

AEROFLEX HOLDING CORP.  
 Form 10-Q  
 February 09, 2011

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 December 31, 2010

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
001-34974	Aeroflex Holding Corp. Delaware 35 South Service Road P.O. Box 6022 Plainview, NY 11803-0622 (516) 694-6700	01-0899019
033-88878	Aeroflex Incorporated Delaware 35 South Service Road P.O. Box 6022 Plainview, NY 11803-0622 (516) 694-6700	11-1974412

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

A e r o f l e x Yes " No x  
 Holding Corp.  
 A e r o f l e x Yes x No "  
 Incorporated

Indicate by check mark whether the registrants have submitted electronically and posted on their 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).

A e r o f l e x Yes " No "  
 Holding Corp.

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A e r o f l e x Yes " No "  
Incorporated

Indicate by check mark whether each 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
Aeroflex Holding Corp.	..	..	x	..
Aeroflex Incorporated	..	..	x	..

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

A e r o f l e x Yes " No x  
Holding Corp.  
A e r o f l e x Yes " No x  
Incorporated

Number of shares of common stock outstanding as of February 9, 2011:

Aeroflex Holding Corp. - 84,789,180 shares  
Aeroflex Incorporated - 1,000 shares

Aeroflex Incorporated meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form with the reduced disclosure format.

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## OVERVIEW

This quarterly report on Form 10-Q for the period ended December 31, 2010 is a combined quarterly report being separately filed by two registrants: Aeroflex Holding Corp. (“Aeroflex Holding”) and Aeroflex Incorporated (“Aeroflex”), a direct wholly-owned subsidiary of Aeroflex Holding. Unless the context provides otherwise, references to “we,” “our,” “the Company,” or “us” refer collectively to Aeroflex Holding and its subsidiary, Aeroflex, including Aeroflex’s consolidated subsidiaries.

Filing a combined report which contains full financial information of both Aeroflex Holding and its wholly owned subsidiary Aeroflex is both economical and efficient, as Aeroflex Holding is a holding company which does not conduct business operations on its own - all business operations are conducted by Aeroflex and its consolidated subsidiaries. All assets, liabilities, income, expenses and cash flows presented for all periods represent those of Aeroflex and its subsidiaries, except for activity related to Aeroflex Holding’s equity and earnings per share. Aeroflex Holding’s only asset is its investment in Aeroflex. As such, other than any discussions of liquidity and capital resources (including indebtedness and cash flows), equity and earnings per share, controls and procedures, unregistered sales of equity securities, use of proceeds and any material differences between Aeroflex Holding and Aeroflex which would require separate disclosures, all information presented in this quarterly report will be combined and pertain to both Aeroflex Holding and Aeroflex.

In this Form 10-Q, unless the context requires otherwise, references to (i) the term “Sponsors” refers collectively to affiliates of or funds managed by The Veritas Capital Fund III, L.P., Golden Gate Private Equity, Inc., and GS Direct, LLC, which indirectly control Aeroflex Holding, and (ii) “fiscal year” refers to the twelve months ended June 30 of the applicable year. For example, “fiscal 2010” refers to the twelve months ended June 30, 2010.

Aeroflex Holding’s board of directors authorized an increase of Aeroflex Holding’s authorized shares of common stock to 300,000,000 and a 65,000,000 for 1 common stock split, both of which became effective on November 18, 2010. Aeroflex Holding’s stockholders’ equity has been retroactively adjusted to give effect to the stock split for all periods presented by reclassifying the par value of the additional shares issued in connection with the split from additional paid-in capital to common stock. In addition, all share numbers and per share amounts in Aeroflex Holding’s consolidated financial statements have been retroactively adjusted to give effect to the stock split.

On November 19, 2010, Aeroflex Holding consummated an initial public offering (“IPO”) of common stock in which it sold 19,789,180 shares of common stock, par value of \$.01 per share, at a price of \$13.50 per share. Aeroflex Holding received net proceeds of \$244.1 million from the IPO, after deducting underwriting discounts and offering expenses, including a \$2.5 million transaction fee which was paid to affiliates of the Sponsors under the advisory agreement with them for services directly attributable to the equity offering (“Transaction Fee”). Aeroflex Holding used the net proceeds of the IPO to make a capital contribution to Aeroflex. In connection with the IPO, Aeroflex:

- Repurchased an aggregate of \$186.6 million of its senior unsecured notes and senior subordinated unsecured term loans and paid the related expenses;
- Paid a \$16.9 million termination fee to affiliates of the Sponsors to terminate the advisory agreement with them, which, including the related write-off of prepaid advisory fees, resulted in an \$18.1 million expense (“Termination Fee”); and
- Entered into an amendment of the credit agreement with the lenders of its senior secured credit facility, for which a \$3.3 million fee was paid to the lenders.



AEROFLEX HOLDING CORP.  
AND SUBSIDIARIES

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Aeroflex Holding Corp. and Subsidiaries  
 Unaudited Condensed Consolidated Balance Sheets  
 (In thousands, except share and per share data )

	December 31, 2010	June 30, 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 70,643	\$ 100,663
Marketable securities	8,357	-
Accounts receivable, less allowance for doubtful accounts of \$2,101 and \$1,821	131,222	141,595
Inventories	153,880	126,568
Deferred income taxes	26,030	28,018
Prepaid expenses and other current assets	11,252	10,983
<b>Total current assets</b>	<b>401,384</b>	<b>407,827</b>
Property, plant and equipment, net	99,889	101,662
Non-current marketable securities, net	-	9,769
Deferred financing costs, net	17,435	20,983
Other assets	23,204	21,818
Intangible assets with definite lives, net	214,085	238,313
Intangible assets with indefinite lives	113,844	109,894
Goodwill	458,034	445,874
<b>Total assets</b>	<b>\$ 1,327,875</b>	<b>\$ 1,356,140</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 360	\$ 21,817
Accounts payable	36,967	28,803
Advance payments by customers and deferred revenue	23,185	30,741
Income taxes payable	1,654	4,615
Accrued payroll expenses	19,098	23,082
Accrued expenses and other current liabilities	52,944	58,817
<b>Total current liabilities</b>	<b>134,208</b>	<b>167,875</b>
Long-term debt	695,908	880,030
Deferred income taxes	88,066	138,849
Defined benefit plan obligations	5,605	5,763
Other long-term liabilities	12,983	12,639
<b>Total liabilities</b>	<b>936,770</b>	<b>1,205,156</b>
Stockholders' equity:		
Preferred stock \$.01 par value; 50,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, par value \$.01 per share; 300,000,000 shares authorized; 84,789,180 and 65,000,000 shares issued and outstanding	848	650
Additional paid-in capital	642,961	398,291



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Accumulated other comprehensive income (loss)	(41,102)	(53,575)
Accumulated deficit	(211,602)	(194,382)
Total stockholders' equity	391,105	150,984
Total liabilities and stockholders' equity	\$ 1,327,875	\$ 1,356,140

See combined notes to unaudited condensed consolidated financial statements.

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Aeroflex Holding Corp. and Subsidiaries  
 Unaudited Condensed Consolidated Statements of Operations  
 (In thousands, except per share data)

	Three Months Ended December 31,	
	2010	2009
Net sales	\$ 181,579	\$ 166,739
Cost of sales	86,739	80,081
Gross profit	94,840	86,658
Selling, general and administrative costs	38,266	31,573
Research and development costs	21,656	17,261
Amortization of acquired intangibles	15,843	15,514
Termination of Sponsor Advisory Agreement	18,133	-
Restructuring charges	6,293	64
	100,191	64,412
Operating income (loss)	(5,351)	22,246
Other income (expense):		
Interest expense	(20,713)	(21,418)
Loss on extinguishment of debt	(25,178)	-
Gain from a bargain purchase of a business	173	-
Other income (expense), net	(378)	422
Total other income (expense)	(46,096)	(20,996)
Income (loss) before income taxes	(51,447)	1,250
Provision (benefit) for income taxes	(40,044)	11,864
Net income (loss)	\$ (11,403)	\$ (10,614)
Net income (loss) per common share - Basic	\$ (0.15)	\$ (0.16)
Weighted average number of common shares outstanding - Basic	74,034	65,000

See combined notes to unaudited condensed consolidated financial statements.

Aeroflex Holding Corp. and Subsidiaries  
 Unaudited Condensed Consolidated Statements of Operations  
 (In thousands, except per share data)

	Six Months Ended December 31,	
	2010	2009
Net sales	\$ 337,510	\$ 296,855
Cost of sales	162,844	145,124
Gross profit	174,666	151,731
Selling, general and administrative costs	74,969	61,703
Research and development costs	43,814	34,442
Amortization of acquired intangibles	31,806	31,119
Termination of Sponsor Advisory Agreement	18,133	-
Restructuring charges	8,092	251
Loss on liquidation of foreign subsidiary	-	7,696
	176,814	135,211
Operating income (loss)	(2,148)	16,520
Other income (expense):		
Interest expense	(41,951)	(42,457)
Loss on extinguishment of debt	(25,178)	-
Gain from a bargain purchase of a business	173	-
Other income (expense), net	(407)	479
Total other income (expense)	(67,363)	(41,978)
Income (loss) before income taxes	(69,511)	(25,458)
Provision (benefit) for income taxes	(52,291)	5,699
Net income (loss)	\$ (17,220)	\$ (31,157)
Net income (loss) per common share - Basic	\$ (0.25)	\$ (0.48)
Weighted average number of common shares outstanding - Basic	69,517	65,000

See combined notes to unaudited condensed consolidated financial statements.

Aeroflex Holding Corp. and Subsidiaries  
 Unaudited Condensed Consolidated Statement of Stockholders' Equity  
 and Comprehensive Income (Loss)  
 (In thousands)

	Total	Common Shares	Stock Par Value	Additional Paid-in Capital	Other Comprehensive Income(Loss)	Accumulated Deficit	Comprehensive Income (Loss)
Balance, June 30, 2010	\$ 150,984	65,000	\$ 650	\$ 398,291	\$ (53,575)	\$ (194,382)	
Proceeds from issuance of common stock	244,097	19,789	198	243,899	-	-	
Share-based compensation	1,026	-	-	1,026	-	-	
Other changes	(255)	-	-	(255)	-	-	
Other comprehensive income (loss)	12,473	-	-	-	12,473	-	\$ 12,473
Net income (loss)	(17,220)	-	-	-	-	(17,220)	(17,220)
Balance, December 31, 2010	\$ 391,105	84,789	\$ 848	\$ 642,961	\$ (41,102)	\$ (211,602)	\$ (4,747)

See combined notes to unaudited condensed consolidated financial statements.

Aeroflex Holding Corp. and Subsidiaries  
 Unaudited Condensed Consolidated Statements of Cash Flows  
 (In thousands)

	Six Months Ended December 31,	
	2010	2009
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (17,220)	\$ (31,157)
Adjustments to reconcile net income (loss) to net cash provided by (used in)		
operating activities:		
Depreciation and amortization	41,534	41,774
Gain from a bargain purchase of a business	(173)	-
Acquisition related adjustment to cost of sales	998	246
Loss on liquidation of foreign subsidiary	-	7,696
Loss on extinguishment of debt	25,178	-
Deferred income taxes		