 2009 and 47.3% in 2008. The increase in gross margins is principally attributable to increased sales of wireless products, which have margins higher than the segment average.

Selling, General and Administrative Costs. On a consolidated basis SG&A costs decreased \$3.8 million. As a percentage of sales, SG&A costs decreased 120 basis points from the six months ended December 31, 2008 to the six months ended December 31, 2009.

Six Months Ended December 31,	Selling, General and Administrative Costs						
	AMS	% of Net Sales	ATS	% of Net Sales	Corporate	Total	% of Net Sales
	(In thousands, except percentages)						
2009	\$ 20,583	14.0%	\$ 33,420	22.2%	\$ 7,808	\$ 61,811	20.8%
2008	\$ 21,085	15.2%	\$ 34,114	21.4%	\$ 10,459	\$ 65,658	22.0%

In the AMS segment, SG&A costs decreased \$502,000, or 2%. As a percentage of sales, SG&A costs decreased 120 basis points for AMS. The components group reduced SG&A costs by \$1.6 million, primarily due to cost savings initiatives. These savings, in the AMS segment, are partially offset by additional costs of \$779,000 related to Airflyte Electronics, acquired in June 2009.

In the ATS segment, SG&A costs decreased \$694,000, or 2%. This was primarily the result of a decrease of \$1.7 million due to cost savings initiatives and efforts to consolidate and reorganize our various European locations, partially offset by additional costs of \$1.4 million related to VI Technology, acquired in March 2009. As a percentage of sales, SG&A costs increased 80 basis points for ATS.

Corporate general and administrative expenses decreased \$2.7 million, primarily due to reductions in merger related expenses and other professional fees.

Research and Development Costs. On a consolidated basis, research and development costs increased 10 basis points as a percentage of sales.

Six Months Ended December 31,	Research and Development Costs					
	AMS	% of Net Sales	ATS	% of Net Sales	Total	% of Net Sales
	(In thousands, except percentages)					
2009	\$ 13,493	9.2%	\$ 20,949	13.9%	\$ 34,442	11.6%
2008	\$ 14,599	10.6%	\$ 19,505	12.2%	\$ 34,104	11.5%

AMS segment self-funded research and development costs decreased \$1.1 million, or 8%, primarily due to lower spending on microelectronic modules and components. As a percentage of sales, research and development costs decreased 140 basis points.

ATS segment self-funded research and development costs increased \$1.4 million, or 7%, primarily due to the development of products within our radio and avionics test division and PXI-related products in wireless. As a percentage of sales, research and development costs increased 170 basis points.

Amortization of Acquired Intangibles. Amortization of acquired intangibles decreased \$1.5 million in the six months ended December 31, 2009 primarily due to certain intangibles becoming fully amortized during the first quarter of fiscal 2009. The decrease is offset by additional amortization related to VI Technology, acquired in March 2009, of \$1.2 million and Airflyte, acquired in June 2009, of \$581,000. By segment, the amortization decreased \$1.6 million in the AMS segment and increased \$89,000 in the ATS segment.

Loss on Liquidation of Foreign Subsidiary. During the six months ended December 31, 2009, we recognized a \$7.7 million non-cash loss on liquidation of a foreign subsidiary. There was no similar charge recorded in the six months ended December 31, 2008.

Other Income (Expense). Interest expense was \$42.5 million in both 2009 and 2008. Other income (expense) was \$479,000 for the six months ended December 31, 2009 consisting primarily of \$1.1 million of interest and miscellaneous income, offset by \$584,000 of foreign currency transaction losses. Other income (expense) of \$12.4 million for the six months ended December 31, 2008 consisted primarily of \$11.2 million of foreign currency transaction gains and \$1.2 million of interest and miscellaneous income.

Provision for Income Taxes. The income tax provision was \$5.7 million for the six months ended December 31, 2009, on pre-tax loss of \$25.5 million. We had an income tax benefit for the six months ended December 31, 2008 of \$10.9 million, an effective income tax rate of 49.7%. The effective income tax rate for both periods differed from the amount computed by applying the U.S. Federal income tax rate to income before income taxes primarily due to foreign, state and local income taxes. The provisions are a combination of U.S. tax benefits on domestic losses and foreign and domestic taxes provided on foreign earnings as we expect that substantially all these earnings will be distributed to the U.S. The projected provision of U.S. taxes on foreign source income for fiscal 2010 in relation to the fiscal 2010 pre-tax projected amounts resulted in a negative effective tax rate for fiscal 2010, which when applied to the pre-tax loss for the six months ended December 31, 2009, resulted in a tax expense of \$5.7 million.

In the six months ended December 31, 2009, we paid income taxes of \$4.5 million and received tax refunds of \$631,000 related to federal, state and foreign income taxes. In the six months ended December 31, 2008, we paid income taxes of \$2.4 million.

Net income (loss). The net loss was \$31.2 million for the six months ended December 31, 2009 and \$11.0 million for the six months ended December 31, 2008.

Liquidity and Capital Resources

As of December 31, 2009, we had \$68.8 million of cash and cash equivalents, \$235.6 million in working capital and our current ratio was 2.8 to 1. As of June 30, 2009, we had \$57.7 million of cash and cash equivalents, \$221.4 million in working capital and our current ratio was 2.5 to 1.

At December 31, 2009, our gross investment in marketable securities consisted of \$18.9 million of auction rate securities. Auction rate securities represent long-term (generally maturities of ten years to thirty-five years from the date of issuance) variable rate bonds tied to short-term interest rates that are reset through an auction process every seven to thirty-five days, and are classified as available for sale securities. All but one (with the one security having a carrying value of \$1.7 million and an A rating) of our auction rate securities retain a triple-A rating by at least one nationally recognized statistical rating organization. In addition, certain of our auction rate securities are backed by student loans whose principal and interest are federally guaranteed by the Family Federal Education Loan Program.

Since many auctions are failing and given that there is currently no active secondary market for our investment in auction rate securities, the determination of fair value was based on the following factors:

- continuing illiquidity;
- lack of action by the issuers to establish different forms of financing to replace or redeem these securities; and
- the credit quality of the underlying securities.

In July 2009, \$1.0 million of our auction rate securities were redeemed by the issuer at par. In January 2010, an additional \$4.0 million of our auction rate securities were redeemed by the issuer at 92% of par. The resulting \$320,000 realized loss will be recorded in the statement of operations in the third quarter of fiscal 2010. Since February 2008, when auctions began to fail, through February 2010, \$31.5 million of auction rate securities were redeemed at par, except for the January 2010 redemption discussed above. Given the high credit quality of our auction rate securities and our intent and ability to hold these securities until liquidity returns to the market or maturity, we believe we will recover the full remaining principal amount in the future. However, at December 31, 2009, we concluded that the fair value of our auction rate securities was \$16.9 million, which reflects a \$2.0 million valuation allowance.

Should credit market disruptions continue or increase in magnitude, we may be required to record a further impairment on our investments or consider that an ultimate liquidity event may take longer than currently anticipated.

Our principal liquidity requirements are to service our debt and interest and meet our working capital and capital expenditure needs. As of December 31, 2009, we had \$894.2 million of debt outstanding (of which \$890.0 million was long-term), including approximately \$511.8 million under our senior secured credit facility, \$225.0 million of senior unsecured notes and \$156.3 million under our senior subordinated unsecured credit facility, including paid-in-kind interest. Additionally, at December 31, 2009 we were able to borrow an additional \$50.0 million under the revolving portion of our senior secured credit facility.

The following is a summary of required principal repayments of our debt for the next five years and thereafter as of December 31, 2009:

Twelve Months Ended December 31,		(In thousands)
2010	\$	4,203
2011		5,610
2012		5,635
2013		5,250
2014		492,187
Thereafter		381,308
Total	\$	894,193

As of December 31, 2009, we are in compliance with all of the covenants contained in our loan agreements. Certain loan covenants are based on Adjusted EBITDA. Adjusted EBITDA is defined as EBITDA (net income (loss) before interest expense, income taxes, depreciation and amortization) adjusted to add back certain non-cash, non-recurring and other items, as required by various covenants in our debt agreements. Our use of the term Adjusted EBITDA may vary from others in our industry. EBITDA and Adjusted EBITDA are not measures of operating income (loss), performance or liquidity under U.S. GAAP and are subject to important limitations. A reconciliation of net income (loss), which is a U.S. GAAP measure of our operating results, to Adjusted EBITDA, as defined in our debt agreements, is as follows:

	Three Months ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
	(In thousands)			
Net income (loss)	\$ (10,614)	\$ (4,107)	\$ (31,157)	\$ (11,004)
Interest expense	21,418	21,250	42,457	42,465
Provision (benefit) for income taxes	11,864	(528)	5,699	(10,882)
Depreciation and amortization	20,528	20,154	41,774	43,651
EBITDA	43,196	36,769	58,773	64,230
Non-cash purchase accounting adjustments	33	79	311	176
Merger related expenses	771	2,172	1,464	2,806
Restructuring costs (a)	64	1,808	251	2,210
Share based compensation (b)	556	489	1,045	977
Non-cash loss on liquidation of foreign subsidiary	-	-	7,696	-
Other defined items (c)	32	5,278	(342)	6,975
Adjusted EBITDA	\$ 44,652	\$ 46,595	\$ 69,198	\$ 77,374

(a) Primarily reflects costs associated with the reorganization of our U.K. operations.

(b) Reflects non-cash share-based compensation expense.

(c) Reflects other adjustments required in calculating our debt covenant compliance such as pro forma Adjusted EBITDA, for periods prior to the acquisition date, for companies acquired during the year and other non-cash charges.

Financial covenants in the senior secured credit facility include (i) a maximum leverage ratio of total debt (less up to \$15 million of cash) to Adjusted EBITDA, as defined in the agreement, and (ii) maximum consolidated capital expenditures. The maximum leverage ratio permitted for the twelve months ended December 31, 2009 and 2008 was 7.30 and 8.20, respectively, whereas our actual leverage ratio was 6.41 and 5.75, respectively. For fiscal 2010 and 2011 the maximum leverage ratio permitted decreases to 6.80 and 5.90, respectively.

We expect that cash generated from operating activities and availability under the revolving portion of the senior secured credit facility will be our principal sources of liquidity. Our ability to make payments on and to refinance our indebtedness and to fund working capital needs and planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond our control. Based on our current level of operations, we believe our cash flow from operations and available borrowings under our senior secured credit facility will be adequate to meet our liquidity needs for at least the next twelve months. We cannot assure you, however, that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our senior secured credit facility in an amount sufficient to enable us to repay our indebtedness or to fund other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before the maturity thereof. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Cash Flows

For the six months ended December 31, 2009, our cash flow provided by operations was \$22.1 million. Our investing activities used cash of \$6.6 million, primarily for capital expenditures of \$8.4 million, partially offset by proceeds from the sale of marketable securities (\$1.0 million) combined with the sale of property, plant and equipment (\$845,000). Our financing activities used cash of \$4.0 million to repay indebtedness.

For the six months ended December 31, 2008, our cash flow provided by operations was \$41.7 million. Our investing activities used cash of \$7.5 million, primarily for capital expenditures. Our financing activities used cash of \$4.5 million, primarily to repay indebtedness (\$4.1 million).

Capital Expenditures

Capital expenditures were \$8.4 million for both the six months ended December 31, 2009 and 2008. Our capital expenditures primarily consist of equipment replacements.

Contractual Obligations

The following table summarizes our obligations and commitments to make future payments under debt and other obligations as of December 31, 2009:

	Payments Due By Period ⁽¹⁾				
	Total	Year 1	Years 2 - 3	Years 4 - 5	Beyond 5 Years
Senior secured credit facility	\$ 511.8	\$ 3.9	\$ 10.5	\$ 497.4	\$ -
Senior unsecured notes	225.0	-	-	-	225.0
Subordinated unsecured credit facility	156.3	-	-	-	156.3
Other long-term debt	1.1	0.3	0.8	-	-
Operating leases ⁽²⁾	20.6	6.8	8.5	3.2	2.1
Employment agreements	8.1	4.3	3.5	0.3	-
Advisory fee ⁽³⁾	7.4	2.2	4.4	0.8	-
Total	\$ 930.3	\$ 17.5	\$ 27.7	\$ 501.7	\$ 383.4

- (1) Amounts do not include interest payments.
- (2) The Company does not expect any future minimum sub-lease rentals associated with operating lease commitments shown in the above table.
- (3) The annual advisory fee is payable to our Sponsors throughout the term of an advisory agreement, which has an initial term expiring on December 31, 2013 and is automatically renewable for additional one year terms thereafter unless terminated. For purposes of this table we have assumed that such agreement terminates December 31, 2013. The annual fee will be the greater of \$2.2 million or 1.8% of Adjusted EBITDA for the prior fiscal year, as defined in the agreement.

In the normal course of business, we routinely enter into binding and non-binding purchase obligations primarily covering anticipated purchases of inventory and equipment. None of these obligations are individually significant. We do not expect that these commitments, as of December 31, 2009, will have a material adverse effect on our liquidity.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have material current or future effect upon our financial condition or results of operations.

Seasonality

Historically our net sales and earnings increase sequentially from quarter to quarter within a fiscal year, but the first quarter is typically less than the previous year's fourth quarter.

Critical Accounting Policies and Estimates

This discussion and analysis of the Company's financial condition and results of operations is based upon the unaudited condensed consolidated financial statements included in this Quarterly Report, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and applicable SEC regulations for preparation of interim financial statements.

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires that management of the Company make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the more significant estimates included in our consolidated financial statements are revenue and cost recognition under long-term contracts; the valuation of accounts receivable, inventories, investments and deferred tax assets; the depreciable lives of fixed assets and useful lives of amortizable intangible assets; the valuation of assets acquired and liabilities assumed in business combinations; the recoverability of long-lived amortizable intangible assets, tradenames and goodwill; share-based compensation; restructuring charges; asset retirement obligations; fair value measurement of financial assets and liabilities and certain accrued expenses and contingencies.

We are subject to uncertainties such as the impact of future events, economic, environmental and political factors and changes in the business climate; therefore, actual results may differ from those estimates. When no estimate in a given range is deemed to be better than any other when estimating contingent liabilities, the low end of the range is accrued. Accordingly, the accounting estimates in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Changes in estimates are made when circumstances warrant them. Such changes and refinements in estimation methodologies are reflected in reported results of operations; if material, the effects of changes in estimates are disclosed in the notes to the condensed consolidated financial statements.

We believe that the critical accounting policies involving significant estimates listed below are important to the portrayal of our financial condition, results of operations and cash flows, and require critical management judgments and estimates about matters that are inherently uncertain.

- Cash and Cash Equivalents
- Marketable Securities
- Inventories
- Financial Instruments and Derivatives
- Revenue Recognition
- Acquisition Accounting
- Long-Lived Assets
- Research and Development Costs
- Income Taxes
- Share Based Compensation
- Foreign Currency Translations

Further information regarding these policies appears within the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2009. During the six month period ended December 31, 2009, there were no significant changes to any critical accounting policies or to the related estimates and judgments involved in applying those policies, except that effective July 1, 2009 we adopted new authoritative revenue recognition principles, the effect of which was immaterial. This is further discussed in Note 1 to the unaudited financial statements contained elsewhere in this Form 10-Q.

Recently Adopted Accounting Pronouncements

See Note 2 of the notes to the unaudited condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

See Note 2 of the notes to the unaudited condensed consolidated financial statements

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. We are subject to interest rate risk in connection with borrowings under our senior secured credit facility. Although we currently have interest rate swap agreements hedging portions of this debt, these will expire before the borrowings are fully repaid. As of December 31, 2009, we have \$511.8 million outstanding under the term-loan portion of our senior secured credit facility, the un-hedged portion of which is subject to variable interest rates. Each change of 1% in interest rates would result in a \$806,000 change in our annual interest expense on the un-hedged portion of the term-loan borrowings and a \$507,000 change in our annual interest expense on the revolving loan borrowings, assuming the entire \$50.0 million was outstanding. Any debt we incur in the future may also bear interest at floating rates.

Foreign Currency Risk. Foreign currency contracts are used to protect us from exchange rate fluctuation from the time customers are invoiced in local currency until such currency is exchanged for U.S. dollars. We periodically enter into foreign currency contracts, which are not designated as hedges, and the change in the fair value is included in income currently within other income (expense). As of December 31, 2009, we had \$26.7 million of notional value foreign currency forward contracts maturing through January 29, 2010. As of December 31, 2008, we had \$8.1 million of notional value foreign currency forward contracts maturing through March 12, 2009. Notional amounts do not quantify risk or represent assets or liabilities of the Company, but are used in the calculation of cash settlements under the contracts. The fair value of these contracts at December 31, 2009 and 2008 was immaterial. If foreign currency exchange rates (primarily the British pound and the Euro) change by 10% from the levels at December 31, 2009, the effect on our comprehensive income would be approximately \$19.5 million.

Inflation Risk. Inflation has not had a material impact on our results of operations or financial condition during the preceding three years.

ITEM 4T. CONTROLS AND PROCEDURES

Our disclosure controls and procedures under the Securities Exchange Act of 1934, as amended, are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. The Principal Executive Officer and the Principal Financial Officer, with the assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of December 31, 2009 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On October 14, 2009, BAE Systems Information and Electronic Systems (“BAE”) commenced an action against both us and one of our subsidiaries in the United States District Court for the District of Delaware. BAE essentially is alleging that under a subcontract it entered into with us in 2002, BAE provided to us certain proprietary information and know how relating to a high performance direct infrared countermeasure system for use in military aircraft and certain other platforms (“DIRCM System”), which enabled us to fabricate for BAE an assembly component of the third generation of the DIRCM System. BAE is alleging that, in violation of the provisions of the subcontract and a Proprietary Information Agreement, we fabricated or facilitated the fabrication of one or more items that were identical or substantially identical to items that we exclusively fabricated for BAE under the subcontract. BAE further claims that our actions ostensibly enabled a prime competitor of BAE to build and market, in competition with BAE, an infrared countermeasure system that included an unlawful copy of the component. Based on these allegations, BAE has asserted claims against us for patent infringement, trade secret misappropriation, breach of contract, conversion and unjust enrichment and has requested, by way of relief, unspecified damages, injunctive relief and an accounting. We have evaluated BAE’s claims and believe that there is no basis for the allegations or claims made by BAE. Nevertheless, there can be no assurance that we will prevail in the matter. We do not believe that the ultimate resolution of this matter will have a material adverse effect on our financial position, results of operations, liquidity or capital resources.

Reference is made to Item 3 of our Fiscal 2009 Form 10-K for information as to other legal matters and proceedings.

Item 1A. Risk Factors

There have been no material changes in our risk factors disclosed in the fiscal 2009 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Exhibit Description
31.1	Certification pursuant to Rules 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Rules 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification pursuant to Rules 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AEROFLEX INCORPORATED
(REGISTRANT)

February 11, 2010

/s/ John Adamovich, Jr.

John Adamovich, Jr.
Senior Vice President and
Chief Financial Officer

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EXHIBIT INDEX

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CERTIFICATION

I, Leonard Borow, President and Chief Executive Officer of Aeroflex Incorporated, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended December 31, 2009 of Aeroflex Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2010

/s/ Leonard Borow
Leonard Borow
President and Chief Executive Officer

CERTIFICATION

I, John Adamovich, Jr., Senior Vice President and Chief Financial Officer of Aeroflex Incorporated, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended December 31, 2009 of Aeroflex Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2010

/s/ John Adamovich, Jr.
 John Adamovich, Jr.
 Senior Vice President and
 Chief Financial Officer

CERTIFICATION

I, Charles Badlato, Principal Accounting Officer of Aeroflex Incorporated, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended December 31, 2009 of Aeroflex Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2010

/s/ Charles Badlato
Charles Badlato
Principal Accounting Officer

