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If you sell or otherwise transfer, or have sold or otherwise transferred, all your Cobham Shares, please forward this document, but not the accompanying personalised Form of Proxy, as soon as possible to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or the transferee. If you sell or have sold or otherwise transferred only part of your holding of Cobham Shares, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale or transfer was effected.

This document should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out in Part 2 of this document and which contains a recommendation from the Board that you vote in favour of the Resolution to be proposed at the General Meeting referred to below. Your attention is also drawn to the risk factors which are set out in Part 3 of this document.

Cobham plc

(a public company incorporated in England and Wales with registered number 30470)

Proposed Acquisition of Aeroflex

Circular to Shareholders

and

Notice of General Meeting

Notice of a General Meeting of the Company, to be held at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD at 9.30 a.m. on 2 July 2014, is set out at the end of this document. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by Equitini Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom by no later than 9.30 a.m. on 30 June 2014 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). Shareholders wishing to appoint a proxy online should visit www.shareview.co.uk and follow the instructions.

A summary of the actions to be taken by Shareholders is set out on page 15 of this document and in the Notice of General Meeting set out at the end of this document.

This document is a circular relating to the Acquisition which has been prepared in accordance with the Listing Rules of the FCA made under section 73A of the FSMA. This document has been approved by the FCA.

BofA Merrill Lynch, which is authorised in the UK by the Prudential Regulation Authority and regulated in the UK by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for the Company and for no one else in connection with the Acquisition, the content of this document and other matters described in this document. BofA Merrill Lynch will not regard any other person as its client in relation to the Acquisition, the content of this document and other matters described in this document and will not be responsible to anyone other than the Company for providing the protections afforded to its clients, nor for providing advice to any other person in relation to the Acquisition, the content of this document or any other matters described in this document.

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DEFINITIONS AND GLOSSARY

Capitalised terms contained in this document have the meanings set out in Part 7 of this document.

DATE

This document is dated 16 June 2014.

CORPORATE DETAILS AND ADVISERS

Registered Office	Cobham plc Brook Road Wimborne Dorset BH21 2BJ
Sponsor and Financial Adviser	Merrill Lynch International 2 King Edward Street London EC1A 1HQ
Reporting Accountants	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Legal Adviser to the Company	Allen & Overy LLP One Bishops Square London E1 6AD
Registrar	Equitini Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

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PART I

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Form of Proxy and receipt of electronic proxy appointments by registered Shareholders for the General Meeting	9.30 a.m. on 30 June 2014
General Meeting	9.30 a.m. on 2 July 2014
Expected completion of the Acquisition	September 2014

Notes:

(1) This timing is indicative only and is subject to change. If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders by announcement through the London Stock Exchange and will be available on www.cobham.com.

(2) All references to time in this document are, unless the context otherwise requires, to British Summer Time.

PART 2

LETTER FROM THE CHAIRMAN

COBHAM

Cobham plc

(Incorporated and registered in England and Wales with registered number 30470)

Registered and Head Office
Cobham plc
Brook Road
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Directors

John Devaney	*(Non-executive Chairman)*
Robert Murphy	*(Chief Executive Officer)*
Simon Nicholls	*(Chief Financial Officer)*
Michael Wareing	*(Senior Independent Director)*
Birgit Nørgaard	*(Independent Non-executive Director)*
Mark Ronald	*(Independent Non-executive Director)*
Michael Hagee	*(Independent Non-executive Director)*
Alison Wood	*(Independent Non-executive Director)*
Jonathan Flint	*(Independent Non-executive Director)*

16 June 2014

Dear Shareholder

Proposed Acquisition of Aeroflex

1. Introduction

On 20 May 2014, Cobham announced that it and its wholly owned subsidiary, Army Acquisition Corp., had entered into a conditional agreement for the acquisition of Aeroflex. Under the terms of the Merger Agreement, Cobham will pay cash consideration of US$10.50 per share of common stock of Aeroflex, equivalent to a total consideration of approximately US$1,460 million (£869 million)[1]. This comprises the total issued and outstanding shares of common stock of Aeroflex and the total outstanding restricted stock units and performance restricted stock units, which are valued at approximately US$920 million (£548 million), together with Aeroflex's net debt of US$540 million (£321 million) at 31 March 2014.

Due to the size of the Acquisition in relation to the size of Cobham, the Acquisition constitutes a Class 1 transaction (as defined in the Listing Rules) and requires the approval of Cobham's Shareholders pursuant to the Listing Rules. The Acquisition is conditional on, among other things, such approval being given. Accordingly, a General Meeting is being convened on 2 July 2014 at 9.30 a.m. at which the Resolution approving the Acquisition will be proposed.

The Board considers that the Acquisition is in the best interests of Cobham and its Shareholders as a whole and recommends that Shareholders vote in favour of the Resolution.

I am writing to you to give you details of the Acquisition, including the background to and reasons for it, to explain why the Board considers the Acquisition to be in the best interests of Cobham and to seek your approval of the Resolution.

[1] Conversions from US$ to £ in this document are at an exchange rate of US$1.68:£1 being the rate of exchange as at 19 May 2014.

2 Information on Aeroflex[2]

Founded in 1937, Aeroflex is a leading global provider of radio frequency (**RF**) and microwave integrated circuits, components and systems used in the design, development and maintenance of technically demanding, high-performance wireless communication systems. The business has approximately 2,600 employees in around 20 locations, including approximately 650 engineers. In its last two full financial years, it has invested between 13 per cent. and 14 per cent. of its revenue in Private Venture (**PV**) or company – funded Research & Development investment, which has enabled it to launch a number of new and innovative technologies across its businesses, which have good potential for future revenue growth.

Approximately 70 per cent. of Aeroflex's business is focused on high growth commercial segments. Aeroflex's revenue by customer geography in the year ended 30 June 2013 was approximately 55 per cent. from the United States, 20 per cent. from Europe and the Middle East, 21 per cent. from Asia and Australia and 4 per cent. from other regions.

Aeroflex has long standing customer relationships and the Acquisition is expected to enhance Cobham's position with commercially orientated companies such as Alcatel Lucent, Cisco Systems, Ericsson, Motorola, Nokia and Philips. The Acquisition is also expected to strengthen the existing Cobham relationships with leading aerospace companies such as Boeing, Honeywell, Lockheed Martin, Northrop Grumman and Raytheon. No individual Aeroflex customer accounted for more than approximately six per cent. of revenue in the year ended 30 June 2013.

Aeroflex operates through two principal business segments: Aeroflex Microelectronic Solutions and Aeroflex Test Solutions.

(a) Aeroflex Microelectronic Solutions (**Microelectronic Solutions**)

Microelectronic Solutions offers a broad range of microelectronics products and is a leading provider of high-performance, high reliability specialty products (including radiation-hardened or "RadHard" products) for the commercial wireless communications, space, aerospace, defence, medical and other industries.

Microelectronic Solutions is headquartered in Plainview, New York. It operates 11 primary manufacturing facilities and has a workforce of approximately 1,600 employees. Revenue for the year ended 30 June 2013 was US$360.8 million (approximately 57 per cent. of total Aeroflex revenue). Microelectronic Solutions operates through three key business lines:

- Hi-Rel Microelectronics – microelectronics and semiconductors for space, medical, aerospace and defence

A leading provider of high reliability standard and custom integrated circuits and circuit cards that are designed to operate in harsh environments, processing analogue and digital signals to enable personal and machine communications. Primary sectors include space, medical, aerospace and defence. It accounted for approximately 54 per cent. of Microelectronic Solutions revenue in the year ended 30 June 2013.

- RF & Microwave (**RFMW**) – microwave and radio frequency products for wireless, space, avionics and defence

A leading provider of specialised passive and active microwave components, semiconductor modules and integrated microwave assemblies, used in a range of signal emitting devices such as radar systems and wireless testing devices. Its primary sectors include wireless, defence, avionics, and space. This business accounted for approximately 39 per cent. of Microelectronic Solutions revenue in the year ended 30 June 2013.

- Motion Controls – motion enhancing products for space, defence and energy

A leading provider of a range of integrated motion control solutions including slip rings, DC motors, gimbals, actuators and controllers. Typical applications include military turrets, fire control systems, missile guidance systems, radar pedestals and inertial navigation systems. It accounted for approximately 7 per cent. of Microelectronic Solutions revenue in the year ended 30 June 2013.

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[2] Aeroflex financial information in this Part 2 for years ended 30 June 2012 and 2013 has been adjusted to exclude ATES, which was disposed of in September 2013. These adjustments have been made on the basis of unaudited Aeroflex financial records for the years ended 30 June 2012 and 2013, as follows: (a) Reported revenue of US$673.0 million and US$647.1 million adjusted to deduct US$15.1 million and US$15.7 million respectively; (b) Adjusted operating income of US$101.1 million and US$103.8 million adjusted to add back/(deduct) US$2.1 million and US$(0.1) million respectively; (c) Adjusted EBITDA of US$131.5 million and US$129.7 million adjusted to add back/(deduct) US$(1.8) million and US$(2.9) million.

Aeroflex's Microelectronic Solutions revenue by end segment in the year ended 30 June 2013 was approximately 47 per cent. from defence and government, 24 per cent. from commercial space, 17 per cent. from medical and energy and 12 per cent. from commercial communications.

(b) Aeroflex Test Solutions (**Test Solutions**)

Test Solutions is a leading provider of a broad line of specialised test and measurement hardware and software products, primarily for commercial wireless communications and space, avionics and defence applications.

Test Solutions operates four primary manufacturing facilities and has a workforce of approximately 1,000 employees. Revenue for the year ended 30 June 2013 was US$270.6 million (approximately 43 per cent. of total Aeroflex revenue).

Test Solutions operates through two key business lines:

- Wireless (Stevenage, UK) – wireless infrastructure and handset testing

A leading provider of specialised mobile and wireless test equipment used to develop and test wireless base stations. Test Solutions has leading capabilities in the main 4G standard, Long Term Evolution (**LTE**) and the subsequent protocol Long Term Evolution Advanced (**LTE(A)**). It accounted for approximately 57 per cent. of Test Solutions revenue in the year ended 30 June 2013.

- AvComm (Wichita, Kansas) – aircraft avionics and mobile radio testing

A leading provider of military radio and private mobile radio (**PMR**) test equipment used by radio manufacturers, military, police, fire, and emergency response units to test handheld radios; avionics test equipment used in the design, manufacture and maintenance of electronics systems for aircraft; synthetic test equipment used to test satellites and transmit/receive modules prior to launch and deployment; and general purpose test equipment, including spectrum analysers and signal generators. It accounted for approximately 43 per cent. of Test Solutions revenue in the year ended 30 June 2013.

Aeroflex's Test Solutions revenue by end segment in the year ended 30 June 2013 was approximately 65 per cent. from commercial communications, 18 per cent. from commercial avionics, 10 per cent. from defence and government and 7 per cent. from other segments. Approximately 30 per cent. of Test Solutions' revenue for the year ended 30 June 2013 derived from Asia and the Directors consider that the Acquisition would be an important step for Cobham into Asian markets.

Financial Statements	*(US$, in millions, except percentages)*		
	Year ended 30 June 12	**Year ended 30 June 13**	**Nine months to 31 Mar 14**
Total Revenue[3]	657.9	631.4	439.3
Adjusted EBITDA	129.7	126.8	78.5
Adjusted EBITDA margin	*19.7%*	*20.1%*	*17.9%*
Adjusted operating income	103.2	103.7	58.6
Adjusted operating income margin	*15.7%*	*16.4%*	*13.3%*
Total assets[4]	1,189.8	1,029.0	1,037.8
Total liabilities	863.0	806.5	781.6
Total equity	326.8	222.5	256.3

Reported revenue and loss before tax from Aeroflex's audited US GAAP Consolidated Financial Statements for the year ended 30 June 2013 were US$647.1 million and US$115.3 million, respectively, following an impairment charge of US$95.5 million recorded by Aeroflex in the year ended 30 June 2013.[3]

Following a number of years of revenue growth, Aeroflex has more recently experienced challenging conditions, in part due to a delay in the roll-out of the 4G wireless protocol, as well as the effects of the recession in Europe and constrained US government spending. In response to this, Aeroflex has implemented an internal business restructuring, primarily within the Test Solutions AvComm and Wireless businesses, to adjust its cost base and it has refocused its wireless strategy towards infrastructure testing.

[3] Per the audited US GAAP Consolidated Financial Statements for the years ended 30 June 2012 and 2013 and unaudited US GAAP Consolidated Financial Statements for the nine months ended 31 March 2014, adjusted for certain non-cash, non-recurring and other items. Financial information for the years ended 30 June 2012 and 2013 has also been adjusted for the disposal of the ATES business in September 2013.

[4] Per the audited US GAAP Consolidated Financial Statements for the year ended 30 June 2012 and 2013 and unaudited US GAAP Consolidated Financial Statements for the nine months ended 31 March 2014.

Throughout this period it has made significant and targeted investments in its product pipeline, to position itself to realise potentially substantial benefits from the strong growth anticipated in key commercial applications.

Aeroflex is also successfully leveraging its leading edge radiation-hardened technology into new and exciting commercial applications, such as medical, mining and oil and gas. It is increasing the value of its content on satellites, in part due to the development of smaller and lighter products, affording its customers the potential for significant operational benefits. In addition, its wireless testing business is operating in encouraging conditions, particularly in the Asia-Pacific region, with the expected roll-out of 5G (or LTE(A)) technology. Longer term trends in this area are underpinned by demand for wireless infrastructure which is, in turn, driven by the increasing number and proliferation of personal mobile devices and by increasing machine-to-machine communications.

The business has performed in line with financial market expectations, as evidenced in Aeroflex's most recent earnings results announced on 7 May 2014, with adjusted EBITDA up 13.0 per cent. for the three months to 31 March 2014 versus the equivalent prior year period, and up 2.5 per cent for the nine months to 31 March 2014 versus the equivalent prior year period and a book to bill ratio above 1:1 for the nine months to 31 March 2014. Aeroflex has experienced positive margin impact in part from its restructurings and there has been strong growth in commercial markets in which it operates, notably commercial wireless and medical.

Market consensus estimates for Aeroflex are for a year-on-year increase in revenue of approximately three per cent in calendar year 2014 and for an increase of approximately five per cent in the second half of the calendar year.

3. Background to and reasons for the Acquisition

The Board believes the Acquisition represents a significant development in Cobham's objective to create shareholder value by delivering sustainable top and bottom line growth, while generating good free cash flow for the following reasons:

(a) *Acquisition of Aeroflex meets Cobham's strategic growth objectives*

Cobham specialises in meeting the growing demand for data, connectivity and bandwidth across commercial, defence and security markets. Offering a technically diverse and innovative range of technologies and services to solve challenging problems in harsh environments, the Cobham Group protects lives and livelihoods, responding to customer needs with agility.

The Cobham Group's strategy is to leverage its innovative technology, know-how and understanding of customer requirements to build and maintain leading positions in the second and third tiers of the global defence/security and commercial aerospace, marine and land segments. Cobham identifies adjacent areas where its technology and know-how can be leveraged to meet the needs of new segments and customers to secure sustainable, long term positions and additional growth. In addition, it acquires businesses that are complementary to, and reinforces, its differentiated technology and know-how. It has a rigorous and disciplined approach to acquisition investment with a focus on increasing its exposure to growing commercial segments, which will help it bring more balance to its portfolio.

In this context, recent acquisitions have seen Cobham develop leading positions in the satellite communications (**SATCOM**), wireless and cellular segments through the acquisitions of Thrane & Thrane in 2012 and Axell Wireless in 2013.

Cobham's objective is to grow its global positions as well as to deliver sustainable top and bottom line growth, relative to the sectors in which it operates, while consistently generating good free cash flow. In this way it creates value for Cobham shareholders. Cobham aims to achieve this strategy by creating and growing a balanced portfolio of businesses that:

- Offers technically differentiated products and services that are critical, complex and often bespoke;
- Provides exposure to high growth connectivity segments;
- Provides a business platform from which to develop new and differentiated products and applications that meet customer needs;
- Supports sustainable top and bottom line growth, with good free cash flow characteristics;

- Provides the opportunity for significant value creation through growth and business combination benefits.

The Board believes that the acquisition of Aeroflex meets all of these objectives and provides a compelling strategic fit with Cobham by virtue of its strong technology and commercial business orientation, diversified sales mix and business exposure, highly skilled workforce and geographical footprint in the UK and US.

(b) ***Aeroflex possesses complementary capabilities and characteristics to Cobham***

Aeroflex's business platform is complementary to and has characteristics aligned with Cobham's existing businesses:

- *Long life cycle products*: develops products collaboratively with clients over multi-year product life cycles;
- *Attractive technology*: serves key segments in commercial space and avionics, defence and medical;
- *Substantial investments in PV*: enables new product development, often bringing operational benefits to customers;
- *High degree of customer retention and strong positions*: is on priority US space and defence programmes with approximately 80 per cent. of revenue derived from sole source or primary supplier contracts;
- *Technically demanding components and products*: enables connectivity across a spectrum of customer applications in critical and harsh environments;
- *Strong underlying operating margins and cash flow generation, comparable to the broader Cobham Group*: generates gross profit margins of approximately 50 per cent. and an adjusted EBITDA margin of approximately 20 per cent. with comparable operating cash conversion to Cobham.

(c) ***Aeroflex has complementary products, capabilities and customers in its Microelectronic Systems business***

- Active and passive microwave products;
- Motion control products, including slip rings and pedestals;
- Combination of component and subsystem expertise;
- Complementary government and commercial customers and sales channels;
- Similar style of competition.

(d) ***Aeroflex enhances Cobham's exposure to attractive commercial sectors through its strong industry positions and it strengthens key customer relationships in existing segments***

- Commercial space;
- Commercial wireless infrastructure;
- Commercial aviation;
- Other commercial segments including medical, energy, airport security and surveillance;
- In addition, a number of important aerospace and defence companies are key customers to both businesses, allowing the Enlarged Group to better fulfil the requirements of these customers.

Aeroflex's revenue by end segment in the year ended 30 June 2013 was approximately 36 per cent. from commercial communications, 30 per cent. from defence and government, 13 per cent. from medical and energy, 13 per cent. from commercial space and 8 per cent. commercial avionics.

The principal business sectors in which Aeroflex operates provide further access to high growth, ancillary opportunities and customers:

- The commercial satellite industry is set for long-term growth as the installed base requires replacement and upgrading, requirements for bandwidth increase being on a long term growth trend, and satellite service operators look to develop coverage across new geographies such as the Middle East and Africa;

- Strong demand from consumers for mobile data and connectivity is stimulating higher investment by wireless operators in upgraded infrastructure standards including the current build-out of 4G and the evolution of 5G;
- Stability of Aeroflex's positions on key, high-profile US space and defence programmes that remain relatively insulated from US Government budgetary pressure.

Aeroflex's revenue is approximately 70 per cent. commercial and 30 per cent. defence and government and the Acquisition would result in Cobham's commercial content increasing from 35 per cent. to 41 per cent. of the Enlarged Group's revenue. 100 per cent. of Aeroflex's revenue is derived from the connectivity space and, on a pro forma basis, the Acquisition would result in Cobham's connectivity portfolio increasing from 60 per cent. to 67 per cent. of the Enlarged Group's revenue[5].

(e) ***Aeroflex is expected to further underpin Cobham's growth profile***

Aeroflex has strong growth prospects. These will be enhanced by Cobham's solid financial position and proven commercial capabilities. Cobham has innovative technology and know-how supported by leading positions in attractive segments. As a result, the Cobham Board continues to anticipate that Cobham can deliver mid-single digit organic revenue growth from 2015. The acquisition of Aeroflex represents a significant development in this strategic growth objective, driven by its strong potential for growth, in part from its recent product innovations, which include:

- Development of new highly specialised electronics products for commercial/civil and military satellites;
- Expansion of its commercial products portfolio to include applications in high growth medical and industrial segments;
- Development of wireless test capabilities to address the accelerating global build-out of 4G infrastructure and the evolution of 5G;
- Increased outsourcing by original equipment manufacturers of the manufacture of electronics products;
- Opportunities for future selective acquisitions in fragmented sectors.

Aeroflex's exposure to high growth commercial segments and its revenue growth potential is therefore consistent with Cobham's growth targets.

(f) ***Acquisition of Aeroflex is expected to deliver highly attractive financial returns***

Cobham has undertaken detailed due diligence of Aeroflex over the last three months. This has included visits to all of Aeroflex's primary operating sites in the US and UK, as well as having access to senior line management from across the company. Cobham has determined that Aeroflex is currently structured as a holding company with a loosely integrated business portfolio. In this regard it is similar to Cobham prior to the implementation of Cobham's Excellence in Delivery (**EiD**) programme (which sought to maximise Cobham's operating performance). With the benefit of the knowledge obtained during its EiD process, Cobham has designed a comprehensive plan to integrate Aeroflex, which will be initiated upon completion of the transaction.

The plan anticipates the alignment of the Microelectronic Solutions business under Cobham's US Defence Electronics Sector, which will be renamed the Advanced Electronic Solutions Sector, to reflect the significant exposure to commercial activities that this Sector will now enjoy. The Testing Solutions segment will be aligned under Cobham's Communications and Connectivity sector.

The Directors believe that by leveraging Cobham's EiD expertise, the combination of cost savings and operational efficiency improvements which can be achieved from its focused integration plan can produce recurring annual synergies of approximately US$85 million (£50 million) when compared to the pro forma operational costs of the Enlarged Group of approximately US$3,178 million (£1,892 million). Achieving these synergies requires a total non-recurring investment of approximately US$215 million (£128 million). The focused integration plan will comprise facility consolidation, headcount reductions, operational efficiency improvements and other scale opportunities across the Enlarged Group.

Cost savings and operational efficiency improvements will come from:

- site optimisation (approximately 50 per cent. of total)

[5] Cobham's Communications and Connectivity sector was previously its Aerospace and Security division, as described in paragraph 4 of this Part 2. Cobham revised its sector allocations as announced in its Preliminary Results announcement on 6 March 2014.

- supply chain (approximately 25 per cent. of total)
- implementation of a Cobham Standard Operating Framework (approximately 15 per cent. of total)
- elimination of duplicate corporate overheads and public company costs (approximately 10 per cent. of total)

The majority of the integration plan is expected to be implemented in the first three years of ownership, with approximately 60 per cent. of the benefits achieved and 70 per cent. of the associated costs incurred during this period. This equates to approximately US$50 million (£30 million) of recurring annual synergies out of the expected total of approximately US$85 million (£50 million)) and approximately US$150 million (£90 million) of the total expected non-recurring investment deployed out of an expected total of approximately US$215 million (£128 million).

Cobham's EiD integration programme will simplify the operations of the Enlarged Group - improving quality, productivity and responsiveness. This will shorten manufacturing lead times and reduce working capital. The lead integration executive will report to Cobham's Chief Executive Officer. The integration team will comprise a mixture of Cobham and Aeroflex management. Implementation of this programme will comprise, among other things:

- Developing and rolling out a Standard Operating Framework - a set of standard, best practice processes and tools across the Enlarged Group;
- Implementing a new common Enterprise Resource Planning System across the Enlarged Group to support new processes and ways of working;
- Integrating product lines and production facilities within the Enlarged Group to reduce waste and build scale.

In the medium term, the Board also believes there is the potential for additional revenue benefits to be derived from cross-selling the complementary capabilities of Cobham and Aeroflex to their respective customers with opportunities to increase shipset values on major programmes.

The estimated financial benefits set out above are contingent on the Acquisition and could not be achieved independently. Such estimated financial benefits reflect both the beneficial elements and relevant costs.

4. Information on Cobham

The Cobham Group offers an innovative range of technologies and services to solve challenging problems across commercial, defence and security markets, from deep space to the depths of the ocean. It has market leading positions in air-to-air refuelling, aviation services, defence electronics, life support and mission equipment, and audio, video and data communications, including satellite communications. The Cobham Group operates in three end-markets:

- US defence and security
- Non-US defence and security
- Commercial: which comprises specialist aerospace, marine and land markets.

The Cobham Group has four operating and reporting sectors[(6)]:

- Aerospace and Security (to become Communications and Connectivity): providing aircraft and in-building communication equipment, law enforcement and national security monitoring solutions, and satellite communication equipment for land, sea and air applications. Revenue for the year ended 31 December 2013 was £653 million (approximately 37 per cent. of total Cobham revenue). The Acquisition would result in revenue of £814 million on a pro forma basis (approximately 37 per cent. of total Enlarged Group revenue).
- Defence Electronics (to become Advanced Electronic Solutions): providing critical technology for network centric operations, moving information around the digital battlefield with customised and off-the-shelf solutions for people and systems to communicate on land, sea and air. Revenue for the year ended 31 December 2013 was £411 million (approximately 23 per cent. of total Cobham revenue). The Acquisition would result in revenue of £626 million on a pro forma basis (approximately 29 per cent. of the total Enlarged Group revenue).

[(6)] The revenue figures above have been re-presented since publication of Cobham's 2013 Annual Report and Accounts to show the revised sector allocations as announced in Cobham's Preliminary Results announcement on 6 March 2014.

- Mission Systems: providing safety and survival systems for extreme environments, nose-to-tail refuelling systems and wing-tip to wing-tip mission systems for fast jets, transport aircraft and rotorcraft, and provides remote controlled robots and fully equipped bomb disposal vehicles for homeland security and military applications. Revenue for the year ended 31 December 2013 was £358 million (approximately 20 per cent. of total Cobham revenue). Revenue would remain the same as a result of the Acquisition on a pro forma basis (approximately 17 per cent. of total Enlarged Group revenue).
- Aviation Services: delivering outsourced aviation services for military and civil customers worldwide through military training, special mission flight operations, outsourced commercial aviation and aircraft engineering. Revenue for the year ended 31 December 2013 was £365 million (approximately 20 per cent. of total Cobham revenue). Revenue would remain the same as a result of the Acquisition on a pro forma basis (approximately 17 per cent. of the total Enlarged Group revenue).

The Cobham Group operates from 14 principal manufacturing locations, with nine in the US, three in the UK and two in continental Europe, as well as satellite locations and sales offices across the world that provide a permanent presence in faster growth markets. In addition, the Cobham Group's Aviation Services sector operates from airport bases in Australia, the UK and elsewhere in the world.

Cobham seeks to acquire businesses that are complementary to, and reinforce, its differentiated technology and know-how and market positions. During the year ending 31 December 2013, the Cobham Group invested over £150 million in acquisitions: primarily Axell Wireless in May 2013 for up to £85 million (including contingent consideration) and in July 2013 the £74 million acquisition of the outstanding 50 per cent. stake in FB Heliservices, its helicopter joint venture.

5. Principal terms of the Acquisition

On 19 May 2014, Cobham, Army Acquisition Corp. (**Merger Sub**) (a wholly-owned subsidiary of Cobham) and Aeroflex entered into the Merger Agreement in respect of the Acquisition, pursuant to which Cobham has agreed to acquire Aeroflex by way of merger of Merger Sub with and into Aeroflex with Aeroflex continuing its existence as the surviving entity (as a result of which each issued and outstanding share of common stock of Aeroflex will be converted into the right to receive US$10.50 in cash without interest). On completion of the Acquisition, Aeroflex will become one of Cobham's wholly-owned subsidiaries. On a pro forma basis, Aeroflex will comprise approximately 17 per cent. of the Enlarged Group's consolidated revenue.

Based on the total issued and outstanding shares of common stock of Aeroflex as at 20 May 2014 and the total outstanding restricted stock units and performance restricted stock units as at 20 May 2014, the total consideration payable by Cobham to Aeroflex shareholders will be approximately US$1,460 (£869 million). This represents an enterprise value of US$920 million (£548 million) based on Aeroflex's net debt of US$540 million (£321 million) as at 31 March 2014. Cobham is paying approximately 10.5x adjusted Earnings Before Interest, Taxation, Depreciation and Amortisation (**EBITDA**) market consensus estimates for the year ended 31 December 2014. The Board expects to incur expenses of approximately £35.7 million in connection with the Acquisition.

The Merger Agreement contains various representations and warranties customary for a US acquisition of the size and nature of the Acquisition. The representations and warranties from Aeroflex to Cobham cover, amongst other things, the organisation and capital structure of Aeroflex and the Aeroflex Group, the due and valid execution of the Merger Agreement, making and obtaining of necessary government filings and consents, Aeroflex's reports under US securities laws and financial statements, litigation and compliance with laws, employee and labour matters, taxes, environmental and real estate matters, material contracts, intellectual property, affiliate transactions and the absence of certain events and liabilities. The representations and warranties from Cobham to Aeroflex cover, amongst other things, the organisation of Cobham, the due and valid execution of the Merger Agreement and making and obtaining of necessary government filings and consents.

Completion of the Merger Agreement is conditional upon, amongst other things, the fulfilment (or, where applicable, waiver) of the conditions set out in the Merger Agreement, which include, among other things:

(i) the approval of the Acquisition by Shareholders at the General Meeting;

(ii) the adoption of the Merger Agreement by Aeroflex Shareholders;

(iii) expiry or termination of the applicable waiting period under the HSR Act and receipt of approval by the German Federal Cartel Office or expiration of any applicable waiting period pursuant to the applicable provisions of the Act against Restraints of Competition (the **German Antitrust Approval**);

(iv) the completion of the review process of the Committee on Foreign Investment in the United States (**CFIUS**) and the Defence Security Service (**DSS**) in accordance with the Merger Agreement;

(v) the absence of any governmental order restraining, enjoining or prohibiting the Acquisition;

(vi) the representations and warranties provided by each of the parties being true and correct subject to certain qualifications in accordance with the Merger Agreement; and

(vii) the performance and compliance by the parties in all material respects of their respective covenants, agreements and obligations contained in the Merger Agreement to be performed on or before completion of the Merger Agreement.

The Merger Agreement does not include a financing condition to completion.

Subject to the terms and conditions set out in the Merger Agreement, Cobham and Aeroflex have agreed to cooperate with each other and use their reasonable best efforts to do all things reasonably necessary, proper or advisable on their respective parts under the Merger Agreement and applicable laws to complete the Acquisition as soon as reasonably practicable. There can, however, be no assurance as to the timing of the waiting period under the HSR Act, the German Antitrust Approval, the CFIUS and DSS review processes or other necessary regulatory clearance processes or that such clearances will not be subject to conditions, including the giving of certain undertakings by Cobham, to the extent required by the Merger Agreement.

Under the Merger Agreement and in connection with antitrust approvals, Cobham is not required to commit to any such undertaking to the extent that it (a) would be reasonably likely to be materially adverse to the business, financial condition, or prospects of the Aeroflex Group, taken as a whole, or (b) would be likely to materially impair the expected benefits of the transactions contemplated to Cobham.

In connection with the CFIUS and DSS review processes, Cobham is (subject to specific exemptions) not required to accept any mitigation measure that would require (a) altering the composition of the Board of Directors of Cobham Defense Systems, Inc. or (b) a proxy agreement or voting trust agreement.

The Merger Agreement also contains various other covenants customary for a US acquisition of the size and nature of the Acquisition. Such covenants include restrictions on Aeroflex's business operations between the signing of the Merger Agreement and the completion of the Acquisition, and restrictions on Aeroflex's ability to solicit Alternative Offers (as to which, see paragraph 2.5 of Part 4 of this document).

Either Cobham or Aeroflex may terminate the Merger Agreement if, amongst other things, the Acquisition has not completed on or before 30 September 2014. However, either Cobham or Aeroflex may elect to extend such date until 31 December 2014 in certain circumstances.

The Merger Agreement further provides for the payment of certain fees and expenses by Aeroflex and Cobham to each other in certain circumstances in the event that the Acquisition should not be completed, including: (a) a break fee of US$32 million payable by Aeroflex to Cobham in certain circumstances, including: (i) if Aeroflex enters into an agreement with respect to an Alternative Offer; or (ii) if the Board of Directors of Aeroflex withdraws or modifies, in a manner adverse to Cobham, its recommendation to Aeroflex Shareholders with respect to the Acquisition; (b) expenses up to US$5 million payable by Aeroflex to Cobham if Aeroflex Shareholders do not approve the Acquisition; (c) a break fee of US$20 million payable by Cobham to Aeroflex if the Board of Directors of Cobham withdraws or modifies, in a manner adverse to Aeroflex, its recommendation to Shareholders with respect to the Acquisition; and (d) a break fee of US$5 million payable by Cobham to Aeroflex if the Shareholders do not approve the Acquisition.

Further details of the Merger Agreement are set out in Part 4 of this document.

Concurrently with the execution of the Merger Agreement, VGG Holding LLC (**VGG**), the largest holder of Aeroflex common stock, and certain significant equityholders of VGG, entered into a Support Agreement, dated as of 19 May 2014, with Cobham and Merger Sub (the **Support Agreement**). Pursuant to, and subject to the terms of, the Support Agreement, VGG committed, among other things, to vote all of the shares of Aeroflex common stock held by it (representing in the aggregate approximately 76.28 per cent. of the outstanding voting power in Aeroflex) for the adoption of the Merger Agreement. The Support Agreement terminates automatically upon the termination of the Merger Agreement.

6. Principal terms of the Financing

Cobham proposes to finance the Acquisition, which includes the refinancing of existing debt facilities of Aeroflex, through bank facilities and the proceeds of a placing of 60 million new Cobham Shares raising gross proceeds of approximately £180 million, and representing approximately 5.6 per cent. of Cobham's

issued ordinary share capital before the placing (the **Placing**). Closing of the Placing and admission of the Placing Shares to the Official List of the FCA and to trading on the main market of the London Stock Exchange took place on 23 May 2014. In the event that the Acquisition does not take place, the Directors currently intend, and will consider how best to, return placing proceeds to Shareholders. Such a return will incur costs on the part of Cobham, would be subject to applicable securities laws, and could carry financial costs or adverse tax implications for certain Shareholders.

Cobham has agreed a US$1,300 million senior unsecured bridge loan facility (the **Facility**) from Bank of America Merrill Lynch International Limited and The Royal Bank of Scotland plc (collectively, the **Lenders**). The Facility will be made available to Cobham following the satisfaction of certain conditions precedent for the purpose of partially financing Cobham's payment obligations under the Merger Agreement and repayment of certain financial indebtedness of Aeroflex and its subsidiaries. As a result, up to the full amount of the Facility is expected to be funded to complete the Acquisition.

The Facility has an original maturity date of 20 May 2015, with Cobham having the option to extend up to the full amount of the Facility twice, each for a period of six months. The Facility can be repaid prior to maturity. The Facility shall bear interest at the rate of LIBOR plus a margin. All interest and fees payable by Cobham to the Lenders under the Facility will be payable in US Dollars.

The Facility contains provisions requiring mandatory prepayment from disposal proceeds and the proceeds of new financings subject to certain carve-outs, with the terms and conditions otherwise being substantially similar to Cobham's existing US$360 million revolving credit facility dated 11 October 2011 and amended on 3 September 2012 and 6 June 2013.

7. Dividend policy of the Enlarged Group[7]

Cobham has a long standing progressive dividend policy, with the full year dividend being increased by 10 per cent per annum over a number of years. The Board anticipates that the Acquisition will result in significant earnings accretion and enhanced cash generation for the Enlarged Group. Consequently, Cobham intends to continue this policy, including an increase of 10 per cent. in the Cobham Group's full year dividend for 2014, subject to there being no significant change to underlying market conditions for the Enlarged Group.

8. Current trading, prospects and trend information

(a) Cobham

On 24 April 2014, Cobham announced its interim management statement outlining its trading performance in the first three months of the year, which it stated had been in line with the Board's expectations. Since that date, the Cobham Group's trading performance continues to be in line with the Board's expectations. Cobham continues to plan for organic revenue to decline by low-to-mid single digits in 2014. It will continue to take further actions, as appropriate, to substantially mitigate the impact of this organic decline.

Cobham has innovative technology and know-how supported by leading positions in attractive end-markets. As a result, the Board continues to anticipate that Cobham can deliver mid-single digit organic revenue growth from 2015.

(b) Aeroflex

Aeroflex's announcement of its third quarter fiscal 2014 results published on 7 May 2014 contained a profit forecast as defined by the Listing Rules. Further detail on Aeroflex's announcement and this profit forecast is set out in paragraph 15 of Part 6 of this document.

9. Management and employees

Cobham attaches great importance to the skills and experience of the existing management and employees of Aeroflex, who are expected to contribute to the success of the Enlarged Group. Cobham anticipates that following completion of the Acquisition, engagement of key members of the Aeroflex senior management team will be important to the successful integration of Aeroflex into Cobham ownership.

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[7] Neither this statement nor any other statement in this document are intended to be a profit forecast in relation to Cobham and should not be interpreted to mean that earnings per Cobham share for the current or future financial years would necessarily match or exceed the historical published earnings per Cobham share.

10. Financial effects of the Acquisition

The Acquisition is expected to complete late in the third calendar quarter 2014 and will be significantly accretive to Cobham's underlying earnings per share in 2015 and, assuming completion occurs when expected, to have a broadly neutral impact on underlying earnings in the current year. Expected returns are expected to beat Cobham's cost of capital in the third full year of ownership. Cobham expects the ratio of Net Debt/EBITDA of the Enlarged Group at closing to be approximately 2.5x. The Board expects the Enlarged Group to remain highly cash generative with a strong deleveraging profile.

11. General Meeting

You will find set out at the end of this document a Notice of General Meeting convening a General Meeting to be held on 2 July 2014 at 9.30 a.m. at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD.

At the General Meeting the Resolution will be proposed to approve the Acquisition. If passed, the Resolution will authorise the Acquisition, substantially on the terms and subject to the conditions summarised in Part 4 of this document.

The full text of the Resolution is included in the Notice of General Meeting, which is set out in Part 8 of this document.

12. Risk Factors

For a discussion of the risks and uncertainties which you should take into account when considering whether to vote in favour of the Resolution, please refer to Part 3 of this document.

13. Action to be taken

You will find enclosed with this document a Form of Proxy for use at the General Meeting. **Whether or not you intend to be present at the General Meeting in person, it is important that you complete and return the Form of Proxy in accordance with the instructions printed on it to Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom, so as to arrive no later than 9.30 a.m. on 30 June 2014.** Completion and return of the Form of Proxy will not preclude you from attending the General Meeting in person, if you so wish and are entitled.

You may also submit your proxies electronically using your investor code detailed on the Form of Proxy. If you hold shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to CREST ID RA19 so that it is received by no later than 9.30 a.m. on 30 June 2014.

14. Further information

Your attention is drawn to the further information set out in Part 6 of this document. **Shareholders should read the whole of this document and not just rely on the summarised information set out in this letter.**

15. Recommendation

The Board considers that the Acquisition and the Resolution are in the best interests of the Shareholders as a whole. Accordingly, the Board recommends that Shareholders vote in favour of the Resolution to be put to the General Meeting, as all Directors intend to do in relation to their own beneficial shareholdings, which in aggregate amount to 194,953 Ordinary Shares, representing approximately 0.017 per cent. of the total number of voting rights in the Company as at the Effective Date.

Due to his role as a director of Aeroflex, Mark Ronald has not participated in any discussions, or the review of any documents, relating to the Acquisition and has recused himself from all Board meetings at which the Acquisition was discussed and approved. Mark Ronald has informed the Board that due to his role as a director of Cobham, that he has also not participated in any discussions, or the review of any documents, at Aeroflex relating to the Acquisition and has recused himself from all Aeroflex board meetings at which the Acquisition was discussed and approved.

The Board has received financial advice from BofA Merrill Lynch in relation to the Acquisition. In providing its financial advice to the Board, BofA Merrill Lynch has taken into account the commercial assessment of the Board.

Yours faithfully,
for and on behalf of Cobham plc

John Devaney
Chairman

PART 3

RISK FACTORS

All the information set out in this document should be carefully considered and, in particular, those risks described below. If any or a combination of the following risks actually materialise, the business, results of operations, financial condition or prospects of the Enlarged Group could be materially and adversely affected to the detriment of the Cobham Group, the Aeroflex Group, the Enlarged Group and the Shareholders and in such case the market price of Cobham Shares could decline and you may lose all or part of your investment. The risks which the Directors consider to be material as at the date of this document are set out in this Part 3. The risks described below are based on information known at the date of this document. Further risks and uncertainties which are not presently known to the Directors, or that the Directors currently deem immaterial, may also have a material effect on the Cobham Group's, the Aeroflex Group's and the Enlarged Group's business, financial condition, operating results or prospects. In such case, the market price of Cobham Shares could decline and you may lose all or part of your investment.

1. RISKS RELATING TO THE ACQUISITION

Completion of the Acquisition is conditional and the conditions may not be satisfied

Completion of the Acquisition is conditional upon the satisfaction of certain conditions including, amongst other things, (i) approval of the Acquisition by the Shareholders at the General Meeting, (ii) adoption of the Merger Agreement by the Aeroflex Shareholders, (iii) all relevant regulatory filings having been made and applicable waiting periods having expired, terminated or been waived pursuant to the HSR Act and the German Antitrust Approval and (iv) the completion of the CFIUS and DSS review processes in accordance with the terms of the Merger Agreement.

There can be no assurance as to the timing of the waiting period under the HSR Act and the German Antitrust Approval, the CFIUS and DSS review processes, or other necessary regulatory clearance processes, or that such clearances will not be subject to conditions, requirements, limitations or costs, including the giving of certain undertakings by Cobham, to the extent required by the Merger Agreement. These regulatory conditions, requirements, limitations, costs or undertakings could jeopardise or delay the consummation of the Acquisition or may reduce the anticipated benefits of the proposed acquisition of Aeroflex to the Enlarged Group. Further details in relation to the Acquisition conditions are set out in Part 4 of this document.

There can be no assurance that these conditions will be satisfied (or waived, if applicable). If these conditions are not satisfied or waived, the Acquisition will not take effect, either at all or in the manner currently envisaged.

Delay between signing and completion

During the period to completion of the Acquisition, events or developments may occur which could make the terms of the Merger Agreement less attractive for Cobham and this may have an adverse effect on the business, financial condition or results of the Enlarged Group, and any delay in completion could result in additional transaction costs.

Appraisal Rights under Delaware Law

Under Delaware law, Aeroflex Shareholders who do not vote in favour of adoption of the Merger Agreement and otherwise properly perfect their rights will be entitled to exercise "appraisal rights" in connection with the Acquisition. The appraised value would be determined by the Court of Chancery of the State of Delaware. The appraised value could be more than, the same as, or less than the consideration under the Merger Agreement of US$10.50 per share. Under Delaware law, shareholders are generally entitled to statutory interest on an appraisal award at a rate equal to 5 per cent. above the Federal Reserve discount rate compounded quarterly from the closing date of the Acquisition until the award is actually paid. As Aeroflex would be a wholly owned subsidiary of Cobham after the completion of the Acquisition, Cobham may be responsible for any such appraisal award and interest, as well as legal costs associated with any appraisal process or settlement thereof. Shareholders who have properly perfected their rights must file a petition for appraisal with the Court within 120 days after the Effective Date. Once filed, Cobham cannot predict how long the appraisal process or settlement thereof will take as such process depends on, among other things, the related discovery process, the case calendar of the Court and, if applicable, the negotiation of a

settlement between the parties. Such process could be resolved within months after completion of the Acquisition or could take years to complete should the process be resolved through trial. Under the Support Agreement, VGG, which holds Shares representing approximately 76.28 per cent. of the share capital of Aeroflex, agreed not to exercise or assert any rights of appraisal under Delaware law. Should a material number of the remaining shareholders (comprising up to 23.72 per cent. of the share capital of Aeroflex) exercise appraisal rights and should the Court determine that the fair value of each Aeroflex share as to which appraisal rights have been exercised is materially greater than the merger consideration of US$10.50 per share, it could have a material adverse effect on the financial condition and results of operations of the Enlarged Group, however, in light of the fact that the shareholders comprising only 23.72 per cent. of the share capital of Aeroflex may exercise such rights, such a material adverse effect is unlikely.

Cobham may not achieve the cost synergies and operational efficiency improvements that it anticipates

The Enlarged Group may fail to achieve the cost synergies and operational efficiency improvements that Cobham anticipates achieving from the Acquisition. In particular, the Enlarged Group's ability to successfully realise cost synergies and operational efficiency improvements and the timing of this realisation may be affected by a variety of factors, including but not limited to:

- its broad geographic areas of operations and the resulting potential complexity of integrating Cobham's and Aeroflex's operations;
- the technical challenges associated with the combination of Aeroflex's technologies with Cobham's own technologies; and
- unforeseeable events, including major changes in the industries in which Cobham and Aeroflex operate.

If the cost synergies and operational efficiency improvements that Cobham expects are not realised or are delayed, the Enlarged Group's results of operations and the market price of Cobham Shares would be adversely affected.

If the Acquisition completes, the integration of Aeroflex could result in operating difficulties and other adverse consequences

If the Acquisition completes, the process of integrating Aeroflex may create unforeseen operating difficulties and expenditures and pose management, administrative and financial challenges. The integration of Aeroflex may require significant time and effort on the part of Cobham and the Enlarged Group, and resources may be diverted away from core business activities as personnel may be required to assist in the integration process. This integration process may take longer than expected, or difficulties relating to the integration, of which the Cobham Directors are not yet aware, may arise. These difficulties may include the discovery of potential liabilities, or other problems arising from the contracts and other assets related to Aeroflex acquired by Cobham, which were not apparent to Cobham from its legal, commercial and financial due diligence. This could have an adverse effect on the Enlarged Group's financial condition, results and operations.

Cobham may need to rely on certain key individuals of the Enlarged Group to integrate Aeroflex

The future success of the Enlarged Group will, in part, be dependent upon the successful integration, retention and motivation of key members of the Enlarged Group's management and staff. Failure to retain certain individuals following the Acquisition may affect Cobham's ability to successfully integrate Aeroflex into the Enlarged Group. This may have a detrimental effect on the future performance of the Enlarged Group.

Aeroflex may not perform in line with expectations

If the results and cash flows generated by the combination of the operations of Aeroflex with those of the Cobham Group are not in line with the Directors' expectations, a write-down may be required against the carrying value of the Cobham Group's investment in Aeroflex. Such a write-down may reduce the Enlarged Group's ability to generate distributable reserves and consequently affect its ability to pay dividends or return capital to Shareholders.

2. RISKS RELATING TO THE ENLARGED GROUP

Deterioration in the macroeconomic environment and cyclicality of end user markets

The Cobham Group's and the Aeroflex Group's revenue is and, following the Acquisition, the Enlarged Group's revenue will be, derived from global defence and security and commercial sectors. The level and type of spending in such sectors is dependent on a complex mix of macroeconomic, fiscal and strategic defence and security imperatives. Changes in government spending could lead to programme terminations or delays, or changes in sector growth. Deterioration in demand affecting short cycle business or a fundamental shift in how customers procure products or services could also have an adverse effect on the Enlarged Group's future results.

In addition, many of the sectors that the Enlarged Group will serve, including defence and commercial, have historically been cyclical and have experienced periodic downturns. The factors leading to and the severity and length of a downturn are difficult to predict and there can be no assurance that the Enlarged Group will appropriately anticipate changes in these underlying end-markets, or that any increased levels of business activity would continue as a trend into the future. If the Enlarged Group does not anticipate changes in the end-market in which it serves, its business, results of operations and financial condition could be materially adversely affected.

Risks associated with products and services provided by the Enlarged Group

The Cobham Group, the Aeroflex Group and, following the Acquisition, the Enlarged Group, designs, develops and delivers products and services that are often customised, utilising complex technologies, under fixed price contracts that are sometimes long term in nature. This gives rise to the risks of failure to execute the contract profitably, the supply of a defective or delayed product, the incurrence of other contractually related liabilities, or damage to reputation and commercial relationships.

In addition, the future success of the Enlarged Group is dependent on the timely development and introduction of competitive new products at acceptable margins; this carries design and operational risks. Delays in commencing or maintaining volume shipments of new products, the discovery of product, process, software, or programming defects or failures and any related product returns could each have a material adverse effect on the business, financial condition and results of operation of the Enlarged Group.

Failure to execute or deliver a contract gives rise to increased programme costs, contract penalties, litigation and other financial liabilities, reduced future profitability and reputational risk. The Enlarged Group may not be able to anticipate all of the possible performance or reliability problems that could arise with its new or existing products, which could result in significant product liability or warranty claims. Any defects found in the products could result in a loss of sales or market share, failure to achieve market acceptance, damage to reputation, indemnification claims, litigation, increased insurance costs and increased service costs, any of which could also discourage customers from purchasing its products. Occurrence of any of the foregoing could have an adverse effect on the Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group's business, financial position and future operations.

Failure to comply with laws, regulations and restrictions

The Cobham Group, the Aeroflex Group and, on completion of the Acquisition, the Enlarged Group, operate in a highly regulated environment and are subject to the laws, regulations and restrictions of many jurisdictions, including those of the US, the UK and other countries. These include anti-bribery provisions, import and export controls, and government contracting rules. Sanctions for failure by the Cobham Group, the Aeroflex Group or the Enlarged Group, or its sales intermediaries, or others acting on their behalf to comply with these laws, regulations and restrictions could include fines, penalties, legal claims, suspension or debarment from future government contracts for a period of time, as well as having an impact on reputation. Such sanctions could have an impact on the Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group's business, financial position and future operations. New legislation, changes in existing legislation and/or regulatory or enforcement policies may also result in delays or additional costs or restrictions. The risks described in this paragraph are particularly relevant in the US, where a significant proportion of Aeroflex's revenues derive. Following completion of the Acquisition, the Enlarged Group's exposure to such risks is likely to be higher than that of the current Cobham Group. Cobham has policies and procedures in its Group Corporate Framework, which is regularly reviewed and audited, including procedures related to the use of sales and marketing representatives, anti-bribery and anti-corruption, gifts and hospitality, whistleblowing and investigation of ethics and compliance concerns. Mandatory training is also undertaken on a variety of compliance related subjects, including US Government contracting, anti-bribery and corruption.

Future operating results are dependent on the growth in customers' businesses and on the ability to identify and enter new markets

Aeroflex, Cobham and, following completion of the Acquisition, the Enlarged Group's, growth is dependent on the growth in the sales of its customers' products as well as the development by its customers of new products. If Aeroflex, Cobham and, following completion of the Acquisition, the Enlarged Group, fails to anticipate changes in its customers' businesses and their changing product needs or to successfully identify and enter new markets, its results of operations and financial position could be negatively impacted. It is not certain that the markets that Aeroflex, Cobham and, following completion of the Acquisition, the Enlarged Group, serves will grow in the future, that their existing and new products will meet the requirements of these markets or that they can maintain adequate gross margins or profits in these markets. A decline in demand in one or several of their end-user markets could have a material adverse impact on the demand for their products and have a material adverse effect on business, results of operations and financial condition of Aeroflex, Cobham and, following completion of the Acquisition, the Enlarged Group.

Cobham and Aeroflex operate in a highly competitive industry, and inability to successfully compete could result in loss of market share and decline in revenues

Cobham, Aeroflex and, following completion of the Acquisition, the Enlarged Group, operate in a highly competitive industry. Current and prospective customers for their products evaluate their capabilities against the merits of direct competitors. Cobham, Aeroflex and, following completion of the Acquisition, the Enlarged Group, compete primarily on the basis of technology and performance. For certain products, they also compete on price. There can be no assurance that Cobham, Aeroflex and, following completion of the Acquisition, the Enlarged Group, will be able to maintain their current market share with respect to any of their products. A loss of market share to competitors could have a material adverse effect on the business, results of operations and financial condition of Cobham, Aeroflex and, following completion of the Acquisition, the Enlarged Group.

Exchange rate fluctuations

Cobham's reporting currency is in Pounds Sterling and its principal foreign currency exposure relates to movements in the US dollar and Pounds Sterling exchange rate, due to its US operations, and US dollar denominated costs in the UK. This exposure can adversely affect profits, cash flows and balance sheet positions, such as net debt. Cobham implements policies to manage these exposures on an ongoing basis. The Acquisition will significantly increase the amount of Cobham's US Dollar earnings, cash flows and balance sheet values. While policies will be adjusted to take account of these increased exposures in the Enlarged Group, there can be no assurance that the financial performance and condition of the Enlarged Group will not be adversely affected by movements in the US Dollar/Pounds Sterling exchange rate.

Reliance on, and potential inability to attract, retain and develop highly skilled personnel

The success of the Cobham Group, the Aeroflex Group and, following Acquisition, the Enlarged Group's strategy is dependent on its ability to attract and retain talent and skills, including a qualified team of engineers and employees with managerial, technical, marketing and information technology support positions. Employee retention may be particularly challenging following acquisitions or divestures, such as the Acquisition, as the Enlarged Group must continue to motivate employees (of both the Cobham Group and the Aeroflex Group) and keep them focused on its strategies and goals, which may be particularly difficult due to potential distractions related to integrating the Aeroflex Group. Failure to retain or loss of all the skills necessary to execute on growth plans and deliver key customer programmes leads to reduced customer confidence and the Enlarged Group's business, results of operations and financial condition could be materially adversely affected.

Fluctuation of share price

Cobham's share price has fluctuated and may continue to fluctuate. The factors which may affect the Cobham's share price include but are not limited to:

- Cobham's expected and actual performance and the performance of the industries in which it operates;
- changes in government spending and the level of activity amongst its customers in the end-segments and geographies in which it operates;

- speculation regarding mergers or acquisitions involving, and/or major divestments by, Cobham or its competitors;
- future issues of Shares;
- announcements of changes in Cobham's credit rating.

Furthermore, Cobham's share price may fall in response to market appraisal of its current strategy or if the Cobham Group's operating results and/or prospects from time to time are below the prior expectations of market analysts and investors. In addition, stock markets have from time to time experienced significant price and volume fluctuations that have affected the market price of securities and which may be unrelated to the Cobham Group's operating performance and prospects.

Long term contract exposures to inflation and commodity pricing fluctuations

The Cobham Group, the Aeroflex Group and, following the Acquisition, the Enlarged Group are dependent on managing macro financial risks, including inflation and commodity prices. Failure to manage financial risks can impact operating profit through higher costs or lower revenue and result in the Cobham Group, the Aeroflex Group and, following the Acquisition, the Enlarged Group, failing to meet its forecasted financial results.

Significant Business Interruptions

The Cobham Group, the Aeroflex Group and, following the Acquisition, the Enlarged Group's business could be impacted by numerous inherent risks, particularly unplanned events such as inclement weather, explosions, fires, terrorist acts and other accidents. While insurance coverage could offset losses relating to some of these types of events, the Cobham Group, the Aeroflex Group and, following the Acquisition, the Enlarged Group's business, results and financial condition could be materially adversely affected to the extent that any such losses are not covered by insurance.

Reliance on sales to federal government

The Cobham Group and the Aeroflex Group derive a significant portion of their revenues from contracts with agencies of the US federal government or contractors or subcontractors of the federal government. On a pro forma basis, approximately 35 per cent. of the Enlarged Group's revenue will derive from such contracts.(7) The loss or significant curtailment of any government contracts or subcontracts, or failure to exercise renewal options or enter into new contracts or subcontracts, could have a material adverse effect on the Cobham Group, the Aeroflex Group and, following the Acquisition, the Enlarged Group's business, results of operations and financial condition.

Continuation and the exercise of renewal options on existing government contracts and subcontracts and new government contracts and subcontracts are, among other things, contingent upon the availability of adequate funding for the various federal government agencies with which the Aeroflex Group and Cobham Group and prime government contractors do business. Changes in federal government spending could directly affect the financial performance of the Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group.

Under the terms of federal government contracts, the federal government may unilaterally:

- terminate or modify existing contracts;
- reduce the value of existing contracts through partial termination;
- delay the payment of our invoices by government payment offices;
- audit contract-related costs; and
- suspend the business from receiving new contracts pending resolution of any alleged violations of procurement laws or regulations.

The federal government can terminate or modify any of its contracts either for its convenience or for a default by Cobham, Aeroflex or the Englarged Group, as applicable, under the terms of the contract. A termination for convenience could adversely affect the Enlarged Group's revenues and results of operations.

(7) Based on Aeroflex's financial statements for the year ended 30 June 2013 and Cobham's financial statements for the year ended 31 December 2013.

A termination arising from default could expose the Enlarged Group to liability and have a material adverse effect on its reputation and ability to compete for future contracts and subcontracts, which could materially and adversely affect its business and results of operations. Failure to replace sales generated from terminated or modified contracts would result in lower sales and could adversely affect revenue, which could have a material and adverse effect on its business, results of operations and financial condition.

Reliance on third party manufacturers and key suppliers

The Cobham Group, the Aeroflex Group and, following the Acquisition, the Enlarged Group outsources a substantial portion of its semiconductor fabrication processes and certain other manufacturing and engineering functions to third parties. This reliance on third-party manufacturers and engineers involves significant risks, including lack of control over capacity allocation, delivery schedules, the resolution of technical difficulties and the development of new processes. Disputes regarding the ownership of or rights in certain third-party intellectual property may preclude third-party manufacturers from fulfilling the Cobham Group's, the Aeroflex Group's and, following completion of the Acquisition, the Enlarged Group's requirements at a reasonable cost or, in some cases, at all. A shortage of raw materials or production capacity could lead any of the third-party manufacturers to allocate available capacity to other customers, or to internal uses. If these third parties fail to perform their obligations in a timely manner or at satisfactory quality and cost levels, the Enlarged Group's ability to bring products to market and its reputation could suffer and its costs could increase. For example, during a market upturn, contract manufacturers may be unable to meet demand requirements, which may preclude the Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group from fulfilling customers' orders on a timely basis, which could lead to a loss in sales. The ability of these third parties to perform is largely outside of our control.

The Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group also purchase various types of raw materials and component parts from suppliers, and may be materially and adversely affected by the failure of those suppliers to perform as expected. This non-performance may consist of delivery delays or failures caused by production issues or delivery of non-conforming products. The risk of non-performance may also result from the insolvency or bankruptcy of one or more suppliers. Further, the Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group, may occasionally seek to engage new suppliers with which they have little or no experience; this can pose technical, quality and other risks. Efforts to protect against and to minimise these risks may not always be effective.

Protection of intellectual property rights

The Cobham Group, the Aeroflex Group and, following the Acquisition, the Enlarged Group rely on patents, trade marks, copyrights, trade secrets, and proprietary know-how and concepts. The Enlarged Group will attempt to protect its intellectual property rights, in the UK, the US and elsewhere, through a combination of patent, trademark, copyrights and trade secret laws, as well as confidentiality agreements. Failure to obtain or maintain adequate protection of intellectual property rights for any reason could have a material adverse effect on the business, results of operations and financial condition of the Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group.

While the protection afforded by patent, trade mark, copyright and trade secret laws may provide some advantages, the competitive position of participants in their industry is principally determined by such factors as the technical and creative skills of personnel, the frequency of their new product developments and ability to anticipate and rapidly respond to evolving market requirements. To the extent that a competitor effectively uses its intellectual property portfolio, including patents, to prevent the Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group from selling products that allegedly infringe such competitor's products, its results of operations could be materially adversely affected.

The Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to such unpatented technology. To protect trade secrets and other proprietary information, employees, consultants, advisors and collaborators are required to enter into confidentiality agreements. It cannot be assured that these agreements will provide meaningful protection for trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. If the Aeroflex Group, the Cobham Group and, following completion of the Acquisition, the Enlarged Group is

unable to maintain the proprietary nature of their technologies, their sales could decrease and this could have a material adverse effect on its business, results of operations and financial condition.

Risks associated with information technology systems

The Cobham Group, the Aeroflex Group and, following the Acquisition the Enlarged Group, rely on their information technology, or IT, systems which are an integral part of their businesses. A serious disruption to the IT systems could significantly limit the Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group's ability to manage and operate its business efficiently, which in turn could have a material adverse effect on its business, results of operations and financial condition.

The Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group also face various cyber security threats, including cyber security attacks to IT infrastructure and attempts to gain access to proprietary or sensitive information. Although various procedures and controls are utilised to monitor these threats and mitigate exposure to such threats, there can be no assurance that these procedures and controls will be sufficient to prevent cyber security threats from materialising. If any of these threats were to materialise, the operations may be disrupted and the Cobham Group, the Aeroflex Group and, following completion of the Acquisition, the Enlarged Group may experience a loss in sales or increased costs arising from the implementation of additional security measures. A cyber security breach may also result in legal claims or proceedings and could damage the Cobham Group, the Aeroflex Group and, following completion of the Acquisition the Enlarged Group's reputation.

PART 4

PRINCIPAL TERMS OF THE ACQUISITION

1. Structure of the Acquisition

On 19 May 2014, Cobham, Merger Sub and Aeroflex entered into the Merger Agreement in respect of the Acquisition, pursuant to which Cobham has agreed, on the terms and subject to the conditions of the Merger Agreement, to acquire Aeroflex. The Acquisition will be implemented by way of merger of Merger Sub with and into Aeroflex with Aeroflex continuing its existence as the surviving company (as a result of which each issued and outstanding share of common stock of Aeroflex will be converted into a right to receive US$10.50 in cash, without interest). On completion of the Acquisition, Aeroflex will become one of Cobham's wholly-owned subsidiaries.

2. Merger Agreement

The key terms of Merger Agreement are summarised below.

2.1 Consideration

Based on the total issued and outstanding shares of common stock of Aeroflex as at 16 May 2014 (85,214,896 shares) and the total shares of common stock issuable upon the vesting of outstanding restricted stock units and performance restricted stock units (assuming achievement of the applicable performance goals at the 100 per cent. level) as at 16 May 2014 (1,374,826 and 1,047,413, respectively) the total consideration payable by Cobham to Aeroflex shareholders will be approximately US$920 million (£548 million).

2.2 Conditions

Completion of the Merger Agreement is conditional upon the fulfillment (or, where applicable, waiver) of the conditions set out in the Merger Agreement, which include, amongst other things:

(i) approval of the Acquisition by Shareholders at the General Meeting;

(ii) adoption of the Merger Agreement by Aeroflex Shareholders;

(iii) expiry or termination of the applicable waiting period under the HSR Act and receipt of approval by the German Federal Cartel Office or expiration of any applicable waiting period pursuant to the German Antitrust Approval;

(iv) the completion of the review process of CFIUS and DSS in accordance with the Merger Agreement;

(v) the absence of any governmental order restraining, enjoining or prohibiting the Acquisition;

(vi) the representations and warranties provided by each of the parties being true and correct subject to qualifications in accordance with the Merger Agreement; and

(vii) the performance and compliance by the parties in all material respects of their respective covenants, agreements and obligations contained in the Merger Agreement to be performed on or before completion of the Merger Agreement.

Subject to the terms and conditions set out in the Merger Agreement, Cobham and Aeroflex must use their respective reasonable best efforts to complete the Acquisition as soon as reasonably practicable, including using their reasonable best efforts to obtain relevant regulatory approvals and to avoid material delays, restraints or preventions of the Acquisition. There can, however, be no assurance as to the timing of the waiting period under the HSR Act, the German Antitrust Approval, the CFIUS and DSS review processes or other necessary regulatory clearance processes or that such clearances will not be subject to conditions, including the giving of certain undertakings by Cobham, to the extent required by the Merger Agreement. The Merger Agreement does not include a financing condition to completion. Pursuant to the Merger Agreement, in connection with antitrust approvals, Cobham is not required to commit to any such undertaking to the extent that it (a) would be reasonably likely to be materially adverse to the business, financial condition, or prospects of the Aeroflex Group, taken as a whole, or (b) would be likely to materially impair the expected benefits of the transactions contemplated to Cobham. In connection with the CFIUS and DSS review processes, Cobham is not required to accept any mitigation measure that would require (i) altering the composition of the Board of Directors of Cobham Defence Systems, Inc. as specified

in its Special Security Agreement in effect as of the date of the Merger Agreement or (ii) a proxy agreement or voting trust agreement, except that, if a mitigation measure of the type specified in the foregoing clause (i) or (ii) is required as a result of Cobham taking any action that would reasonably be expected to adversely effect, prevent or delay in any material respect the completion of the CFIUS and DSS review processes, then the foregoing limitation on Cobham's obligation to accept mitigation measures will not apply as to such mitigation measure.

2.3 Representations and warranties

Aeroflex has provided certain representations and warranties to Cobham including, but not limited to:

- the organisation and capital structure of Aeroflex and members of the Aeroflex Group;
- the due and valid execution of the Merger Agreement by Aeroflex;
- the absence of certain events, undisclosed liabilities or litigation;
- actions, consents and filings in connection with any regulatory or governmental authority necessary for the Acquisition;
- filings with the United States Securities and Exchange Commission, the absence of material misstatements or omissions from such filings and compliance with the U.S. Sarbanes-Oxley Act of 2002;
- compliance with applicable laws and permits, constitutional documents and other agreements;
- tax returns and other tax-related matters;
- financial reports and lack of significant change since 30 June 2013;
- employees, employee benefit plans and collective bargaining agreements;
- environmental, intellectual property, insurance and real estate matters;
- transactions, agreements, arrangements or understandings with affiliates; and
- the continuing force and effect of the material contracts applicable to Aeroflex and its subsidiaries.

These representations and warranties are customary for a US acquisition of the size and nature of the Acquisition. Cobham and Merger Sub have also provided customary representations and warranties to Aeroflex in respect of, amongst other things, the due and valid execution of the Merger Agreement, the actions, consents and filings in connection with any governmental or regulatory authority, and the absence of certain events.

The representations and warranties are subject to certain qualifications and limitations customary for a US acquisition of the size and nature of the Acquisition. Each representation and warranty, for instance, will not survive the completion the Acquisition.

2.4 Indemnification

Cobham has agreed that from the closing of the Acquisition, it will indemnify and hold harmless any present or former director or officer of the Aeroflex Group against any costs or expenses (including reasonable legal counsel fees) and other liabilities in connection with any claim or other proceeding arising out of or related to their service as a director or officer, or services performed by them at the request of any member of the Aeroflex Group at or before completion of the Acquisition. The indemnity in the Merger Agreement will survive consummation of the Acquisition.

In addition, either (a) Aeroflex or Cobham must purchase a prepaid directors' and officers' liability "tail'' insurance policy covering a period of six years from the completion of the Acquisition, or (b) Cobham must maintain, for a period of six years from completion of the Acquisition, the existing directors' and officers' liability insurance and fiduciary liability policies maintained by Aeroflex, provided that Cobham will not be required to pay annually in excess of 300 per cent. of the amount per annum that Aeroflex paid for such insurance during its last full fiscal year.

2.5 Non-Solicitation

Aeroflex has agreed that, between signing of the Merger Agreement and completion of the Acquisition it will not solicit, initiate, knowingly encourage or knowingly facilitate, engage in, enter into any agreement or understanding with respect to, or take certain other actions to solicit or encourage the submission of any

alternative acquisition proposal. If Aeroflex receives an offer which was unsolicited and meets other criteria and which its board of directors determines is more favourable to Aeroflex Shareholders than the Acquisition and is reasonably likely to be consummated (**Alternative Offer**), the board of directors of Aeroflex may change its recommendation to Aeroflex Shareholders, and/or terminate the Merger Agreement if (i) it determines that failure to take such action would reasonably be expected to be inconsistent with its fiduciary duties under applicable law and (ii) it has notified Cobham of the Alternative Offer at least four business days before changing its recommendation and/or terminating the Merger Agreement and has negotiated with Cobham in good faith (to the extent Cobham desires to negotiate) to make such adjustments in the terms and conditions of the Agreement as would permit Aeroflex not to change its recommendation or terminate the Merger Agreement in response to the Alternative Offer.

2.6 **Pre-completion covenants**

During the period between signing and completion of the Merger Agreement, Aeroflex has agreed, subject to certain exceptions, to comply with certain obligations in relation to the conduct of its business including, amongst other things:

- conduct the Aeroflex Group's business in the ordinary course consistent with past practice;
- not authorise or declare any dividend or other distribution;
- not undertake certain acquisitions, dispositions, capital expenditures, loans, investments or incurrence of indebtedness of a threshold size or kind;
- refrain from taking certain other actions, including amending constitutional documents, amending the share capital structure or issuing shares, with certain exceptions;
- refrain from entering into any new line of business that is outside the business being conducted by Aeroflex and its subsidiaries;
- provide Cobham and its representatives reasonable access to its employees, properties, books, contracts, files and records, including to such information as Cobham may reasonably request; and
- refrain from (a) materially amending or terminating a material contract, (b) settling any litigation over a certain amount, and (c) paying certain termination or compensation payments to its employees.

Cobham has agreed not to knowingly take or permit any of its affiliates to take any action that would reasonably be expected to prevent or materially delay the completion of the Acquisition.

2.7 **Other provisions**

The Merger Agreement also contains the following provisions:

(a) Cobham and Aeroflex agree to notify the other promptly of certain matters, including any material communications from a government entity;

(b) Aeroflex agrees to use commercially reasonable efforts to cooperate as reasonably requested by Cobham in connection with obtaining financing in connection with the Acquisition;

(c) Aeroflex agrees to provide Cobham the opportunity to participate in the defence or settlement of any stockholder litigation against Aeroflex and/or its directors and/or arising after the date of the Merger Agreement and agrees that certain settlements may not be made without Cobham's consent;

(d) the Merger Agreement may be terminated:

   (i) by the mutual written consent of Cobham and Aeroflex;

   (ii) by Cobham or Aeroflex in the event that any law or order of a governmental entity becomes effective permanently prohibiting, restraining, enjoining or making illegal the consummation of the Acquisition;

   (iii) on failure to obtain approval of the Merger Agreement from the Shareholders or from the Aeroflex Shareholders, in each case, having held the requisite meeting;

   (iv) if the Acquisition has not completed on or before 30 September 2014, however either Cobham or Aeroflex may elect to extend such date to 31 December 2014 in certain circumstances;

   (v) by Aeroflex in the event it enters into a binding agreement with respect to an Alternative Offer, subject to Aeroflex's compliance with certain obligations under the Merger Agreement as described in paragraph 2.5 of this Part 4;

(vi) by Cobham or Aeroflex on a breach of the Merger Agreement by the other party that would give rise to the failure of a closing condition and that is incapable of cure or if capable of cure has not been cured within 30 days;

(vii) by Aeroflex if the Board shall have made a change of recommendation to Shareholders subject to the terms of the Merger Agreement;

(viii) by Cobham if the Aeroflex board of directors shall have made a change of recommendation to Aeroflex Shareholders subject to the terms of the Merger Agreement or shall have failed to recommend against acceptance of a tender or exchange offer that constitutes an alternative acquisition proposal within 10 business days after commencement; or

(ix) by Cobham if Aeroflex shall have knowingly and intentionally materially breached any of its obligations under the provisions of the Merger Agreement relating to non-solicitation of certain alternative acquisition proposals.

(e) The Merger Agreement provides for the payment of certain fees and expenses by Aeroflex and Cobham to each other in certain circumstances in the event that the Acquisition should not complete, including:

(i) a break fee of US$32 million payable by Aeroflex to Cobham in certain circumstances, including (x) if Aeroflex enters into an agreement with respect to an Alternative Offer; or (y) if the Board of Directors of Aeroflex withdraws or modifies, in a manner adverse to Cobham, its recommendation to Aeroflex Shareholders with respect to the Acquisition;

(ii) expenses up to US$5 million payable by Aeroflex to Cobham if Aeroflex Shareholders do not approve the Acquisition;

(iii) a break fee of US$20 million payable by Cobham to Aeroflex if the Board withdraws or modifies, in a manner adverse to Aeroflex, its recommendation to Shareholders with respect to the Acquisition; and

(iv) a break fee of US$5 million payable by Cobham to Aeroflex if the Shareholders do not approve the Acquisition.

3. Support Agreement

Concurrently with the execution of the Merger Agreement, VGG, the largest holder of Aeroflex common stock, and certain significant equityholders of VGG, entered into the Support Agreement. Pursuant to, and subject to the terms of, the Support Agreement, VGG committed, among other things, to vote all of the shares of Aeroflex common stock held by it (representing in the aggregate approximately 76.28 per cent. of the outstanding voting power in Aeroflex) for the adoption of the Merger Agreement. The Support Agreement terminates automatically upon the termination of the Merger Agreement.

PART 5

FINANCIAL INFORMATION

SECTION A

FINANCIAL INFORMATION ON THE AEROFLEX GROUP

This Section A of Part 5 contains consolidated financial information for Aeroflex for the three years ended 30 June 2011, 30 June 2012 and 30 June 2013, and the nine months to 31 March 2014.

The information contained in paragraph 1 of this Section A of Part 5 has been extracted without material adjustment from the audited financial statements of Aeroflex as published in the Form 10K for the year ended 30 June 2013, save that in the Consolidated Balance Sheets on page 28, the financial information for the year ended 30 June 2011 has been extracted without material adjustment from the Form 10K for the year ended 30 June 2012.

The information contained in paragraph 2 of this Section A of Part 5 has been extracted without material adjustment from the unaudited quarterly financial information of Aeroflex as published in the Form 10Q for the nine months to 31 March 2014. This includes information about the financial results and cash flows of the company for both the three months and the nine months to 31 March 2014 and 31 March 2013.

1. Consolidated Financial Statements for the years ended 30 June 2011, 2012 and 2013

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

	June 30, 2013	June 30, 2012	June 30, 2011
Assets			
Current assets:			
Cash and cash equivalents	$ 39,424	$ 41,324	$ 66,278
Accounts receivable, less allowance for doubtful accounts of $3,422, $981 and $1,210	151,163	146,597	168,141
Inventories	156,516	158,090	186,370
Deferred income taxes	35,491	33,315	51,855
Income taxes receivable	—	4,935	—
Prepaid expenses and other current assets	9,374	11,942	10,044
Total current assets	391,968	396,203	482,688
Property, plant and equipment, net of accumulated depreciation of $122,479, $102,310 and $82,581	101,546	101,632	105,162
Deferred financing costs, net	11,580	15,720	15,289
Other assets	31,886	34,955	29,000
Intangible assets with definite lives, net	65,552	119,476	183,614
Intangible assets with indefinite lives	110,779	113,461	114,730
Goodwill	315,643	408,361	465,443
Total assets	$1,028,954	$1,189,808	$1,395,926
Liabilities and Stockholders' Equity			
Current liabilities:			
Current portion of long-term debt	$ —	$ —	7,635
Accounts payable	34,768	26,822	48,737
Advance payments by customers and deferred revenue	23,490	23,433	25,859
Income taxes payable	12,003	593	8,371
Accrued payroll expenses	21,694	18,635	22,063
Accrued expenses and other current liabilities	37,184	37,559	45,722
Total current liabilities	129,139	107,042	158,437
Long-term debt	587,000	641,375	717,750
Deferred income taxes	67,296	94,022	117,150
Other long-term liabilities	23,061	20,592	19,665
Total liabilities	806,496	863,031	1,012,402
Stockholders' equity:			
Preferred stock, par value $.01 per share; 50,000,000 shares authorized, no shares issued and outstanding	—	—	—
Common stock, par value $.01 per share; 300,000,000 shares authorized, 84,936,582, 84,845,687 and 84,789,180 shares issued and outstanding	849	848	848
Additional paid-in capital	651,950	648,092	644,262
Accumulated other comprehensive income (loss)	(43,406)	(39,476)	(32,563)
Accumulated deficit	(386,935)	(282,687)	(229,050)
Total stockholders' equity	222,458	326,777	383,524
Total liabilities and stockholders' equity	$1,028,954	$1,189,808	$1,395,926

See notes to consolidated financial statements.

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

	Year Ended June 30,		
	2013	2012	2011
Net sales	$ 647,142	$673,015	$ 729,414
Cost of sales	318,021	334,129	337,314
Gross profit	329,121	338,886	392,100
Operating expenses:			
Selling, general and administrative costs	147,124	151,818	150,875
Research and development costs	86,945	89,762	90,088
Amortization of acquired intangibles	56,484	62,696	63,672
Restructuring charges	5,538	6,779	14,783
Impairment of goodwill and other long-lived assets	95,456	56,700	—
ITAR settlement expense	8,000	—	—
Termination of sponsor advisory agreement	—	—	18,133
Change in fair value of acquisition contingent consideration liability	—	(7,553)	1,834
Total operating expenses	399,547	360,202	339,385
Operating income (loss)	(70,426)	(21,316)	52,715
Other income (expense):			
Interest expense	(41,446)	(34,237)	(66,204)
Loss on extinguishment of debt and write-off of deferred financing costs	(2,580)	(1,232)	(59,395)
Gain from a bargain purchase of a business	—	—	173
Other income (expense), net	(820)	(1,745)	(775)
Total other income (expense), net	(44,846)	(37,214)	(126,201)
Income (loss) before income taxes	(115,272)	(58,530)	(73,486)
Provision (benefit) for income taxes	(11,024)	(4,893)	(38,818)
Net income (loss)	$(104,248)	$ (53,637)	$ (34,668)
Net income (loss) per common share:			
Basic and diluted	$ (1.23)	$ (0.63)	$ (0.45)
Weighted average number of common shares outstanding:			
Basic and diluted	84,880	84,811	77,153

See notes to consolidated financial statements.

Aeroflex Holding Corp. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	Year Ended June 30,		
	2013	2012	2011
Net income (loss)	$(104,248)	$(53,637)	$(34,668)
Other comprehensive income (loss):			
Increase (decrease) in fair value of interest rate swap contracts, net of tax	—	—	4,046
Valuation allowance against non-current marketable securities	—	—	1,276
Minimum pension liability adjustment, net of tax	45	(904)	229
Foreign currency translation adjustment, net of tax	(3,975)	(6,036)	15,488
	(3,930)	(6,940)	21,039
Total comprehensive income (loss)	$(108,178)	$(60,577)	$(13,629)

See notes to consolidated financial statements.

Aeroflex Holding Corp. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(In thousands)

	Year Ended June 30,		
	2013	2012	2011
Common stock, beginning of year	$ 848	$ 848	$ 650
Net proceeds from issuance of common stock	—	—	198
Common stock issued under share-based compensation plans	1	—	—
Common stock, end of year	849	848	848
Additional paid-in capital, beginning of year	648,092	644,262	398,291
Net proceeds from issuance of common stock	—	—	243,797
Share-based compensation	3,387	3,471	2,254
Other changes	471	359	(80)
Additional paid-in capital, end of year	651,950	648,092	644,262
Accumulated other comprehensive income (loss), beginning of year	(39,476)	(32,536)	(53,575)
Other comprehensive income (loss)	(3,930)	(6,940)	21,039
Accumulated other comprehensive income (loss), end of year	(43,406)	(39,476)	(32,536)
Accumulated deficit, beginning of year	(282,687)	(229,050)	(194,382)
Net income (loss)	(104,248)	(53,637)	(34,668)
Accumulated deficit, end of year	(386,935)	(282,687)	(229,050)
Total stockholders' equity	$ 222,458	$ 326,777	$ 383,524

See notes to consolidated financial statements.

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

	Year Ended June 30,		
	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	$(104,248)	$(53,637)	$ (34,668)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	79,680	84,298	83,459
Gain from a bargain purchase of a business	—	—	(173)
Change in fair value of acquisition contingent consideration liability	—	(7,553)	1,834
Acquisition related adjustment to cost of sales	—	—	998
Acquisition related adjustment to sales	—	—	157
Impairment of goodwill and other long-lived assets	95,456	56,700	—
Special accounts receivable reserve	2,529	—	—
Loss on extinguishment of debt and write-off of deferred financing costs	2,580	1,232	59,395
Deferred income taxes	(28,803)	(3,724)	(53,626)
Share-based compensation	3,595	3,527	2,254
Non-cash restructuring charges	—	1,015	4,860
Amortization of deferred financing costs	2,174	2,023	4,755
Paid in kind interest	—	—	2,434
Other, net	378	613	1,103
Change in operating assets and liabilities, net of effects from purchases of businesses:			
Decrease (increase) in accounts receivable	(7,835)	19,884	(20,577)
Decrease (increase) in inventories	(525)	25,494	(54,993)
Decrease (increase) in prepaid expenses and other assets	3,965	(6,359)	(5,519)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	26,035	(33,066)	2,849
Net cash provided by (used in) operating activities	74,981	90,447	(5,458)
Cash flows from investing activities:			
Payments for purchase of businesses, net of cash acquired	—	(5,106)	(23,717)
Proceeds from the sale of building held for sale	1,582	—	—
Capital expenditures	(20,828)	(21,773)	(25,957)
Proceeds from sale of marketable securities	—	—	10,357
Other, net	683	420	995
Net cash provided by (used in) investing activities	(18,563)	(26,459)	(38,322)
Cash flows from financing activities:			
Credit facility borrowings	114,130	—	725,000
Net proceeds from issuance of common stock	—	—	243,995
Repurchase of senior unsecured notes and senior subordinated unsecured term loans, including premiums and fees	—	—	(432,526)
Payment of contingent consideration related to business acquisition	—	(948)	—
Debt repayments	(168,505)	(84,010)	(510,923)
Deferred financing costs	(2,171)	(3,685)	(18,903)
Other, net	(667)	(37)	—
Net cash provided by (used in) financing activities	(57,213)	(88,680)	6,643
Effect of exchange rate changes on cash and cash equivalents	(1,105)	(262)	2,752
Net increase (decrease) in cash and cash equivalents	(1,900)	(24,954)	(34,385)
Cash and cash equivalents at beginning of year	41,324	66,278	100,663
Cash and cash equivalents at end of year	$ 39,424	$ 41,324	$ 66,278

See notes to consolidated financial statements.

Aeroflex Holding Corp. and Subsidiaries
Notes to Consolidated Financial Statements

1. Description of Business

We design, engineer and manufacture microelectronic products and test and measurement equipment that are sold primarily to the space, avionics, defense, commercial wireless communications and medical markets.

Unless the context requires otherwise: (i) "Aeroflex Holding" refers to the issuer, Aeroflex Holding Corp., a holding company; (ii) "Aeroflex" refers to Aeroflex Incorporated, a direct wholly owned subsidiary of Aeroflex Holding, together with its consolidated subsidiaries; (iii) "we," "our," "us" or the "Company" refer to Aeroflex Holding Corp. and its consolidated subsidiaries, including Aeroflex; (iv) the term "parent LLC" refers to VGG Holding LLC, which as of June 30, 2013 owned 76.5% of Aeroflex Holding's common stock; (v) the term "Sponsors" refers collectively to Veritas Capital Fund III, L.P., Golden Gate Private Equity, Inc. and its affiliates and GS Direct, L.L.C., and to affiliates of and funds managed by these entities; (vi) the term "Going Private Transaction" refers to the acquisition of Aeroflex by the Sponsors on August 15, 2007; (vii) the term "IPO" refers to the initial public offering of 19,789,180 shares of our common stock at a price of $13.50 per share, which was consummated in November 2010; (viii) the term "Sponsor Advisory Agreement" refers to our advisory agreement with affiliates of the Sponsors, which was terminated in connection with the IPO; (ix) the term "senior secured credit facility" refers to the credit facility that we entered into on May 9, 2011 in connection with our debt refinancing as of such date, which we amended on May 24, 2012, and further amended on May 29, 2013; and (x) any "fiscal" year refers to the twelve months ended June 30 of the applicable year (for example, "fiscal 2013" refers to the twelve months ended June 30, 2013).

2. Summary of Significant Accounting Principles and Policies

Presentation and Use of Estimates

Our financial statements are prepared in conformity with U.S. GAAP. We consolidate our subsidiaries, all of which, except for Test Evolution Corporation, are wholly owned. All significant intercompany balances and transactions have been eliminated.

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 used 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 consolidated financial statements.

Cash and Cash Equivalents

All highly liquid investments having maturities of three months or less at the date of acquisition are considered to be cash equivalents.

Marketable Securities

Marketable securities were classified as available-for-sale and were recorded at fair value with unrealized gains and losses reported as a separate component of stockholders' equity. Realized gains and losses and declines in market value judged to be other than temporary, which amounted to a loss of $688,000 in the fiscal year ended June 30, 2011, were reflected in other income (expense). Interest income and dividends, if any, were also included in other income.

During the year ended June 30, 2011, our remaining marketable securities, which consisted solely of auction rate securities, were sold for $10.4 million at an average of 93.8% of par.

Inventories

Inventories, including amounts related to long-term contracts accounted for under percentage-of-completion accounting, are stated at the lower of cost (first-in, first-out) or market. We assess the valuation of our inventory on a periodic basis and make adjustments to the value for estimated excess and obsolete inventory based on estimates about future demand. Our excess inventory review process includes analysis of historical usage and sales forecasts.

Derivative Financial Instruments

Foreign currency contracts are used to protect us from fluctuations in exchange rates. Our foreign currency contracts are not designated as hedges and therefore the change in fair value is included in other income (expense) as it occurs.

Our interest rate swap derivatives were designated as cash flow hedges. As such, they were recorded on the balance sheet as assets or liabilities at their fair value, with changes in the fair value of such derivatives, net of taxes, recorded as a component of other comprehensive income. All of our interest rate swap agreements expired prior to June 30, 2011.

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 specified periods from delivery. We generally 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 warranties, 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, revenue from customer support contracts is 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 non-software revenue to elements in multiple element arrangements. Revenue is recognized on only those elements that meet the four criteria described above.

Advance payments by customers and deferred revenue was comprised of: (i) advance payments by customers primarily for the purchase of materials; (ii) deferred service and software support revenue; (iii) deferred warranty revenue; and (iv) deferred revenue related to multiple deliverable arrangements. We generally sell non-software service and extended warranty contracts on a standalone basis.

Advance payments by customers and deferred revenue were as follows:

	As of June 30,	
	2013	**2012**
	(In thousands)	
Advance payments by customers	$ 8,598	$ 8,609
Deferred service and software support revenue	9,234	7,166
Deferred warranty revenue	4,167	4,797
Deferred revenue related to multiple deliverable arrangements	1,491	2,861
	$23,490	$23,433

Acquisition Accounting

We use the acquisition method to account for business combinations, whereby the total purchase price of an acquisition, including contingent consideration, is allocated to the tangible and intangible assets acquired and liabilities assumed, based upon their respective fair values at the date of acquisition. The purchase price in excess of the fair value of the net assets and liabilities, if any, is recorded as goodwill. A gain is recorded if the purchase price is less than the fair value of net assets and liabilities. The allocation of the purchase price is dependent upon certain valuations and other studies, which contain estimates and assumptions.

Goodwill and Other Intangible Assets with Indefinite Lives

Goodwill is calculated as the excess of the cost of purchased businesses over the fair value of their underlying net assets. Other intangible assets with indefinite lives consist of tradenames. Goodwill and other intangible assets with indefinite lives are not amortized.

We assess goodwill and other intangible assets with indefinite lives at least annually for impairment in the fourth quarter of our fiscal year, or more frequently if certain events or circumstances indicate an impairment may have occurred. We test goodwill for impairment at the reporting unit level, which is one level below our operating segments. We identify our reporting units by assessing whether the components of our operating segments constitute businesses for which discrete financial information is available that segment management regularly reviews to assess operating results. Impairment testing is performed in two steps: (i) we determine if there is an impairment by comparing the fair value of a reporting unit with its carrying value; and (ii) if there is an impairment, we measure the amount of impairment loss by comparing the implied fair value of the reporting unit's goodwill (the excess of the fair value of the reporting unit over the fair value of its net identifiable assets) with the carrying amount of that goodwill.

Testing goodwill for impairment requires us to estimate fair values of reporting units using significant estimates and assumptions. The assumptions made will impact the outcome and ultimate results of the testing. We use industry accepted valuation models and set criteria that are reviewed and approved by

various levels of management and, in certain instances, we engage third-party valuation specialists to assist us in estimating fair values. To determine fair value of the reporting unit, we use an income approach. We use a market approach to assess the reasonableness of the results of the income approach.

Under the income approach, we determine fair value using a discounted cash flow method, estimating future cash flows of each reporting unit, as well as terminal value, and discounting such cash flows at a rate of return that reflects the relative risk of the cash flows.

The impairment test for other intangible assets with indefinite lives encompasses determining a fair value and comparing the fair value to its carrying value. If the carrying value exceeds the fair value, impairment is recorded. To determine the fair value of other intangible assets with indefinite lives, we use an income approach, the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. Determining the fair value of other intangible assets with indefinite lives requires significant judgments in determining both the assets' estimated cash flows as well as the appropriate discount and royalty rates applied to those cash flows to determine fair value. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

Long-Lived Assets

We review other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When such events or changes in circumstances occur, a recoverability test is performed comparing projected undiscounted cash flows from the use and eventual disposition of an asset or asset group to its carrying value. If the projected undiscounted cash flows are less than the carrying value, an impairment would be recorded for the excess of the carrying value over the fair value, which is determined by discounting future cash flows.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of plant and equipment is provided over the estimated useful lives of the respective assets, on a straight-line basis. Leasehold improvements are amortized over the life of the lease, including anticipated renewals, or the estimated life of the asset, whichever is shorter.

Research and Development Costs

We charge all research and development costs to expense as incurred, except those of our software products for which costs incurred between the date of product technological feasibility and the date that the software is available for general release are capitalized. We use a working model of the software or a detailed program design to assess technological feasibility. We capitalized software development costs of $1.6 million and $1.0 million in fiscal 2013 and 2012, respectively. We did not capitalize any software development costs in fiscal 2011. Capitalized software development costs are amortized to cost of sales based on the higher of a) the percentage of revenue for units delivered to total anticipated revenue for the related product, or b) on a straight-line basis. Capitalized software development costs of $2.0 million and $1.0 million were included in other assets at June 30, 2013 and 2012, respectively.

Income Taxes

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Net deferred tax assets assume sufficient future earnings for their realization. Where management believes it is more-likely-than-not that the deferred tax assets will not be realized in the relevant jurisdiction, we have recorded a valuation allowance against such asset.

We record uncertain tax position liabilities for federal, state, local and foreign exposures relating to periods subject to audit. The calculation of these tax liabilities requires judgments about tax issues, potential outcomes and timing, and are a subjective significant estimate. We classify interest and penalties as a component of the provision for income taxes.

Net Income (Loss) Per Common Share

Our consolidated statements of operations present basic and diluted net income (loss) per common share. Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per common share reflects the dilutive effects of common stock equivalents, if any. The treasury stock method was used to determine the dilutive effect of these potentially dilutive securities. Due to the net loss for the fiscal years ended June 30, 2013, 2012 and 2011, all shares of common stock equivalents were excluded from diluted net income (loss) per common share because they were anti-dilutive. As of June 30, 2013 there were 2.3 million potentially dilutive securities.

Share-Based Compensation

The fair value of share-based payments is recognized as an expense in the consolidated statements of operations over the related vesting periods. Share-based compensation expense is based on the fair value of the portion of share-based payment awards that is ultimately expected to vest and has therefore been reduced for estimated forfeitures at the time of the grant, with subsequent revisions for the differences between actual and the estimated forfeiture rates. In addition, stock awards with performance conditions are dependent upon pre-established annual financial performance targets. The amount of expense recognized is adjusted to reflect achievement of targets and changed expectations of achieving future targets (see Note 13 to the consolidated financial statements).

Foreign Currency Translations

The financial statements of our foreign subsidiaries are measured in their local currency and then translated into U.S. dollars using the current rate method. Under the current rate method, assets and liabilities are translated using the exchange rate at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing throughout the year.

Gains and losses resulting from the translation of financial statements of foreign subsidiaries are accumulated in other comprehensive income (loss) and presented as part of stockholders' equity. Realized and unrealized foreign currency exchange gains (losses) from the settlement of foreign currency transactions are reflected in other income (expense) and amounted to $(792,000), $(883,000) and $(634,000) for the fiscal years ended June 30, 2013, 2012 and 2011, respectively.

Comprehensive Income

Comprehensive income consists of net income (loss) and equity adjustments relating to: (i) foreign currency translation; (ii) changes in fair value of certain derivatives and non-current marketable securities; and (iii) adjustments to the minimum pension liability.

Recently Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance on the presentation of comprehensive income. The new guidance eliminates the option to report other comprehensive income and its components in the statement of stockholders' equity. Instead, an entity is required to present either a continuous statement of net income and other comprehensive income or two separate but consecutive statements. This new guidance became effective for us beginning with the first quarter of fiscal 2013 and was applied retrospectively. We have presented other comprehensive income in a separate statement immediately following our Statements of Operations.

In September 2011, the FASB issued authoritative guidance on testing goodwill for impairment. The new guidance gives an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity's qualitative assessment determines that it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, the two-step goodwill impairment test is not required. This new guidance became effective for us beginning with the first quarter of fiscal 2013. The adoption of this new guidance did not have an impact on our consolidated financial statements.

In July 2012, the FASB issued authoritative guidance allowing entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. The new guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. Otherwise, the quantitative impairment test is not required. We adopted this guidance in the first quarter of fiscal 2013. The adoption of the new guidance did not have an impact on our consolidated financial statements.

3. Acquisitions of Businesses

Test Evolution Corporation

On October 1, 2007, we purchased 40% of the outstanding stock of Test Evolution Corporation, or TEC, for $4.0 million. We determined that we have control of this company and commencing October 1, 2007 have consolidated TEC's assets and liabilities and results of operations, all of which were insignificant, into our financial statements. On August 5, 2010, we invested another $2.0 million in TEC and, as a result of this and other capital transactions, our ownership interest was approximately 51%. On December 31, 2012, TEC purchased a third-party's ownership for $450,000 and as a result of this, our ownership interest changed to approximately 63%. The amounts attributable to the non-controlling interest in TEC's equity and results of operations are not material to our consolidated financial statements and have been included in other long-term liabilities and other income (expense), respectively. TEC is included in our ATS segment.

Gaisler Research AB

On June 30, 2008, we acquired the stock of Gaisler Research AB, or Gaisler, for $12.3 million cash (net of $2.7 million cash acquired), plus contingent consideration over the three year period of fiscal 2009 to fiscal 2011, based on Gaisler's achieved EBITDA. Based on Gaisler's actual results of operations an additional $4.0 million was paid to the selling shareholders in October 2009, $4.6 million was paid to the selling shareholders in October 2010, and $5.1 million was paid to the selling shareholders in October 2011, all of which has been added to goodwill in the accompanying consolidated balance sheets. Gaisler is included in our AMS segment.

Willtek Communications

On May 7, 2010, we acquired the net assets of Willtek Communications, or Willtek, for $2.8 million in cash, which in accordance with the purchase agreement, was subsequently reduced by an $873,000 closing date deficiency in adjusted net assets, which we received in January 2011. The gain from a bargain purchase of Willtek reflects the excess of the fair value of net assets over the purchase price. The purchase price was negotiated at such a level to be reflective of the cost of the restructuring efforts that we expected to incur at that time. Willtek is included in our ATS segment.

Radiation Assured Devices

On June 30, 2010, we acquired 100% of the stock of Radiation Assured Devices, Inc., or RAD, for $13.0 million in cash, which is net of cash acquired and a closing date deficiency in adjusted net assets, and recorded a $7.1 million liability for the fair value of contingent consideration over a five year period ending June 30, 2015. In October 2011, we paid $1.4 million of contingent consideration. In the statement of cash flows, $948,000 of the $1.4 million payment was classified as a financing activity, and the balance was classified as an operating activity in accordance with Accounting Standards Codification Topic 230. Due to slower than anticipated roll-out of new products, which has changed the future projection of sales during the earn-out period, we re-valued the contingent consideration liability to a value of $0 as of June 30, 2012, which amounted to a net benefit of $7.6 million and we no longer expect to pay any remaining contingent consideration. RAD is included in our AMS segment.

Advanced Control Components

On August 31, 2010, we acquired 100% of the stock of Advanced Control Components, Inc., or ACC, for $18.6 million in cash, which is net of working capital adjustments. ACC, located in Eatontown, New Jersey, designs, manufactures and markets a wide range of radio frequency, or RF, and microwave products for the military, civilian radar, scientific and communications markets. ACC is included in our AMS segment.

4. Intangible Assets

Intangible Assets with Definite Lives

Intangible assets with definite lives are amortized on a straight-line basis over periods ranging up to 11 years.

The components of amortizable intangible assets were as follows:

	June 30, 2013			June 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Total Net Book Value	Gross Carrying Amount	Accumulated Amortization	Total Net Book Value
	(In thousands)					
Developed technology	$201,447	$192,574	$ 8,873	$199,489	$164,065	$ 35,424
Customer related intangibles	226,406	171,514	54,892	226,865	146,259	80,606
Non-compete arrangements	10,344	9,401	943	10,292	8,007	2,285
Trade names	3,332	2,488	844	3,298	2,137	1,161
Total	$441,529	$375,977	$65,552	$439,944	$320,468	$119,476

The estimated aggregate amortization expense for each of the next five fiscal years ending June 30, is as follows:

	2014	2015	2016	2017	2018
	(In thousands)				
Estimated amortization expense	$30,184	$19,617	$10,021	$2,882	$1,836

Goodwill

To better align it with the end markets and the manner in which it is now managed, in fiscal 2013 we reclassified, for all periods presented, our frequency synthesizer reporting unit from our ATS segment to our AMS segment. Accordingly, $21.3 million of goodwill was transferred from our ATS segment to our AMS segment.

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

	Microelectronic Solutions	Test Solutions	Total
	(In thousands)		
Balance at June 30, 2011	$304,481	$160,962	$465,443
Impairment of goodwill	(54,900)	—	(54,900)
Translation and other adjustments	(1,491)	(691)	(2,182)
Balance at June 30, 2012	248,090	160,271	408,361
Impairment of goodwill	—	(93,400)	(93,400)
Translation and other adjustments	1,669	(987)	682
Balance at June 30, 2013	$249,759	$ 65,884	$315,643

Cumulative impairments of goodwill since the going private transaction through June 30, 2013 totaled $183.5 million.

Intangible Assets with Indefinite Lives

As of June 30, 2013 and 2012, tradenames with indefinite lives were $110.8 million and $113.5 million, respectively.

Fiscal 2013 Impairment

As a result of our annual impairment test of goodwill, the AVComm reporting group, due to reduced forecast of earnings, recognized a $93.4 million, non-cash goodwill impairment charge.

We also evaluated the fair value of the Radio Frequency MicroWave, or the RFMW group, tradenames. The carrying value of the tradenames was higher than the fair value determined. Therefore, we recorded an additional non-cash impairment of $716,000.

In December 2012, we entered into a contract for the sale of our AMS RFMW Whippany, N.J. building. The net proceeds received in January 2013 were less than the carrying value of the building. Therefore, in December 2012 we recorded $1.3 million impairment to the asset held for sale resulting in a total impairment charge of $95.5 million recorded in fiscal 2013.

Fiscal 2012 Impairment

Based on a reduced forecast of earnings for one of our reporting units, the RFMW group, we tested this reporting unit for impairment in the third quarter of fiscal 2012. We finalized this assessment in the fourth quarter of fiscal 2012 upon the completion of our annual impairment test of goodwill and recognized non-cash impairment charges related to goodwill ($54.9 million), tradenames ($700,000), customer relationships ($512,000) and property, plant and equipment ($588,000) (see Note 8).

5. Restructuring Charges

For the fiscal year ended June 30, 2013, restructuring charges consisted of severance costs and facility closure costs, primarily related to the continued integration of our European operations by consolidating our operation in France to the U.K. In addition, the restructuring activities included the consolidation within ATS' AVComm group of our Cupertino, California facility into our Wichita, Kansas facility and the establishment of a regional engineering facility in Sunnyvale, California that will service all of our ATS operations. As part of the AVComm group restructuring, we discontinued certain product lines, which resulted in a charge of $1.9 million that is included in cost of sales in the accompanying statement of operations.

For the fiscal year ended June 30, 2012, restructuring charges consisted of severance costs, facility closure costs and other non-cash charges, primarily related to the continued integration of Willtek into our European operations and the continued consolidation of one of our domestic components facilities located in Whippany, New Jersey into two of our other RFMW facilities.

For the fiscal year ended June 30, 2011, restructuring charges consisted of: (i) severance costs and facility closure costs, primarily related to the integration of Willtek into our European operations and the continued consolidation of one of our domestic components facilities located in Whippany, New Jersey into two of our other facilities; and (ii) a non-cash building impairment charge based on the fair value of the Whippany, New Jersey facility that we subsequently sold in January 2013.

The following table sets forth the charges and payments related to the restructuring liability, which is reflected in accrued expenses and other current liabilities in the accompanying consolidated balance sheets for the periods indicated:

	Balance June 30, 2012	**Year Ended June 30, 2013**				**Balance June 30, 2013**
	Restructuring Liability	Net Additions	Cash Payments	Non-Cash Restructuring Charges	Effect of Foreign Currency	Restructuring Liability
	(In thousands)					
Severance costs	$2,085	$4,290	$(5,528)	$—	$57	$904
Facilities closure costs	502	1,248	(1,663)	—	1	88
Total	$2,587	$5,538	$(7,191)	$—	$58	$992

	Balance June 30, 2011	**Year Ended June 30, 2012**				**Balance June 30, 2012**
	Restructuring Liability	Net Additions	Cash Payments	Non-Cash Restructuring Charges	Effect of Foreign Currency	Restructuring Liability
	(In thousands)					
Severance costs	$2,666	$4,107	$(4,490)	$ —	$(198)	$2,085
Facilities closure costs	497	1,657	(1,632)	—	(20)	502
Asset write-off	—	1,015	—	(1,015)	—	—
Total	$3,163	$6,779	$(6,122)	$(1,015)	$(218)	$2,587

6. Accounts Receivable Reserve

In the third quarter of 2013, we recorded a special reserve of $2.5 million for all accounts receivable due from a customer whose bank accounts were seized by the U.S. Attorney. This charge is included in selling, general and administrative expenses in the accompanying statement of operations.

7. Inventories

Inventories consisted of the following:

	June 30, 2013	June 30, 2012
	(In thousands)	
Raw materials	$ 76,762	$ 82,202
Work in process	52,221	45,067
Finished goods	27,533	30,821
	$156,516	$158,090

8. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2013	June 30, 2012	Estimated Useful Life In Years
	(In thousands)		
Land	$ 14,561	$ 14,651	
Buildings and leasehold improvements	41,262	40,598	1 to 40
Machinery and equipment	125,372	108,132	1 to 12
Furniture and fixtures	42,830	40,561	3 to 10
	224,025	203,942	
Less accumulated depreciation and amortization	122,479	102,310	
	$101,546	$101,632	

Depreciation expense on property, plant and equipment was $21.3 million, $20.8 million and $19.4 million for the fiscal years ended June 30, 2013, 2012 and 2011, respectively.

In fiscal 2012, based on the then current and projected results of operations in one of our components of the RFMW reporting unit, we tested this component's property, plant and equipment for impairment and determined that the projected undiscounted cash flows were less than its carrying value. As a result, we recognized $588,000 as a non-cash other long-lived asset impairment charge in fiscal 2012.

9. 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:

	(In thousands)
Balance at June 30, 2011	$ 2,499
Provision for warranty obligations	3,369
Cost of warranty obligations	(3,285)
Foreign currency impact	(19)
Balance at June 30, 2012	2,564
Provision for warranty obligations	3,021
Cost of warranty obligations	(2,725)
Foreign currency impact	(15)
Balance at June 30, 2013	$ 2,845

10. Derivative Financial Instruments

We address certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments.

Interest Rate Swap Cash-Flow Hedges

When deemed appropriate to do so, we enter into interest rate swap contracts with counterparties that are rated investment grade 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. There were no interest rate swap contracts that were outstanding as of June 30, 2011, and we have not entered into any new interest rate swap contracts since that date.

The fair values of our derivative financial instruments included in the consolidated balance sheets as of June 30, 2013 and 2012 were as follows:

	Asset (Liability) Derivatives			
	June 30, 2013		June 30, 2012	
(In thousands)	Balance Sheet Location	Fair Value[1]	Balance Sheet Location	Fair Value[1]
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	Accrued expenses and other current liabilities	$(359)	Prepaid expenses and other current assets	$23

[1] The fair values of derivative assets and liabilities are determined based on observable market data and are considered level 2 in the fair value hierarchy. See Note 11 for further information.

Foreign Currency Contract Derivatives

We routinely enter into foreign currency forward contracts to protect us from fluctuations in exchange rates. Our foreign currency contracts are not designated as hedges and therefore the change in fair value is included in other income (expense) as it occurs. As of June 30, 2013, we had $43.2 million of notional value foreign currency forward contracts maturing through July 31, 2013. 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 gains and losses related to our derivative financial instruments designated as hedging instruments for the fiscal years ended June 30, 2013, 2012 and 2011 were as follows:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized on Derivatives in Other Comprehensive Income (Effective Portion)			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)		
	Year Ended June 30,				Year Ended June 30,		
	2013	2012	2011		2013	2012	2011
	(In thousands)				(In thousands)		
Interest rate swap contracts	$—	$—	$(612)	Interest expense	$—	$—	$(7,225)

The amounts of the gains and losses related to our derivative financial instruments not designated as hedging instruments for the fiscal years ended June 30, 2013, 2012 and 2011 were 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		
		Year Ended June 30,		
		2013	2012	2011
		(In thousands)		
Foreign currency forward contracts	Other income (expense)	$(382)	$53	$263

11. 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 asset's or liability's valuation.

Foreign Currency Forward Contracts – The fair values of our foreign currency forward contracts were determined using a pricing model with all significant inputs based on observable market data such as measurement date spot and forward rates (Level 2). The fair value of our foreign currency forward contracts as of June 30, 2013 was a liability of $359,000 and was included in accrued expenses and other current liabilities. The fair value of our foreign currency forward contracts as of June 30, 2012 was an asset of $23,000 and was included in prepaid expenses and other current assets.

Interest Rate Swap Contracts – The fair values of our interest rate swap contracts were based on valuations received from the counterparties and corroborated by measurement date equivalent swap rates (Level 2). There were no interest rate swap contracts that were outstanding as of June 30, 2011, and we have not entered into any new interest rate swap contracts since that date.

During the year ended June 30, 2011, our remaining auction rate securities were sold for $10.4 million at an average of 93.8% of par. The resulting $688,000 realized loss was recorded in the statement of operations for the fiscal year ended June 30, 2011.

12. Long Term Debt and Credit Agreements

On August 15, 2007, in connection with the Going Private Transaction, we incurred $870.0 million of debt to finance the acquisition of Aeroflex, which was comprised of the following:

- a $575.0 million senior secured credit facility, which consisted of $525.0 million of term loans and a $50.0 million revolving credit facility;
- a $225.0 million exchangeable senior unsecured credit facility, which was subsequently refinanced with unregistered unsecured senior notes and subsequently exchanged for publicly registered unsecured senior notes; and
- a $120.0 million exchangeable senior subordinated unsecured credit facility, which was subsequently repaid with the proceeds from senior subordinated unsecured term loans.

On November 4, 2010, we amended our then existing senior secured credit facility, which allowed us to, among other things:

- increase the amount of cash we could spend for acquisitions of businesses;
- pay certain fees to affiliates of our Sponsors upon the completion of our IPO. These fees were paid on November 24, 2010, and consisted of a $2.5 million transaction fee for services directly attributable to the IPO ("Transaction Fee"), which was recorded as a reduction of additional paid-in capital, and a $16.9 million termination fee, to terminate the Sponsor Advisory Agreement with them ("Termination Fee"). The Termination Fee, when combined with the related write-off of prepaid advisory fees, amounted to an $18.1 million expense which was reported in the statement of operations as Termination of Sponsor Advisory Agreement; and
- change the basis for calculating our interest rate margin above LIBOR.

The net proceeds of our IPO were used to, among other things, tender for a portion of our senior unsecured notes and offer to repurchase a portion of our senior subordinated unsecured term loans. In December 2010, we

repurchased $32.2 million of our then existing senior unsecured notes and $154.4 million of our then existing senior subordinated unsecured term loans. This resulted in a $25.2 million loss on extinguishment of debt and write-off of deferred financing costs, which was comprised of the following:

- an 11% premium paid on the debt repurchased, which amounted to $20.5 million;
- the write-off of the related deferred financing costs of $4.0 million; and
- professional fees of $614,000.

On May 9, 2011, we entered into a new senior secured credit facility, consisting of a senior secured term loan facility of $725.0 million and a senior secured revolving credit facility of $75.0 million.

The $725.0 million proceeds were used:

1) to refinance $695.5 million of our then outstanding debt, as follows:

- to repay the entire outstanding balance of $489.1 million under our then existing senior secured credit facility;
- to repurchase all of our unsecured senior notes of $192.8 million; and
- to prepay all of our senior subordinated unsecured term loans of $13.6 million.

2) to pay a portion of the fees and expenses totaling $34.0 million in connection with the refinancing, including:

- fees to the lenders of $14.2 million;
- a premium of approximately 9% on the repurchased unsecured senior notes and senior subordinated unsecured term loans, which amounted to $18.3 million; and
- professional fees and other expenses of $1.5 million.

We recorded $15.6 million of these fees as deferred financing costs and recorded $34.2 million, related to the repayment of the debt, as a loss on extinguishment of debt, including the write-off of the existing deferred financing costs of $15.8 million.

The total cash outlay related to the debt refinancing, including premiums, fees and expenses listed above and $10.7 million of interest accrued through May 9, 2011, exceeded the $725.0 million proceeds by $15.2 million, which was paid from our available cash.

On May 24, 2012, we amended our senior secured credit facility, which allowed us to increase the flexibility under the total leverage ratio covenant. As of result of the amendment, the applicable LIBOR interest margin increased from 300 basis points to 450 basis points.

On May 29, 2013, we further amended our senior secured credit facility. The amendment increased the outstanding amount under the term loan by $5.6 million to $612.0 million, eliminated the total leverage ratio covenant from the term loan portion of the facility, reduced the effective interest rate payable with respect to outstanding loans under the facility by 125 basis points (comprised of a reduction of 25 basis points from the LIBOR floor and 100 basis points from the spread above LIBOR), and extended the maturity date by eighteen months to November 9, 2019. The amendment also reduced the availability under our undrawn revolving credit facility from $75.0 million to $57.1 million and made certain adjustments to the leverage covenant. Compliance with the leverage covenant is only required if the revolving credit facility is used.

Total long term debt outstanding as of June 30, 2013 and 2012 consisted of the following:

		June 30, 2013	June 30, 2012
		(In thousands)	
Senior secured revolving credit facility	(a)	$ —	$ —
Senior secured term loan facility	(b)	587,000	641,375
Total debt		587,000	641,375
Less current maturities		—	—
Total long term debt		$587,000	$641,375

The following is a summary of required principal repayments of our debt for the next five fiscal years and thereafter as of June 30, 2013:

	2014	2015	2016	2017	2018	Thereafter	Total
				(In thousands)			
Debt repayment	$—	$—	$—	$—	$5,600	$581,400	$587,000

(a) The senior secured credit facility, as amended on May 29, 2013, provides for additional borrowings under a revolving credit facility of up to $57.1 million through November 9, 2017 at a rate based on the LIBOR rate (3 month period) plus 350 basis points (3.77% at June 30, 2013). The senior secured credit facility allows us to utilize up to $25.0 million of the revolving credit facility for letters of credit and up to $5.0 million for a swing loan. At June 30, 2013, there are no outstanding amounts or letters of credit issued against the facility. Any borrowings would be secured by substantially all of the Company's assets. We are obligated to pay a 0.5% fee on any undrawn revolver commitments.

(b) The $725.0 million senior secured term loan facility, dated May 9, 2011, provided for $1.8 million quarterly principal repayments commencing September 30, 2011, and the remaining balance was due at maturity on May 9, 2018. During fiscal 2012 we repaid $83.6 million of our senior secured term loan facility, including voluntary prepayments of $80.0 million. The senior secured term loan facility was amended May 29, 2013 and provided for $1.5 million quarterly principal repayments commencing September 30, 2013, with the remaining balance due at maturity on November 9, 2019. The senior secured term loan facility is subject to mandatory prepayments based on certain events, including a percentage of our annual excess cash flows, which ranges from 0% to 50%, depending on the level of our senior secured leverage ratio. The outstanding borrowings under the senior secured term loan facility bear interest, payable quarterly, at a rate per annum equal to either: (i) the base rate (as defined in the senior secured credit facility), plus an applicable margin of 250 basis points (5.75% at June 30, 2013); or (ii) the adjusted LIBOR rate, which has a floor of 100 basis points (as defined in the senior secured credit facility), plus an applicable margin of 350 basis points (4.50% at June 30, 2013). The borrowings are secured by substantially all of our assets, excluding those of our foreign subsidiaries, but including 65% of the stock of the foreign subsidiaries. During fiscal 2013, we made voluntary prepayments of $60 million of our existing senior secured term loan facility with cash on hand from operations. $35 million of these prepayments were made prior to the May 29, 2013 amendment. The remaining $25 million of these prepayments were made after the May 29, 2013 amendment. These voluntary prepayments were applied to the scheduled quarterly repayments beginning with the September 30, 2013 payment. Therefore, we do not have any further required quarterly repayments until September 30, 2017, with the remaining balance due at maturity.

The senior secured credit facility agreement provides that if the Company sells assets (with certain exceptions) or issues new debt or equity securities to unrelated parties, the proceeds must be used to prepay term or revolving credit loans.

Financial covenants in the senior secured credit facility as amended May 29, 2013 include a maximum leverage ratio of total debt (less up to $15.0 million of unrestricted cash) to Adjusted EBITDA, as defined in the agreement, of 5.75 on June 30, 2013, which reduces to 5.50 on September 30, 2013 and 5.25 on June 30, 2014 and ultimately to 3.50 on September 30, 2016 and thereafter. Our actual leverage ratio was 4.41 as of June 30, 2013. This covenant is only applicable if there are borrowings under the senior secured revolving credit facility at a given quarter end. Additional covenants include restrictions on indebtedness, liens, investments, dividends, disposition of assets, acquisitions and transactions with shareholders and affiliates.

As of June 30, 2013, we were in compliance with all of the financial covenants contained in the senior secured credit facility.

In connection with the respective credit facilities discussed above, we capitalized deferred financing costs of $2.2 million, $3.7 million and $18.9 million for the years ended June 30, 2013, 2012 and 2011, respectively, primarily consisting of facility and legal fees. For the years ended June 30, 2013, 2012 and 2011, we amortized $2.2 million, $2.0 million and $4.8 million, respectively, to interest expense. During the years ended June 30, 2013, 2012 and 2011, we wrote-off $2.6 million, $1.2 million and $19.8 million, respectively, of deferred financing costs, in connection with the extinguishment of debt, which includes voluntary prepayments.

Interest paid was $38.1 million, $31.1 million and $67.6 million for the years ended June 30, 2013, 2012 and 2011, respectively. Accrued interest of $2.5 million and $5.1 million was included in accrued expenses and other current liabilities at June 30, 2013 and 2012, respectively.

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

	As of June 30, 2013	
	(In thousands)	
	Carrying Amount	Estimated Fair Value
Senior secured term loan facility	$ 587,000	$ 585,533

	As of June 30, 2012	
	(In thousands)	
	Carrying Amount	Estimated Fair Value
Senior secured term loan facility	$ 641,375	$ 622,134

The estimated fair values of each of our debt instruments are based on quoted prices and are considered Level 1 measurements. 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.

13. Share-Based Payment Arrangements

In November 2011, our stockholders approved the 2011 Omnibus Incentive Plan, or the 2011 Plan. The 2011 Plan authorizes us to provide equity-based compensation in the form of options, stock appreciation rights, restricted stock and restricted stock units, or RSUs, performance restricted stock units, or PRSUs, other share based awards and performance awards. Awards may be granted to employees, directors and consultants of the Company. The number of shares of our common stock authorized for award under the 2011 Plan was 4.5 million shares. The compensation committee of our board of directors administers the 2011 Plan including selecting participants, the type and terms of awards to be granted and number of shares subject to the awards. As of June 30, 2013, 2.1 million shares of our common stock remain available for grants pursuant to the 2011 Plan.

Restricted Stock Units

In fiscal 2013, the compensation committee awarded RSUs covering a total of 1.0 million shares. RSUs generally vest in equal tranches over a service period of up to three years. We have elected to recognize compensation cost on a straight-line basis over the requisite service period for the entire award. The estimated fair value of RSUs granted under the 2011 Plan was determined based on the fair value of our common stock on the date of grant. RSUs awarded to employees in certain foreign countries, covering 54,000 shares, are to be settled in cash at their vesting date, and were therefore recorded as liability-classified awards. Liability-classified awards are remeasured to fair value at each reporting date until settlement.

As of June 30, 2013, the total unrecognized compensation cost related to RSUs was $6.8 million and the related weighted average period over which it is expected to be recognized was approximately 2.2 years.

Additional information with respect to our RSUs was as follows:

In thousands, except per share data	Shares	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value Per Share
Nonvested at June 30, 2012	371		
Granted	973		
Vested (includes 34 units withheld for income taxes)	(114)		
Forfeited	(66)		
Nonvested at June 30, 2013	1,164	$9,186	$7.12
Expected to vest at June 30, 2013	1,090	$8,601	$7.11

Performance Restricted Stock Units

In fiscal 2013, the compensation committee awarded PRSUs covering a total of 733,000 shares. PRSUs include both a service condition and a performance condition. The number of PRSUs that will vest is dependent on the Company achieving pre-established annual financial performance targets. The PRSUs generally have a service period of up to three years. Vesting of 0% to 150% of the indicated shares may occur depending on the extent to which performance targets are achieved. We have elected to recognize compensation cost on a straight-line basis over the requisite service period for the entire award. The estimated fair value of PRSUs granted under the 2011 Plan was determined based on the fair value of our common stock on the date of grant.

As of June 30, 2013, the total unrecognized compensation cost related to PRSUs, which includes additional compensation relating to a modification of the performance target for fiscal 2013, was $2.0 million and the related weighted average period over which it is expected to be recognized was approximately 2.2 years.

Additional information with respect to our PRSUs was as follows:

In thousands, except per share data	Shares	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value Per Share
Nonvested at June 30, 2012	—		
Granted	733		
Changes in units based on anticipated performance	(418)		
Forfeited	(4)		
Nonvested at June 30, 2013	311	$2,456	$8.19
Expected to vest at June 30, 2013	302	$2,386	$8.19

Membership Interest in Parent LLC

On August 15, 2007, certain members of our management were granted Class B membership interests and during the years ended June 30, 2011 and 2010 certain employees were granted Class B-1 membership interests, in a limited liability company (parent LLC) that owns 76.5% of our common stock as of June 30, 2013. The parent LLC is a holding company with no operations or employees of its own. The parent LLC has three classes of membership interests, Class A, Class B and Class B-1. Our non-management equity investors, or their affiliates, and certain of our employees that made equity investments in parent LLC are Class A members. Class B and Class B-1 members consist of certain of our employees. Pursuant to the terms of the limited liability company operating agreement, or the LLC Agreement, governing parent LLC, all class members will share in any distributions on a pro-rata basis based on their percentage of membership interests, to the extent funds are available, after the Class A members first receive a priority distribution, then the Class B members receive a priority distribution and finally the Class B-1 members receive a priority distribution (each distribution as separately defined in the LLC Agreement). The Class B and Class B-1 membership interests are non-transferable and vest ratably over five years, with any unvested interests reverting to the holders of Class A interests in the event they are forfeited or repurchased. The Class B and Class B-1 membership interests are equity classified awards and, therefore, the fair value of the Class B and Class B-1 membership interests at the grant date was recorded as compensation expense on a straight-line basis over the respective vesting period. In addition, since the Class A employee members that made equity investments in parent LLC paid less than fair value for their Class A member interests, as only they are entitled to a $3.2 million special distribution and there is no vesting associated with the special distribution, we recorded the present value of the discount from fair value of $1.4 million as compensation expense on August 15, 2007. The accretion on this present value was $295,000, $392,000 and $338,000 for the years ended June 30, 2013, 2012 and 2011, respectively, and was recorded as interest expense.

Compensation expense attributable to share-based compensation (for RSUs, PRSUs and membership interests) was $3.6 million ($2.3 million after tax) for the year ended June 30, 2013, $3.5 million ($2.2 million after tax) for the year ended June 30, 2012 and $2.3 million ($1.4 million after tax) for the year ended June 30, 2011.

14. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) was as follows:

	Year Ended June 30		
	2013	2012	2011
		(In thousands)	
Net derivative instruments, beginning of year	$ —	$ —	$ (4,046)
Annual change in derivative instruments, net of tax	—	—	4,046
Net derivative instruments, end of year	—	—	—
Net investment gains (losses), beginning of year	—	—	(1,276)
Annual change in investment gains (losses), net of tax	—	—	1,276
Net investment gains (losses), end of year	—	—	—
Net minimum pension liability, beginning of year	(1,448)	(544)	(773)
Annual change in minimum pension liability, net of tax	45	(904)	229
Net minimum pension liability, end of year	(1,403)	(1,448)	(544)
Net cumulative translation adjustment, beginning of year	(38,028)	(31,992)	(47,480)
Annual change in cumulative translation adjustment, net of tax	(3,975)	(6,036)	15,488
Net cumulative translation adjustment, end of year	(42,003)	(38,028)	(31,992)
Accumulated other comprehensive income (loss)	$(43,406)	$(39,476)	$(32,536)

15. Income Taxes

The amount of income (loss) before income taxes attributable to domestic and foreign operations were as follows:

	Year Ended June 30,		
	2013	2012	2011
		(In thousands)	
Domestic	$(129,295)	$(36,411)	$(109,608)
Foreign	14,023	(22,119)	36,122
	$(115,272)	$(58,530)	$ (73,486)

The provision (benefit) for income taxes consisted of the following:

	Year Ended June 30,		
	2013	2012	2011
		(In thousands)	
Current:			
Federal	$ 15,602	$ 1,623	$ 2,399
State and local	50	1,243	359
Foreign	2,127	(4,035)	12,050
	17,779	(1,169)	14,808
Deferred:			
Federal	(27,489)	976	(46,447)
State and local	(1,270)	(1,637)	(3,916)
Foreign	(44)	(3,063)	(3,263)
	(28,803)	(3,724)	(53,626)
	$(11,024)	$(4,893)	$(38,818)

The provision (benefit) for income taxes varied from the amount computed by applying the U.S. federal income tax rate to income (loss) before income taxes as a result of the following:

	Year Ended June 30,		
	2013	2012	2011
		(In thousands)	
Tax at federal statutory rate	$(40,345)	$(20,486)	$(25,720)
U.S. federal tax on earnings of foreign subsidiaries	2,462	3,493	(6,394)
Foreign tax rate differential	(1,543)	925	(2,113)
Impact of tax rate changes	(641)	(674)	—
Domestic manufacturing credit	(1,651)	(372)	—
Non-deductible ITAR expense	2,800	—	—
Foreign tax credits	(3,196)	—	9,640
Increase (decrease) in valuation allowance	4,413	1,947	(9,278)
State and local income taxes, net of federal	(1,279)	(1,129)	(3,797)
Impairment of non-deductible goodwill	30,563	17,624	—
Gain from a bargain purchase of a business	—	—	(66)
Non-deductible expenses, including change in fair value of contingent consideration liability	—	(3,440)	2,438
Research and development credit and deduction	(3,034)	(2,880)	(3,824)
Other, net	427	99	296
	$(11,024)	$ (4,893)	$(38,818)

The tax effects of temporary differences which give rise to significant portions of deferred tax assets and liabilities consisted of:

	As of June 30,	
	2013	2012
	(In thousands)	
Accounts receivable	$ 1,164	$ 291
Inventories	29,202	24,958
Accrued expenses and other current liabilities	10,295	8,067
Other long-term liabilities	7,605	8,348
Tax loss carryforwards	8,092	7,437
Capital loss carryforwards	2,446	2,207
Tax credit carryforwards	5,937	4,359
Gross deferred tax assets	64,741	55,667
Less: valuation allowance	(14,936)	(9,287)
Net deferred tax assets	49,805	46,380
Property plant and equipment	(17,961)	(18,469)
Non-distributed earnings of foreign subsidiaries	(6,417)	(8,031)
Intangible assets	(57,232)	(80,587)
Gross deferred tax liabilities	(81,610)	(107,087)
Net deferred tax assets (liabilities)	$(31,805)	$ (60,707)

Deferred tax assets have resulted primarily from our future deductible temporary differences and net operating loss and tax credit carryforwards. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. Our ability to realize these deferred tax assets depends upon the generation of sufficient future taxable income to allow for the utilization of the deductible temporary differences and loss and credit carryforwards. If such estimates and related assumptions change in the future, we may be required to record additional valuation allowances against our deferred tax assets resulting in additional income tax expense in our consolidated statements of operations. Management evaluates the realizability of the deferred tax assets and the need for additional valuation allowances quarterly. At this time, based on current facts and circumstances, management believes that it is more likely than not that we will realize benefit for our gross deferred tax assets, except those deferred tax assets against which a valuation allowance has been recorded.

During fiscal 2012, we provided U.S. deferred taxes of $3.5 million on the accumulated earnings of three foreign subsidiaries for which the Company intends to repatriate the earnings in the foreseeable future. At June 30, 2012, the Company had approximately $8.0 million of U.S. deferred taxes provided for the expectation of the repatriation of these earnings.

During fiscal 2013 we repatriated earnings from two foreign subsidiaries for which we had previously provided deferred U.S. taxes. In addition, we provided an additional $2.5 million of U.S. deferred taxes on current year earnings. At June 30, 2013, the Company had approximately $6.4 million of U.S. deferred taxes provided for the expectation of the repatriation of these earnings.

As of June 30, 2013, we had state business credit carryforwards of $1.0 million. Of this amount, approximately $602,000 of credits have varying expiration dates between 2014 and 2027. The remaining credits have no expiration date.

As of June 30, 2013, we had foreign tax credit carryforwards of $5.2 million that relate to foreign source income upon which U.S. taxes have been previously provided and paid. The benefit available for foreign tax credits against our U.S. income tax on foreign earnings has not been recognized because it was not considered to be more likely than not that we would generate sufficient foreign source income to be able to claim the credit. Therefore, we have provided a valuation allowance against all foreign tax credits. If factors change such that we conclude that it is more likely than not that we will be able to utilize our foreign tax credits, then we would recognize this benefit through the elimination of the valuation allowance we have set up against the foreign tax credits.

As of June 30, 2013, we had operating loss carryforwards of $992,000 in France, $3.5 million in Germany, $3.8 million in Hong Kong, and $10.0 million in Singapore which have no expiration. We also had operating loss carryforwards in China of $574,000 which will expire in 2016 and 2017. We also had state net operating losses that create an available net benefit of $2.2 million. We have provided a valuation allowance of $2.3 million against the deferred tax assets for all net operating loss carryforwards in France, Spain, Singapore and China and an aggregate of $7.4 million for state net tax benefits, foreign tax credit carryforwards, and certain other deferred tax assets that are not deemed realizable.

The increase in the valuation allowance of $5.6 million during the year ended June 30, 2013 is primarily due to foreign tax credits generated from repatriated foreign earnings, net operating losses in Singapore, Hong Kong and in the U.S. with respect to a subsidiary that the Company owns more than 50%, but cannot consolidate for U.S. tax purposes. The increase in the valuation allowance of $1.9 million during the year ended June 30, 2012 is primarily attributable to non-trade losses generated in the United Kingdom and net operating losses generated in Singapore and Germany for which future utilization is uncertain.

We made income tax payments of $7.4 million, $9.2 million and $15.0 million and received refunds of $6.3 million, $194,000 and $3.1 million during the years ended June 30, 2013, 2012 and 2011, respectively.

The aggregate amount of unrecognized tax benefits included in liabilities was as follows:

	Year Ended June 30,	
	2013	2012
	(In thousands)	
Balance at beginning of year	$2,561	$2,344
Gross increase related to tax positions taken in current fiscal year	156	195
Gross increase related to tax positions taken prior to fiscal year	256	239
Gross decrease of tax benefits related to settlements with taking authorities	—	(167)
Reduction as a result of a lapse of the applicable statute of limitations	(127)	(50)
Balance at end of year	$2,846	$2,561

Interest and penalties related to income tax liabilities were included in income tax expense, consistent with our historical policy and amounted to $111,000, $31,000 and $272,000 for the years ended June 30, 2013, 2012 and 2011, respectively. At June 30, 2013 and 2012, accrued interest on uncertain tax positions was $374,000 and $256,000, respectively, net of the federal benefit.

We do not anticipate a significant increase or decrease to our unrecognized tax benefits over the next twelve months. As of June 30, 2013, if all uncertain tax positions were sustained at the amounts reported or expected to be reported in our tax returns, our income tax expense would decrease by $2.8 million.

The statute of limitations for our federal income tax return is open for all years subsequent to our 2010 fiscal year. The statute of limitations for our state returns is open for all years subsequent to our 2010 fiscal year. The statute of limitations for the U.K. income tax returns is open for all years subsequent to our 2011 fiscal year.

16. Employment Contracts

We have employment agreements with our officers and certain other key employees for varying periods through 2016 with annual remuneration ranging up to $650,000, plus, in some cases, additional compensation based upon earnings of the Company. Future aggregate minimum payments under these contracts are $5.5 million. The contract with our Chief Executive Officer provides for a three-year consulting period at the expiration of the employment term at two-thirds of salary. In addition, if, after a Change in Control of the Company, as defined, the employment agreements of these officers are terminated by the Company without cause or by them for good reason, certain of them will receive lump sum payments equal to a multiple of their salary and target bonus, one will receive a lump sum payment equal to the full amount of his salary and target bonus for the remainder of the employment term, and our Chief Executive Officer and Executive Vice President will receive for the balance of their employment terms, their salary and an annual bonus equal to the average of the three highest annual bonuses received for fiscal years commencing after August 15, 2007.

17. Employee Benefit Plans

401(k) and Profit Sharing Plans

All of our U.S. employees who are not members of a collective bargaining agreement are eligible to participate in a Company sponsored 401(k) plan. Each participant has the option to contribute a portion of his or her compensation and to receive a discretionary employer matching contribution. In fiscal 2010, there was no employer contribution. On July 1, 2010, the employer matching contribution was reinstated at a rate of 40% of the first 8% of compensation contributed by the employee. On November 1, 2011, the employer matching contribution was suspended. Furthermore, employees of one subsidiary are eligible to participate in a qualified profit sharing plan and receive an allocation of a discretionary share of the subsidiary's profits. For the fiscal years ended June 30, 2013, 2012 and 2011, aggregate expenses related to these 401(k) and profit sharing plans were $1.3 million, $3.7 million and $5.6 million, respectively.

Defined Benefit Pension Plan

The Company has a Supplemental Executive Retirement Plan, or SERP. As of June 30, 2013, the SERP is unfunded, however, there are funds (primarily the cash surrender value of life insurance policies that specify the SERP as the beneficiary) being held in a rabbi trust for the one remaining individual in the SERP, an officer who retired in 2005. Those assets (which are included in other assets) totaled $11.9 million and $11.1 million at June 30, 2013 and 2012, respectively, and are not considered in the fair value of plan assets. An actuarially determined liability of $6.2 million for the one remaining SERP participant is recorded as of June 30, 2013, of which $628,000 is included in accrued expenses and other current liabilities and $5.6 million is included in other long-term liabilities. Payments to the retired officer of $628,000 were made in each of the fiscal years 2013, 2012 and 2011. Pursuant to the SERP, we are required to make payments of $628,000 in each fiscal year to this retired officer through December 31, 2015 or upon death, whichever is later.

In the fiscal years ended June 30, 2013, 2012 and 2011, we recorded $292,000, $1.0 million and $404,000, respectively, of pension expense, included in general and administrative expenses in the accompanying statement of operations. Payments of $628,000 in fiscal year 2013, partially offset by the expense recorded of $292,000, caused a net decrease in the SERP liability as of June 30, 2013.

Assumptions

The weighted-average assumptions used to determine benefit obligations and net periodic benefit cost under the SERP was a discount rate of 4.81%, 4.13% and 5.67% and for the years ended June 30, 2013, 2012, and 2011, respectively. The rate of compensation increase was not applicable as the one participant in the SERP whose liability is actuarially determined is an inactive retired employee. The expected long-term return on plan assets was also not applicable since the SERP was unfunded.

18. Legal Matters

We have identified instances of noncompliance with the International Traffic in Arms Regulations, or ITAR, in certain of our past business activities as well as in the pre-acquisition business activities of certain acquired companies. These include the inadvertent misclassification and/or export of products without the required license and the disclosure of controlled technology to certain foreign national employees. These matters were formally disclosed to the U.S. Department of State from time to time from fiscal 2007 and virtually all have been resolved without penalty. However, to resolve all those outstanding violations of the Arms Export Control Act, or AECA, and the ITAR during the period from 1999 to 2009 that were disclosed by us voluntarily to the State Department concerning space related hardware items that were exported to China and, without the requisite State Department licenses, to end users in numerous other foreign countries, without admitting or denying the allegation of the violations, we have entered into a Consent Agreement effectively as of August 6, 2013, with the U.S. Department of State, Office of Defense Trade Controls Compliance. The Consent Agreement involves, among other things, a fine of $8.0 million payable without interest over a two year period, $4.0 million of which is suspended and eligible for credit based on pre and post Consent Agreement compliance expenditures and investments made by the Company and approved by the State Department. During fiscal 2013, we recorded a charge of $8.0 million representing the legal obligation to the State Department under the then proposed terms of the Consent Agreement. Going forward, the Consent Agreement will not impact at all our ability to transact business internationally.

In March 2005, we sold the net assets of our shock and vibration control device manufacturing business, which we refer to as 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. We recorded a liability for the estimated remediation costs related to adverse environmental conditions that existed at the VMC premises when it was sold. The accrued environmental liability at June 30, 2013 was $1.4 million, of which $300,000 was expected to be paid within one year.

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 business, results of operations, financial position, liquidity or capital resources.

19. Other Commitments and Contingencies

Operating Leases

Several of our operating facilities and certain machinery and equipment are leased under agreements expiring through 2023. The leases for machinery and equipment generally contain purchase options at the end of their lease term at the then fair value of the related leased assets.

The following is a summary of future minimum payments under operating leases for the next five fiscal years and thereafter as of June 30, 2013:

	2014	2015	2016	2017	2018	Thereafter	Total
				(In thousands)			
Future minimum payments	$7,255	$5,707	$4,898	$4,105	$2,421	$5,017	$29,403

Rental expense was $10.3 million, $10.6 million and $9.9 million for the fiscal years ended June 30, 2013, 2012 and 2011, respectively.

20. Business Segments

We are a global provider of radio frequency, or RF, and microwave integrated circuits, components and systems used in the design, development and maintenance of technically demanding, high-performance wireless communication systems. Our solutions include highly specialized microelectronic components and test and measurement equipment used by companies in the space, avionics, defense, commercial wireless communications, medical and other markets. Approximately 28%, 33% and 30% of our sales for the fiscal years ended June 30, 2013, 2012 and 2011, 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. We also have operations in Europe and Asia, with our most significant non-U.S. operations in the U.K. Net sales from facilities located in the U.K. were $162.2 million, $143.8 million and $178.5 million for the fiscal years ended June 30, 2013, 2012 and 2011, respectively. Total assets of the U.K. operations were $177.3 million as of June 30, 2013 and $177.9 million as of June 30, 2012.

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

	Year Ended June 30,		
	2013	2012	2011
		(In thousands)	
United States of America	$348,666	$409,270	$393,396
Europe and Middle East	145,021	137,978	151,964
Asia and Australia	129,684	106,748	159,554
Other regions	23,771	19,019	24,500
	$647,142	$673,015	$729,414

We organize our operations into two segments: Aeroflex Microelectronic Solutions, or AMS, and Aeroflex Test Solutions, or ATS. We engineer, manufacture and market a diverse range of products in each of our segments. The segment data which follows, reflects a reclassification of our frequency synthesizer product line from our ATS segment to our AMS segment for all periods presented to better align it with its end markets. Our synthesizer reporting unit had sales of $19.5 million, $15.1 million and $25.2 million in fiscal 2013, 2012 and 2011, respectively.

AMS offers a broad range of microelectronics products and is a leading provider of high-performance, high reliability specialty microelectronics components. Its products include high reliability, or HiRel, microelectronics/semiconductors, RF and microwave components, mixed-signal/digital Application Specific Integrated Circuits ("ASICs") and motion control products. ATS is a leading provider of a broad line of specialized test and measurement equipment. Its products include wireless test equipment, military radio and private mobile radio test equipment, avionics test equipment, synthetic test equipment and other general purpose test equipment.

Selected financial data by segment is as follows:

	Year Ended June 30,		
	2013	2012	2011
		(In thousands)	
Net sales			
– Microelectronic solutions (“AMS”)	$ 360,834	$381,796	$395,099
– Test solutions (“ATS”)	286,308	291,219	334,315
Net sales	$ 647,142	$673,015	$729,414
Segment adjusted operating income			
– AMS	$ 89,551	$100,230	$111,482
– ATS	28,662	13,958	57,380
– Corporate expense	(14,404)	(13,059)	(12,322)
Adjusted operating income	103,809	101,129	156,540
Amortization of acquired intangibles			
– AMS	(35,885)	(36,591)	(37,442)
– ATS	(20,599)	(26,105)	(26,230)
Restructuring charges			
– AMS	(45)	(1,458)	(8,034)
– ATS	(5,424)	(5,321)	(6,749)
– Corporate	(69)	—	—
Inventory write-off related to discontinued product line – ATS	(1,854)	—	—
Impairment of goodwill and other long-lived assets			
– AMS	(2,056)	(56,700)	—
– ATS	(93,400)	—	—
ITAR settlement expense – AMS	(8,000)	—	—
Termination of sponsor advisory agreement – Corporate	—	—	(18,133)
Change in fair value of acquisition contingent consideration liability – Corporate	—	7,553	(1,834)
Share-based compensation			
– AMS	(1,085)	(262)	—
– ATS	(568)	(167)	—
– Corporate	(1,942)	(3,098)	(2,254)
Special accounts receivable reserve – AMS	(2,529)	—	—
Merger related expense – Corporate	—	—	(1,222)
Business acquisition and divestiture related costs – Corporate	(697)	(14)	(282)
Current period impact of acquisition related adjustments			
– AMS	51	(151)	(768)
– ATS	87	89	(657)
– Corporate	(220)	(220)	(220)
Operating income (loss) (GAAP)	(70,426)	(21,316)	52,715
Interest expense	(41,446)	(34,237)	(66,204)
Loss on extinguishment of debt and write-off of deferred financing costs	(2,580)	(1,232)	(59,395)
Gain from a bargain purchase of a business	—	—	173
Other income (expense), net	(820)	(1,745)	(775)
Income (loss) before income taxes	$(115,272)	$ (58,530)	$ (73,486)

Management evaluates the operating results of our two segments based upon Adjusted EBITDA (as defined in our credit agreement) as well as adjusted operating income, which is pre-tax operating income before certain non-cash, non-recurring and other items. We have set out above our adjusted operating income by segment and in the aggregate, and have provided a reconciliation of adjusted operating income to operating income (loss) on a GAAP basis and income (loss) before income taxes for the periods presented. Among the adjustment items in the fiscal year ended June 30, 2013 are: (i) an impairment of goodwill and other long-lived assets of $95.5 million, primarily due to the $93.4 million goodwill impairment recorded on our AVComm reporting group (see Note 4); (ii) a regulatory settlement of $8.0 million recorded in connection with outstanding ITAR violations (see Note 18); and (iii) a reserve of $2.5 million against accounts receivable due from a customer whose bank accounts were recently seized by the U.S. Attorney (see Note 6).

	As of June 30,	
	2013	2012
	(In thousands)	
Total assets		
– AMS	$ 604,490	$ 639,481
– ATS	366,817	484,846
– Corporate	57,647	65,481
Total assets	$1,028,954	$1,189,808

	Year Ended June 30,		
	2013	2012	2011
	(In thousands)		
Capital expenditures			
– AMS	$12,541	$13,118	$13,756
– ATS	7,756	8,444	11,666
– Corporate	531	211	535
Total capital expenditures	$20,828	$21,773	$25,957
Depreciation and amortization expense:			
– AMS	$47,078	$47,097	$47,071
– ATS	31,974	36,293	35,617
– Corporate	628	908	771
Total depreciation and amortization expense	$79,680	$84,298	$83,459

21. **Quarterly Financial Data** (Unaudited):

(In thousands, except per share data)

	Quarter				
FY 2013	**First**	**Second**	**Third**	**Fourth**	**Year Ended June 30,**
Net sales	$141,153	$156,230	$160,954	$188,805	$ 647,142
Gross profit	68,899	78,998	80,560	100,664	329,121
Net income (loss)	(14,139)	745	(9,389)	(81,465)	(104,248)
Net income (loss) per common share:					
Basic	$ (0.17)	$ 0.01	$ (0.11)	$ (0.96)	$ (1.23)
Diluted	$ (0.17)	$ 0.01	$ (0.11)	$ (0.96)	$ (1.23)

	Quarter				
FY 2012	**First**	**Second**	**Third**	**Fourth**	**Year Ended June 30,**
Net sales	$154,884	$171,138	$162,262	$184,731	$673,015
Gross profit	78,519	85,691	79,173	95,503	338,886
Net income (loss)	(5,042)	(535)	(65,261)	17,201	(53,637)
Net income (loss) per common share:					
Basic	$ (0.06)	$ (0.01)	$ (0.77)	$ 0.20	$ (0.63)
Diluted	$ (0.06)	$ (0.01)	$ (0.77)	$ 0.20	$ (0.63)

Note: Since per share information is computed independently for each quarter and the full year based on the respective average number of common shares outstanding, the sum of the quarterly per share amounts does not necessarily equal the per share amounts for each year.

2. Unaudited Consolidated Financial Statements for the nine months to 31 March 2014

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

	March 31, 2014	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 47,248	$ 39,424
Accounts receivable, less allowance for doubtful accounts of $3,438 and $3,422	133,141	151,163
Inventories	171,341	156,516
Deferred income taxes	34,499	35,491
Prepaid expenses and other current assets	11,645	9,374
Total current assets	397,874	391,968
Property, plant and equipment, net of accumulated depreciation of $125,344 and $122,479	103,591	101,546
Deferred financing costs, net	10,288	11,580
Other assets	31,002	31,886
Intangible assets with definite lives, net	55,530	65,552
Intangible assets with indefinite lives	113,156	110,779
Goodwill	326,402	315,643
Total assets	$1,037,843	$1,028,954
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 26,680	$ 34,768
Advance payments by customers and deferred revenue	29,213	23,490
Income taxes payable	5,486	12,003
Accrued payroll expenses	20,949	21,694
Accrued expenses and other current liabilities	34,761	37,184
Total current liabilities	117,089	129,139
Long-term debt	587,000	587,000
Deferred income taxes	58,447	67,296
Other long-term liabilities	19,046	23,061
Total liabilities	781,582	806,496
Stockholders' equity:		
Preferred stock, par value $.01 per share; 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, par value $.01 per share; 300,000,000 shares authorized, 85,208,703 and 84,936,582 shares issued and outstanding	852	849
Additional paid-in capital	653,870	651,950
Accumulated other comprehensive income (loss)	(28,486)	(43,406)
Accumulated deficit	(369,975)	(386,935)
Total stockholders' equity	256,261	222,458
Total liabilities and stockholders' equity	$1,037,843	$1,028,954

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Net sales	$155,463	$157,042
Cost of sales	72,551	77,249
Gross profit	82,912	79,793
Operating expenses:		
Selling, general and administrative costs	36,534	37,239
Research and development costs	22,676	23,247
Amortization of acquired intangibles	7,234	13,991
Restructuring charges	1,330	396
ITAR settlement expense	—	8,000
Total operating expenses	67,774	82,873
Operating income (loss)	15,138	(3,080)
Other income (expense):		
Interest expense	(7,116)	(9,448)
Other income (expense), net	(214)	(389)
Total other income (expense), net	(7,330)	(9,837)
Income (loss) from continuing operations before income taxes	7,808	(12,917)
Provision (benefit) for income taxes	2,482	(3,104)
Income (loss) from continuing operations	5,326	(9,813)
Discontinued operations:		
Income from discontinued operations, net of tax provision of $133	—	424
Net income (loss)	$ 5,326	$ (9,389)
Income (loss) per common share – basic:		
Continuing operations	$ 0.06	$ (0.12)
Discontinued operations	—	0.01
Net income (loss)	$ 0.06	$ (0.11)
Income (loss) per common share – diluted:		
Continuing operations	$ 0.06	$ (0.12)
Discontinued operations	—	0.01
Net income (loss)	$ 0.06	$ (0.11)
Weighted average number of common shares outstanding:		
Basic	85,186	84,904
Diluted	85,411	84,904

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended March 31,	
	2014	2013
Net sales	$439,300	$446,549
Cost of sales	215,590	220,476
Gross profit	223,710	226,073
Operating expenses:		
Selling, general and administrative costs	103,714	109,186
Research and development costs	66,855	65,213
Amortization of acquired intangibles	24,964	42,634
Restructuring charges	3,553	3,729
Impairment of other long-lived assets	—	1,340
ITAR settlement expense	—	8,000
Total operating expenses	199,086	230,102
Operating income (loss)	24,624	(4,029)
Other income (expense):		
Interest expense	(21,608)	(29,294)
Write-off of deferred financing costs	—	(824)
Other income (expense), net	(561)	(890)
Total other income (expense), net	(22,169)	(31,008)
Income (loss) from continuing operations before income taxes	2,455	(35,037)
Provision (benefit) for income taxes	(43)	(10,881)
Income (loss) from continuing operations	2,498	(24,156)
Discontinued operations:		
Income from discontinued operations, net of tax provision of $105 and $428	360	1,373
Gain on disposal of operations, net of tax of $0	14,102	—
Income from discontinued operations	14,462	1,373
Net income (loss)	$ 16,960	$ (22,783)
Income (loss) per common share – basic:		
Continuing operations	$ 0.03	$ (0.28)
Discontinued operations	0.17	0.01
Net income (loss)	$ 0.20	$ (0.27)
Income (loss) per common share – diluted:		
Continuing operations	$ 0.03	$ (0.28)
Discontinued operations	0.17	0.01
Net income (loss)	$ 0.20	$ (0.27)
Weighted average number of common shares outstanding:		
Basic	85,039	84,870
Diluted	85,290	84,870

See notes to unaudited condensed consolidated financial statements.

Aeroflex Holding Corp. and Subsidiaries
Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	Three Months Ended March 31,	
	2014	2013
Net income (loss)	$5,326	$ (9,389)
Other comprehensive income (loss):		
Minimum pension liability adjustment, net of tax provision (benefit) of $22 and $(230)	24	(677)
Foreign currency translation adjustment, net of tax provision (benefit) of $40 and $(462)	95	(9,706)
	119	(10,383)
Total comprehensive income (loss)	$5,445	$(19,772)

	Nine Months Ended March 31,	
	2014	2013
Net income (loss)	$16,960	$(22,783)
Other comprehensive income (loss):		
Minimum pension liability adjustment, net of tax provision (benefit) of $64 and $(230)	74	(677)
Foreign currency translation adjustment, net of tax provision (benefit) of $612 and $(233)	14,846	(3,436)
	14,920	(4,113)
Total comprehensive income (loss)	$31,880	$(26,896)

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	$ 16,960	$(22,783)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	43,119	59,880
Gain on disposal of operations	(14,102)	—
Impairment of other long-lived assets	—	1,340
Special accounts receivable reserve	—	2,529
Write-off of deferred financing costs	—	824
Deferred income taxes	(10,266)	(17,291)
Share-based compensation	3,632	2,610
Amortization of deferred financing costs	1,292	1,648
Other, net	217	606
Change in operating assets and liabilities, net of effects of acquisition and sale of businesses:		
Decrease (increase) in accounts receivable	18,215	8,868
Decrease (increase) in inventories	(12,417)	(2,362)
Decrease (increase) in prepaid expenses and other assets	(969)	1,758
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(18,841)	5,473
Net cash provided by (used in) operating activities	26,840	43,100
Cash flows from investing activities:		
Payments for purchase of business, net of cash acquired	(23,763)	—
Net proceeds from the sale of business	19,243	—
Proceeds from the sale of building held for sale	—	1,582
Capital expenditures	(16,980)	(14,311)
Other, net	198	572
Net cash provided by (used in) investing activities	(21,302)	(12,157)
Cash flows from financing activities:		
Debt repayments	—	(35,000)
Other, net	(1,758)	(641)
Net cash provided by (used in) financing activities	(1,758)	(35,641)
Effect of exchange rate changes on cash and cash equivalents	4,044	(1,840)
Net increase (decrease) in cash and cash equivalents	7,824	(6,538)
Cash and cash equivalents at beginning of period	39,424	41,324
Cash and cash equivalents at end of period	$ 47,248	$ 34,786

See notes to unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial information of Aeroflex Holding Corp. and subsidiaries (“we”, “our”, “us”, or the “Company”) 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 of normal recurring adjustments, which in management’s opinion are necessary for a fair presentation. The June 30, 2013 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 our annual report on Form 10-K for the fiscal year ended June 30, 2013 (“the fiscal 2013 Form 10-K”).

Unless the context requires otherwise, “fiscal” refers to the twelve months ended June 30 of the applicable year. For example, “fiscal 2013” refers to the twelve months ended June 30, 2013.

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

2. Recent Accounting Pronouncements

In February 2013, the FASB issued guidance which improves the reporting of reclassifications out of accumulated other comprehensive income. The new guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This new guidance became effective for us in our first quarter of fiscal 2014. The adoption of this presentation and disclosure only guidance is reflected in our consolidated financial statements.

In March 2013, the FASB issued guidance to resolve the diversity in practice concerning the release of the cumulative translation adjustment (“CTA”) into net income (i) when a parent sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity, and (ii) in connection with a step acquisition of a foreign entity. This amended guidance requires that CTA be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, and that a pro rata portion of the CTA be released into net income upon a partial sale of an equity method investment in a foreign entity only. In addition, the amended guidance clarifies the definition of a sale of an investment in a foreign entity to include both events that result in the loss of a controlling financial interest in a foreign entity and events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately prior to the date of acquisition. The CTA should be released into net income upon the occurrence of such events. This new guidance becomes effective prospectively for us in our first quarter of fiscal 2015. The adoption of this new guidance is not expected to have a significant impact on our consolidated financial statements.

In July 2013, the FASB issued guidance that clarifies when an entity should present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If either (i) a net operating loss carryforward, a similar tax loss, or tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position or (ii) the entity does not intend to use the deferred tax asset for this purpose (provided that the tax law permits a choice), an entity

should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. This new guidance becomes effective prospectively for us in our first quarter of fiscal 2015, with retrospective application and early adoption permitted. The adoption of this new guidance is not expected to have a significant impact on our consolidated financial statements.

In April 2014, the FASB issued guidance which changes the requirements for reporting discontinued operations. The new guidance requires a disposal of a component of an entity or a group of components of an entity to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. A strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment or (iv) other major parts of an entity. The new guidance no longer precludes presentation as a discontinued operation if (i) there are operations and cash flows of the component that have not been eliminated from the reporting entity's ongoing operations or (ii) there is significant continuing involvement with a component after its disposal. Additional disclosures about discontinued operations will also be required. This new guidance becomes effective for our fiscal year ending June 30, 2016, and is to be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. Early adoption is permitted.

3. Discontinued Operations

On September 5, 2013, we sold the net assets of Aeroflex Test Equipment Services ("ATES"), a division of our U.K. subsidiary, Aeroflex Limited, for $19.2 million in cash, inclusive of a working capital adjustment. ATES provided calibration and repair services of non-Aeroflex test and measurement equipment in the United Kingdom and was previously included in our Aeroflex Test Solutions ("ATS") segment. As a result of this sale, we recorded a gain on disposal of $14.1 million. The gain is not subject to U.K. taxes.

We have reported the results of operations of ATES as income from discontinued operations. Prior period statements of operations have been restated to conform to the current presentation. Net sales from the ATES operations were $2.4 million from July 1, 2013 to the date of sale and $3.9 million and $11.8 million for the three and nine months ended March 31, 2013, respectively.

4. Acquisition of a Business

Shenick Network Systems

On February 5, 2014, we acquired 100% of the stock of Shenick Network Systems Limited ("Shenick"), for a cash purchase price of $27.1 million, inclusive of a working capital adjustment. The Company has withheld $1.7 million of the $27.1 million purchase price to cover certain future payments that may come due pursuant to the purchase agreement. Shenick, located in Dublin, Ireland, is a leading edge provider of virtual testing for next generation software defined networking. Shenick is included in our ATS segment.

We allocated the purchase price based on the estimated fair value of the assets acquired and liabilities assumed as follows:

(In thousands)	
Current assets (excluding cash of $1,649)	$ 2,960
Property, plant and equipment	752
Deferred taxes	59
Amortizable intangibles:	
Customer related	4,780
Developed technology	6,880
Trade names	2,420
Goodwill	9,449
Total assets acquired	27,300
Current liabilities assumed	(1,819)
Net assets acquired	$25,481

We are in the process of completing our assessment of the fair value of certain assets and liabilities as of the date of acquisition which is expected to be finalized upon the receipt and completion of additional information and analysis during the fourth quarter of fiscal 2014.

The intangibles are being amortized on a straight-line basis over a range of 3 to 6 years. The intangibles and goodwill are not deductible for tax purposes.

On a pro forma basis, had the Shenick acquisition taken place as of the beginning of the periods presented, our results of operations for those periods would not have been materially affected. The results of operations of Shenick were included in our accompanying consolidated financial statements commencing with the date of acquisition.

5. Accounts Receivable Reserve

In the quarter ended March 31, 2013, we recorded a special reserve of $2.5 million for all accounts receivable due from a customer whose bank accounts were seized by the U.S. Attorney. This charge is included in selling, general and administrative expenses in the accompanying statements of operations.

6. Inventories

Inventories consisted of the following:

	March 31, 2014	June 30, 2013
	(In thousands)	
Raw materials	$ 77,519	$ 76,762
Work in process	58,238	52,221
Finished goods	35,584	27,533
	$171,341	$156,516

7. Intangible Assets and Other Long Lived Assets

Intangible Assets with Definite Lives

The components of amortizable intangible assets were as follows:

	March 31, 2014			June 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Total Net Book Value	Gross Carrying Amount	Accumulated Amortization	Total Net Book Value
	(In thousands)					
Developed technology	$211,331	$200,365	$10,966	$201,447	$192,574	$ 8,873
Customer related intangibles	232,829	191,417	41,412	226,406	171,514	54,892
Non-compete arrangements	10,399	10,201	198	10,344	9,401	943
Trade names	5,788	2,834	2,954	3,332	2,488	844
Total	$460,347	$404,817	$55,530	$441,529	$375,977	$65,552

Goodwill

We assess goodwill and other intangible assets with indefinite lives at least annually for impairment, in the fourth quarter of our fiscal year, or more frequently if certain events or circumstances indicate an impairment may have occurred. We test goodwill for impairment at the reporting unit level, which is one level below our operating segments.

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

	Microelectronic Solutions	Test Solutions	Total
		(In thousands)	
Balance at June 30, 2013			
Goodwill	$339,859	$159,284	$ 499,143
Accumulated impairments	(90,100)	(93,400)	(183,500)
	249,759	65,884	315,643
Changes for the nine months ended March 31, 2014			
Goodwill recorded for acquisition of Shenick	—	9,449	9,449
Translation and other adjustments	547	763	1,310
	547	10,212	10,759
Balance at March 31, 2014			
Goodwill	340,406	169,496	509,902
Accumulated impairments	(90,100)	(93,400)	(183,500)
	$250,306	$ 76,096	$ 326,402

In December 2013, based on a reduced forecast in one of our ATS reporting units, Avionics-Communications ("AVComm"), resulting from continued uncertainty in government spending, we had tested this reporting unit for impairment. As of December 31, 2013, the AVComm group had goodwill of $24.1 million and an enterprise carrying value of $91.2 million. We evaluated if there was impairment by comparing the fair value of the reporting unit with its enterprise carrying value. Based on our analysis of the discounted estimated cash flows of this group, we had estimated that the fair value of this group was approximately $98.6 million at December 31, 2013 and that the goodwill had not been impaired. There were no indications of any impairment of the AVComm reporting unit at March 31, 2014. However, should actual results differ from our forecasts of cash flows and our estimated enterprise fair value decreases below the carrying value, then an impairment would likely occur and we would need to calculate the amount of the write-down of goodwill by comparing the implied fair value of the reporting unit's goodwill (the excess of the fair value of the reporting unit over the fair value of its net identifiable assets) with the carrying amount of that goodwill. We will conduct our annual assessment of goodwill in the fourth quarter.

Other Long Lived Assets

In December 2012, we entered into a contract for the sale of our RF and microwave components ("RFMW") Whippany, New Jersey building. The net proceeds received in January 2013 were less than the carrying value of the building. Therefore, in December 2012, we recorded a $1.3 million impairment to the asset held for sale. Our RFMW reporting unit is included within our Aeroflex Microelectronic Solutions ("AMS") segment.

8. Restructuring Charges

The following table sets forth the charges and payments related to the restructuring liability, which is reflected in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheets and relates primarily to our ATS segment for both its Wireless and AVComm groups, for the period indicated:

	Balance June 30, 2013	**Nine Months Ended March 31, 2014**			**Balance March 31, 2014**
	Restructuring Liability	Net Additions	Cash Payments	Effect of Foreign Currency	Restructuring Liability
			(In thousands)		
Severance costs	$904	$1,806	$(1,888)	$ 23	$845
Facilities closure costs	88	1,747	(1,830)	—	5
Total	$992	$3,553	$(3,718)	$ 23	$850

9. Derivative Financial Instruments

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

Foreign Currency Forward Contract Derivatives

Foreign currency forward contracts are used to protect us from fluctuations in exchange rates. Our foreign currency forward contracts are not designated as hedges and therefore the change in fair value is included in other income (expense) as it occurs. As of March 31, 2014, we had $43.4 million of notional value foreign currency forward contracts maturing through April 30, 2014. 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 values of our derivative financial instruments included in the condensed consolidated balance sheets as of March 31, 2014 and June 30, 2013 were as follows:

	Asset (Liability) Derivatives			
	March 31, 2014		**June 30, 2013**	
(In thousands)	Balance Sheet Location	Fair Value[1]	Balance Sheet Location	Fair Value[1]
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	Prepaid expenses and other current assets	$31	Accrued expenses and other current liabilities	$(359)

[1] The fair values of derivative assets and liabilities are determined based on observable market data and are considered level 2 in the fair value hierarchy.

The amounts of the gains and losses related to our derivative financial instruments not designated as hedging instruments for the three and nine months ended March 31, 2014 and 2013 were 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 March 31,		**Nine Months Ended March 31,**	
		2014	2013	2014	2013
		(In thousands)			
Foreign currency forward contracts	Other income (expense)	$(193)	$190	$390	$161

10. Long Term Debt and Credit Agreements

As of March 31, 2014, we were in compliance with all of the financial covenants contained in our senior secured credit facility.

Interest paid was $20.5 million and $27.6 million for the nine months ended March 31, 2014 and 2013, respectively. Accrued interest of $2.3 million and $2.5 million was included in accrued expenses and other current liabilities at March 31, 2014 and June 30, 2013, respectively.

The fair value of our debt instruments was as follows:

	As of March 31, 2014	
	(In thousands)	
	Carrying Amount	Estimated Fair Value
Senior secured term loan facility	$ 587,000	$ 592,870

As of June 30, 2013, our total debt had a carrying value of $587.0 million and an estimated fair value of $585.5 million.

The estimated fair value of our senior secured term loan facility was based on quoted prices and is considered a level 2 measurement.

11. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss), net of tax, for the nine months ended March 31, 2014 were as follows:

	Net Minimum Pension Liability	Net Cumulative Translation Adjustment	Total
		(In thousands)	
Accumulated other comprehensive income (loss) at June 30, 2013	$(1,403)	$(42,003)	$(43,406)
Other comprehensive income (loss)			
Other comprehensive income (loss) before reclassifications	48	14,846	14,894
Amounts reclassified from accumulated other comprehensive income	26	—	26
Total other comprehensive income (loss)	74	14,846	14,920
Accumulated other comprehensive income (loss) at March 31, 2014	$(1,329)	$(27,157)	$(28,486)

12. Share-Based Payment Arrangements

Restricted Stock Units

During the nine months ended March 31, 2014, the compensation committee awarded restricted stock units, or RSUs, covering a total of 609,000 shares. The average grant date fair value per share of these RSUs was $6.32 and they vest in equal tranches over service periods between one and four years.

Performance Restricted Stock Units

During the nine months ended March 31, 2014, the compensation committee awarded performance restricted stock units, or PRSUs, covering a total of 441,000 shares with an average grant date fair value of $6.20. PRSUs include both a service condition and a performance condition. The number of PRSUs that will vest is dependent on the Company achieving pre-established annual financial performance targets. The PRSUs generally have a service period of up to three years. Vesting of 0% to 150% of the indicated shares may occur depending on the extent to which performance targets are achieved.

13. Income (Loss) Per Common Share

Our consolidated statements of operations present basic and diluted income (loss) per common share. Basic income (loss) per common share is computed by dividing income (loss) by the weighted average number of common shares outstanding for the period. Diluted income (loss) per common share reflects the dilutive effects of RSUs and PRSUs, if any. The treasury stock method is used to determine the dilutive effect of these potentially dilutive securities.

The following table reconciles basic shares outstanding to diluted shares outstanding:

	Three Months Ended March 31,		**Nine Months Ended March 31,**	
	2014	2013	2014	2013
		(In thousands)		
Basic shares outstanding	85,186	84,904	85,039	84,870
Effect of dilution	225	—	251	—
Diluted shares outstanding	85,411	84,904	85,290	84,870

For the three and nine months ended March 31, 2014, 17,000 shares of common stock equivalents, (which includes PRSUs that have been earned, but are subject to the continued employment of the respective participants with the Company) were excluded from the diluted weighted average shares outstanding calculation because they were anti-dilutive. Also, if all maximum performance metrics are achieved, an additional 1.4 million PRSUs could potentially vest. These PRSUs have also been excluded from diluted income (loss) per common share as the performance criteria on these awards were not satisfied during these periods.

For the three and nine months ended March 31, 2013, 1.1 million shares of common stock equivalents, were excluded from the diluted weighted average shares outstanding calculation because they were anti-dilutive. Also, if all maximum performance metrics are achieved, an additional 1.1 million PRSUs could potentially vest. These PRSUs have also been excluded from diluted income (loss) per common share as the performance criteria on these awards were not satisfied during these periods.

14. Legal Matters

To resolve all those outstanding violations of the Arms Export Control Act, or AECA, and the International Traffic in Arms Regulations, or ITAR, during the period from 1999 to 2009 that were disclosed by us voluntarily to the U.S. State Department concerning space related hardware items that were exported to China and, without the requisite State Department licenses, to end users in numerous other foreign countries, without admitting or denying the allegation of the violations, we have entered into a Consent Agreement effectively as of August 6, 2013, with the U.S. Department of State, Office of Defense Trade Controls Compliance. The Consent Agreement involves, among other things, a fine of $8.0 million payable over a two year period, $4.0 million of which is suspended and eligible for credit based on pre and post Consent Agreement compliance expenditures and investments made by the Company and approved by the State Department. During fiscal 2013, we recorded a charge of $8.0 million representing the legal obligation to the State Department under the then proposed terms of the Consent Agreement. In accordance with the terms of the Consent Agreement, in August 2013 we paid $2.0 million of the fine. Going forward, the Consent Agreement will not impact our ability to transact business internationally.

In March 2005, we sold the net assets of our shock and vibration control device manufacturing business, which we refer to as 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. We recorded a liability for the estimated remediation costs related to adverse environmental conditions that existed at the VMC premises when it was sold. The accrued environmental liability at March 31, 2014 was $1.1 million, of which $288,000 was expected to be paid within one year.

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 business, results of operations, financial position, liquidity or capital resources.

15. Income Taxes

The income tax provision was $2.5 million and the income tax benefit was $43,000 for the three and nine months ended March 31, 2014 on pre-tax income from continuing operations of $7.8 million and $2.5 million, respectively. We recorded an income tax benefit for the three and nine months ended March 31, 2013 of $3.1 million and $10.9 million on a pre-tax loss from continuing operations of $12.9 million and $35.0 million, respectively. The effective income tax rate for both periods differed from the amount computed by applying the U.S. federal income tax rate to income from continuing operations before taxes primarily due to lower foreign tax rates, and state and local income taxes, including U.S. income tax on certain foreign income that we anticipate will be repatriated to the U.S.

The income tax benefit for the nine months ended March 31, 2014 reflects a discrete benefit of $727,000 relating to a reduction in the statutory income tax rate in the U.K. partially offset by an adjustment to prior year U.S. federal income taxes. The income tax benefit for the nine months ended March 31, 2013 reflects a discrete benefit of $442,000 relating to statutory income tax rate reductions in the U.K. and Sweden and the retroactive extension of the U.S. research credit largely offset by an adjustment of estimated deferred taxes.

Absent the discrete items, the effective tax rates were 28% and 23% for the three months ended March 31, 2014 and 2013 and 28% and 30% for the nine months ended March 31, 2014 and 2013, respectively. The current

year's provision was a combination of a U.S. tax benefit on a domestic book loss and a foreign tax expense on foreign book income. The prior year's provision was a combination of a U.S. tax benefit on a domestic book loss and a foreign tax benefit on a foreign book loss.

In the nine months ended March 31, 2014 and 2013, we paid income taxes of $13.6 million and $5.1 million and received refunds of $524,000 and $5.7 million, respectively.

16. Business Segments

We are a global provider of radio frequency, or RF, and microwave integrated circuits, components and systems used in the design, development and maintenance of technically demanding, high-performance wireless communication systems. Our solutions include highly specialized microelectronic components and test and measurement equipment used by companies in the space, avionics, defense, commercial wireless communications, medical and other markets. Our sales to agencies of the United States government or to prime defense contractors or subcontractors of the United States government were approximately 30% and 29% for the three months ended March 31, 2014 and 2013 and 31% and 29% for the nine months ended March 31, 2014 and 2013, respectively. 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. We also have operations in Europe and Asia, with our most significant non-U.S. operations in England. Net sales from facilities located in England were $43.8 million and $39.6 million for the three months ended March 31, 2014 and 2013 and $115.2 million and $105.1 million for the nine months ended March 31, 2014 and 2013, respectively. Total assets of our operations in England were $202.7 million as of March 31, 2014 and $189.2 million as of June 30, 2013.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
	(In thousands)			
United States of America	$ 77,823	$ 82,563	$245,779	$244,976
Europe and Middle East	34,565	34,775	84,037	92,915
Asia and Australia	33,464	34,514	86,357	92,763
Other regions	9,611	5,190	23,127	15,895
	$155,463	$157,042	$439,300	$446,549

We organize our operations into two segments: Aeroflex Microelectronic Solutions, or AMS, and Aeroflex Test Solutions, or ATS. We engineer, manufacture and market a diverse range of products in each of our segments. The segment data which follows reflects a reclassification of our frequency synthesizer product line from our ATS segment to our AMS segment for all periods presented to better align it with its end markets. Our synthesizer reporting unit had sales of $5.3 million and $4.2 million for the three months ended March 31, 2014 and 2013 and $14.5 million and $12.6 million for the nine months ended March 31, 2014 and 2013, respectively.

AMS offers a broad range of microelectronics products and is a leading provider of high-performance, high reliability specialty microelectronics components. Its products include high reliability, or HiRel, microelectronics/semiconductors, RF and microwave components, mixed-signal/digital Application Specific Integrated Circuits ("ASICs") and motion control products. ATS is a leading provider of a broad line of specialized test and measurement equipment. Its products include wireless test equipment, military radio and private mobile radio test equipment, avionics test equipment, synthetic test equipment and other general purpose test equipment.

Selected financial data by segment was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
	(In thousands)			
Net sales				
– Microelectronic solutions (“AMS”)	$ 88,317	$ 89,864	$246,080	$251,237
– Test solutions (“ATS”)	67,146	67,178	193,220	195,312
Net sales	$155,463	$157,042	$439,300	$446,549
Segment adjusted operating income				
– AMS	$ 19,715	$ 20,061	$ 47,299	$ 55,667
– ATS	10,701	5,589	21,527	11,978
– Corporate expense	(3,652)	(2,558)	(10,261)	(10,067)
Adjusted operating income	26,764	23,092	58,565	57,578
Amortization of acquired intangibles				
– AMS	(3,908)	(8,977)	(15,112)	(26,913)
– ATS	(3,326)	(5,014)	(9,852)	(15,721)
Restructuring charges				
– AMS	(607)	(26)	(675)	(45)
– ATS	(723)	(301)	(2,867)	(3,615)
– Corporate	—	(69)	(11)	(69)
Inventory write-off related to discontinued product line - ATS			7	—
Impairment of other long-lived assets – AMS	—	—	—	(1,340)
ITAR settlement expense – AMS	—	(8,000)	—	(8,000)
Share-based compensation				
– AMS	(145)	(412)	(1,261)	(814)
– ATS	(319)	(203)	(671)	(396)
– Corporate	(1,156)	(628)	(1,700)	(1,400)
Special accounts receivable reserve – AMS	—	(2,529)	—	(2,529)
Business acquisition and divestiture related costs				
– ATS	(423)	—	(423)	—
– Corporate	(705)	—	(1,046)	(697)
Current period impact of acquisition related adjustments				
– AMS	25	20	75	31
– ATS	(284)	22	(240)	66
– Corporate	(55)	(55)	(165)	(165)
Operating income (loss) (GAAP)	15,138	(3,080)	24,624	(4,029)
Interest expense	(7,116)	(9,448)	(21,608)	(29,294)
Write-off of deferred financing costs	—	—	—	(824)
Other income (expense), net	(214)	(389)	(561)	(890)
Income (loss) from continuing operations before income taxes	$ 7,808	$ (12,917)	$ 2,455	$ (35,037)

Management evaluates the operating results of our two segments based upon Adjusted EBITDA (as defined in our credit agreement) as well as adjusted operating income, which is pre-tax operating income before certain non-cash, non-recurring and other items. We have set out above our adjusted operating income by segment and in the aggregate, and have provided a reconciliation of adjusted operating income to operating income (loss) on a GAAP basis and income (loss) from continuing operations before income taxes for the periods presented.

SECTION B

UNAUDITED GAAP RECONCILIATIONS OF AEROFLEX AND SUBSIDIARIES

The consolidated financial statements for the years ended 30 June 2013, 2012 and 2011, as previously published by the Aeroflex Group and set out in paragraph 1 of Section A of this Part 5, and the interim financial information for the nine months ended 31 March 2014, as previously published by the Aeroflex Group and set out in paragraph 2 of Section A of this Part 5, have been prepared in accordance with US Generally Accepted Accounting Principles (**US GAAP**) which differs in certain significant respects from IFRS as applied by Cobham in its audited consolidated financial statements for the year ended 31 December 2013.

These differences relate to methods for recognition and measurement of the amounts shown in the consolidated financial statements. The reconciliation does not seek to reflect any changes to the judgements made by the directors of Aeroflex in preparing the underlying Aeroflex financial information and does not reflect any fair value adjustments which the directors of Cobham may make as a result of the Acquisition or may have made had the Acquisition happened at any other date during the historical period shown.

The following unaudited reconciliations present the effect of the material differences between Aeroflex's US GAAP accounting policies and the IFRS accounting policies applied by Cobham on the consolidated net loss and the stockholders' equity of Aeroflex.

The adjustments to Aeroflex's stockholder's equity at each period end are cumulative adjustments to reflect Cobham's IFRS accounting policies. In contrast, the adjustment to net loss in each period represents the effect for that reporting period only, and therefore does not necessarily agree to the adjustment to the stockholders' equity.

1. Unaudited reconciliation of Aeroflex's net loss for the nine month period ended 31 March 2014 and for the years ended 30 June 2013, 2012 and 2011

		Nine months ended 31 March	*Year ended 30 June*		
		2014	*2013*	*2012*	*2011*
	Note	*US$m*	*US$m*	*US$m*	*US$m*
Net loss after tax as previously reported by Aeroflex under US GAAP		**17.0**	**(104.2)**	**(53.6)**	**(34.7)**
Accounting Policy Adjustments:					
Goodwill impairment	*(a)*	—	25.8	4.6	—
Net loss after tax under Cobham's IFRS accounting policies		**17.0**	**(78.4)**	**(49.0)**	**(34.7)**

(a) The adjustments to the net loss before tax of US$4.6 million in the year ended 30 June 2012 and US$25.8 million in the year ended 30 June 2013 arise due to differences in the methods used to test and measure impairment of assets with indefinite lives such as goodwill under US GAAP and IFRS accounting standards. During the year ended 30 June 2012, Aeroflex recorded a non-cash impairment charge totalling US$56.7 million following a reduced forecast of earnings for one of its reporting units, the RFMW business (which is part of the Microelectronic Solutions business segment described in paragraph 2(a) of Part 2 of this document), which mainly related to goodwill. During the year ended 30 June 2013, a non-cash impairment charge totalling US$93.4 million was recognised which related to goodwill in its AVComm group (which is part of the Test Solutions business segment described in paragraph 2(b) of Part 2 of this document). This again followed a reduced forecast of earnings. Further details on these impairment charges can be found in the extracts from the annual financial information of Aeroflex for the year ended 30 June 2013 in paragraph 1 of Section A of this Part 5 (note 2 and note 4). Had the financial statements been prepared in accordance with IFRS, the goodwill impairment charges recorded in the year ended 30 June 2012 and the year ended 30 June 2013 would have been US$52.1 million and US$67.6 million. There is no tax impact arising from these adjustments. The net loss after tax for these two years would therefore have been US$4.6 million and US$25.8 million lower under IFRS.

2. Unaudited reconciliation of Aeroflex's net assets as at 31 March 2014 and as at 30 June 2013, 2012 and 2011

		Nine months ended 31 March	*Year ended 30 June*		
		2014	*2013*	*2012*	*2011*
	Note	*US$m*	*US$m*	*US$m*	*US$m*
Net assets (stockholders' equity) as previously reported under US GAAP		**256.3**	**222.5**	**326.8**	**383.5**
Accounting Policy Adjustments:					
Goodwill impairment	*(b)*	30.4	30.4	4.6	—
Net assets (stockholders' equity) under Cobham's IFRS accounting policies		**286.7**	**252.9**	**331.4**	**383.5**

(b) The impact of the US GAAP to IFRS adjustments to the net loss during the years ended 30 June 2012 and 2013 referred to in (a) above also impacts net assets, as the carrying value of goodwill in the balance sheet would be higher under IFRS given the lower impairment charges. As at 30 June 2012, net assets or stockholders' equity would have been US$4.6 million higher and, on a cumulative basis, net assets or stockholders' equity at 30 June 2013 would have been US$30.4 million higher.

ACCOUNTANTS' REPORT ON THE UNAUDITED RECONCILIATIONS OF THE CONSOLIDATED FINANCIAL INFORMATION OF AEROFLEX

The Directors
Cobham plc
Brook Road
Wimborne
Dorset
BH21 2BJ

Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

16 June 2014

Dear Sirs

Proposed acquisition by Cobham plc (the "Company") of Aeroflex ("Aeroflex")

We report on the unaudited reconciliations (the "**Reconciliations**") of the consolidated net loss for the year for each of the years in the three-year period ended 30 June 2013, and of the stockholder's equity as at 30 June 2011, 30 June 2012 and 30 June 2013, together the "**Financial Information**", as previously reported in the financial statements of Aeroflex prepared under United States Generally Accepted Accounting Principles, showing the adjustments necessary to restate it on the basis of the Company's accounting policies used in preparing the Company's last set of annual consolidated financial statements, set out in Section B of Part 5 of the Company's circular dated 16 June 2014 (the "**Circular**"). This report is required by Listing Rule 13.5.27R(2)(a) of the United Kingdom Listing Authority and is given for the purpose of complying with that Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "**Directors**") to prepare the Reconciliations in accordance with Listing Rule 13.5.27R(2)(a).

It is our responsibility to form an opinion, as required by Listing Rule 13.5.27R(2)(a), as to whether:

(a) the Reconciliations have been properly compiled on the basis stated; and

(b) the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies, and to report that opinion to you.

The Reconciliations are based on the audited consolidated balance sheets as at 30 June 2011, 30 June 2012 and 30 June 2013 and audited consolidated income statements for each of the years then ended of Aeroflex which were the responsibility of the directors of Aeroflex. The consolidated balance sheets and consolidated income statements were audited by KPMG LLP. We do not accept any responsibility for any of the historical financial statements of Aeroflex, nor do we express any opinion on those financial statements.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH www.pwc.co.uk

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of checking whether the unadjusted Financial Information of Aeroflex has been accurately extracted from an appropriate source, assessing whether all adjustments necessary for the purpose of presenting the Financial Information on a basis consistent in all material respects with the Company's accounting policies have been made, examination of evidence supporting the adjustments in the Reconciliations and checking the arithmetical accuracy of the calculations within the Reconciliations.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Reconciliations have been properly compiled on the basis stated and that the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Opinion

In our opinion:

(a) the Reconciliations have been properly compiled on the basis stated; and

(b) the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

SECTION C

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

The unaudited pro forma statement of net assets of the Enlarged Group in this Section C of Part 5 is based on the net assets of the Cobham Group as at 31 December 2013.

The unaudited pro forma statement of net assets has been prepared on the basis of the notes accompanying it to illustrate the effect of the Acquisition on the net assets of the Cobham Group as if it had been completed on 31 December 2013. The information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Cobham Group's actual financial position or results.

Shareholders should read the whole of this document and not rely solely on the summarised financial information contained in this Section C of Part 5.

		Adjustments				
	Cobham Group as at 31 December 2013 £m	**Aeroflex Group as at 31 March 2014 £m**	**Placing £m**	**Bridge Facility £m**	**Acquisition accounting £m**	**Pro Forma Enlarged Group as at 31 December 2013 £m**
	(Note 1)	**(Note 2)**	**(Note 3)**	**(Note 4)**	**(Note 5)**	
ASSETS						
Non-current assets						
Goodwill and intangible assets	1,162.2	313.7	—	—	349.3	1,825.2
Property, plant and equipment	350.8	61.7	—	—	—	412.5
Investment properties	9.9	—	—	—	—	9.9
Investments in joint venture and associates	3.1	—	—	—	—	3.1
Trade and other receivables	22.2	17.5	—	—	—	39.7
Other financial assets	6.1	—	—	—	—	6.1
Deferred tax	9.9	—	—	—	—	9.9
Derivative financial instruments	5.1	—	—	—	—	5.1
	1,569.3	392.9	—	—	349.3	2,311.5
Current assets						
Inventories	315.9	102.0	—	—	—	417.9
Trade and other receivables	317.7	86.2	—	—	—	403.9
Current tax receivables	0.8	—	—	—	—	0.8
Derivative financial instruments	6.6	—	—	—	—	6.6
Cash and cash equivalents	200.7	28.1	177.3	771.1	(905.1)	272.1
Assets classified as held for sale	8.2	—	—	—	—	8.2
	849.9	216.3	177.3	771.1	(905.1)	1,109.5
Liabilities						
Current liabilities						
Borrowings	(344.5)	—	—	(771.1)	—	(1,115.6)
Trade and other payables	(370.3)	(64.2)	—	—	—	(434.5)
Provisions	(34.4)	(2.2)	—	—	—	(36.6)
Current tax liabilities	(112.2)	(5.0)	—	—	—	(117.2)
Derivative financial instruments	(4.6)	—	—	—	—	(4.6)
Liabilities classified as held for sale	(5.2)	—	—	—	—	(5.2)
	(871.2)	(71.4)	—	(771.1)	—	(1,713.7)
Non-current liabilities						
Borrowings	(309.6)	(343.3)	—	—	343.3	(309.6)
Trade and other payables	(38.0)	(8.9)	—	—	—	(46.9)
Provisions	(8.6)	(0.7)	—	—	—	(9.3)
Deferred tax	(52.9)	(14.2)	—	—	—	(67.1)
Derivative financial instruments	(7.4)	—	—	—	—	(7.4)
Retirement benefit obligations	(87.3)	—	—	—	—	(87.3)
	(503.8)	(367.1)	—	—	343.3	(527.6)
Net assets	**1,044.2**	**170.7**	**177.3**	**—**	**(212.5)**	**1,179.7**

Notes

1. The financial information has been extracted, without material adjustment, from the audited consolidated financial statements of the Cobham Group for the year ended 31 December 2013, which are incorporated by reference into this document and available for inspection as detailed in paragraph 17 of Part 6 of this document.
2. The unaudited net assets of the Aeroflex Group as at 31 March 2014 are based on the consolidated US GAAP balance sheet of the Aeroflex Group as at 31 March 2014 extracted without material adjustment from the unaudited interim financial information contained in Aeroflex's publicly available Form 10-Q filing with the SEC in respect of the nine months then ended, and set out in Paragraph 2 of Section A of this Part 5, and adjusted to apply the IFRS accounting policies adopted by Cobham. A reconciliation is presented below:

Aeroflex balance sheet line items	*Aeroflex balance sheet line items as at 31 March 2014*	**Cobham balance sheet line items**	**Aeroflex balance sheet as at 31 March 2014 under Cobham's balance sheet presentation**	**IFRS adjustments and reclassifications**	**Aeroflex balance sheet as at 31 March 2014 under Cobham's balance sheet presentaion and after IFRS adjustments**	**Translated into Cobham's reporting currency**
	US$m (Note a)		**US$m (Note b)**	**US$m (Note c)**	**US$m**	**£m (Note d)**
		Assets				
		Non-current assets				
Intangible assets with definite lives, net	*55.5*					
Intangible assets with indefinite lives	*113.2*					
Goodwill	*326.4*					
	495.1	Intangible assets	495.1	31.9	527.0	313.7
Property, plant and equipment	*103.6*	Property, plant and equipment	103.6	—	103.6	61.7
Other assets	*31.0*	Trade and other receivables	31.0	(1.5)	29.5	17.5
		Other financial assets	—	—	—	—
			629.7	30.4	660.1	392.9
		Current assets				
Inventories	*171.3*	Inventories	171.3	—	171.3	102.0
Accounts receivable	*133.1*					
Prepaid expenses and other current assets	*11.7*					
	144.8	Trade and other receivables	144.8	—	144.8	86.2
		Deferred tax	—	—	—	—
Cash and cash equivalents	*47.2*	Cash and cash equivalents	47.2	—	47.2	28.1
			363.3	—	363.3	216.3
		Current liabilities				
Accounts payable	*(26.7)*					
Advance payments by customers and deferred revenue	*(29.2)*					
Accrued payroll expenses	*(20.9)*					
Accrued expenses and other current liabilities	*(34.8)*					
	(111.6)	Trade and other payables	(111.6)	3.7	(107.9)	(64.2)
		Provisions	—	(3.7)	(3.7)	(2.2)
Income taxes payable	*(5.5)*	Current tax liabilities	(5.5)	(2.9)	(8.4)	(5.0)
			(117.1)	(2.9)	(120.0)	(71.4)

Aeroflex balance sheet line items	*Aeroflex balance sheet line items as at 31 March 2014*	Cobham balance sheet line items	Aeroflex balance sheet as at 31 March 2014 under Cobham's balance sheet presentation	IFRS adjustments and reclassifications	Aeroflex balance sheet as at 31 March 2014 under Cobham's balance sheet presentaion and after IFRS adjustments	Translated into Cobham's reporting currency
	US$m (Note a)		US$m (Note b)	US$m (Note c)	US$m	£m (Note d)
		Non-current liabilities				
Deferred financing costs	*10.3*					
Long-term debt	*(587.0)*					
	(576.7)	Borrowings	(576.7)	—	(576.7)	(343.3)
Other long-term liabilities	*(19.0)*	Trade and other payables	(19.0)	4.0	(15.0)	(8.9)
	—	Provisions	—	(1.1)	(1.1)	(0.7)
Deferred income taxes – assets	*34.5*					
Deferred income taxes – liabilities	*(58.4)*					
	(23.9)	Deferred tax	(23.9)	—	(23.9)	(14.2)
			(619.6)	2.9	(616.7)	(367.1)
Stockholders equity	256.3	Net assets	256.3	30.4	286.7	170.7

Notes:

a) Aeroflex's balance sheet line items are directly extracted from the Aeroflex balance sheet as at 31 March 2014 as presented in paragraph 2 of Section A of this Part 5. The order of the line items may be different to those in the Aeroflex balance sheet to allow each line to be matched to the presentational format of the Cobham balance sheet.

b) This reflects the Aeroflex Balance Sheet as at 31 March 2014 reformatted to be under Cobham's IFRS headings.

c) The following IFRS adjustments and reclassifications were made to reflect the difference in accounting treatment and presentation under IFRS as opposed to US GAAP:

i. Goodwill has been adjusted by US$31.9 million to reflect:

- the reduction of US$30.4 million to the amount of goodwill impairment due to differences in the measurement of impairments under US GAAP and IFRS as explained in Section B of this Part 5 (page 70) above; and

- to reclassify US$1.5 million of capitalised software development costs from other assets to intangible assets.

ii. Certain provisions of US$3.7 million and US$1.1 million included within current trade and other payables and non-current trade and other payables respectively in the US GAAP balance sheet have been subsequently reclassified to present them separately under IFRS.

iii. US$2.9m relating to non-current incomes taxes payable under US GAAP has been reclassified as a current tax liability under IFRS.

d) The unaudited net assets of the Aeroflex Group have been translated using an exchange rate of £1:US$1.68, being the closing rate of exchange on 19 May 2014.

3. On 20 May 2014, Cobham completed a placing of 60 million new Cobham shares, representing approximately 5.6 per cent. of Cobham's existing ordinary share capital at a price of £3.00 per share. The adjustment represents the £177.3 million of net proceeds (£180 million of gross proceeds net of £2.7 million of costs) which will be used to fund the Acquisition. Further details are contained in paragraph 6 of Part 2 and paragraph 10.1 of Part 6 of this document.

4. The adjustment comprises a net increase in cash of £771.1 million (£773.8 million being US$1,300 million translated at the rate of £1:US$1.68 less fees of £2.7 million), assuming a full drawdown of the Bridge Facility Agreement. The facility matures on the date falling 12 months from the Signing Date unless

the extension options are exercised and is therefore classified as a current liability in the table above. Further details are contained in paragraph 10.1 of Part 6 of this document.

5. The adjustment reflects the accounting for the Acquisition on the following basis:

(a) *Goodwill and intangible assets*

The adjustment reflects goodwill and intangible assets arising on the Acquisition and has been accounted for using the acquisition method of accounting. The excess of consideration over the book value acquired has been reflected as goodwill and intangible assets. No account has been taken of any fair value adjustments which may arise upon the Acquisition as any such fair value adjustments cannot be accurately and reliably estimated at this time. The amount of goodwill and other intangible assets has been calculated as follows:

	Note	£m
Consideration for shares	i	548.1
Payment for net debt:	ii	
– borrowings		349.4
– less cash		(28.1)
Debt and cash free valuation		869.4
Less net assets acquired	iii	(520.1)
Goodwill and intangible assets		349.3

Notes:

All conversions from US$ to £ are at an exchange rate of £1:US$1.68.

i) Consideration for shares comprises 87,700,000 shares at US$10.50 each.

ii) Net debt acquired of £321.3 million comprises borrowings of US$587.0 million (£349.4 million) net of cash and cash equivalents of US$47.2 million (£28.1 million) as shown in the US GAAP balance sheet of Aeroflex as at 31 March 2014 in paragraph 2 of Section A of this Part 5).

iii) The net assets of the Aeroflex Group of to be acquired as at 31 March 2014 comprise the £170.7 million of Aeroflex net assets as presented in note 2 above, adjusted to remove the borrowings of US$587.0 million (£349.4 million) which are repaid on acquisition. Note: the £349.4 million borrowings repaid does not correspond exactly to the borrowings recognised in note 2 above since the borrowings line also includes £6.1 million of non-cash US debt issuance costs.

(b) *Cash and cash equivalents*

The adjustment to cash and cash equivalents of £905.1 million comprises:

	£m
Consideration for shares (87,700,000 shares at US$10.50 each)	548.1
Add Aeroflex borrowings repaid	349.4
Less cash acquired	(28.1)
Add estimated expenses of the Acquisition	35.7
Cash consideration	905.1

(c) *Non current borrowings*

The adjustment to borrowings totals £343.3 million comprising £349.4m (US$587.0 million) of Aeroflex Group borrowings repaid (translated from US$ into GBP using an exchange rate of £1:US$1.68) less £6.1 million (US$10.3 million) of US debt issuance costs previously capitalised which will be written off upon repayment of the borrowings.

6. No adjustment has been made to reflect the trading results of the Cobham Group since 31 December 2013 or the Aeroflex Group since 31 March 2014.

ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

The Directors
Cobham plc
Brook Road
Wimborne
Dorset
BH21 2BJ
Merrill Lynch International (the "**Sponsor**")
2 King Edward Street
London
EC1A 1HQ

16 June 2014

Dear Sirs

Cobham plc (the "Company")

We report on the pro forma net assets statement (the "**Pro Forma Financial Information**") set out in Section C of Part 5 of the Company's circular dated 16 June 2014 (the "**Circular**") which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the proposed Acquisition might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ending 31 December 2013. This report is required by item 13.3.3R of the Listing Rules and is given for the purpose of complying with that Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with item 13.3.3R of the Listing Rules of the UK Listing Authority (the "**Listing Rules**").

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules as to the proper compilation of the Pro forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH www.pwc.co.uk

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We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART 6

ADDITIONAL INFORMATION

1. Responsibility

Cobham and the Directors, whose names appear in paragraph 5 of this Part 6, accept responsibility for the information contained in this document. To the best of the knowledge and belief of Cobham and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Forward looking statements

Certain statements contained in this circular or incorporated by reference into it constitute, or may be deemed to constitute "forward looking statements" with respect to the financial condition, results of operations and business of the Cobham Group and, upon completion of the Acquisition, the Enlarged Group and certain plans and objectives of the Directors with respect thereto. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements often use forward-looking terminology including words such as "anticipate", "target", "expect", "estimate", "intend", "plan", "projects", "goal", "believe", "will", "may", "should", "would", "could" or other words of similar meaning. These statements are based on assumptions and assessments made by the Directors in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe appropriate. By their nature, forward looking statements involve risk and uncertainty, because they relate to events and depend on circumstances that will occur in the future and the factors described in the context of such forward looking statements in this document could cause actual results and developments to differ materially from those expressed in or implied by such forward looking statements.

The principal risks and uncertainties facing the business are discussed in the section headed "Risk Factors" at Part 3 of this document.

The forward-looking statements contained in this document speak only as at the date of this document. Except to the extent required by applicable law, the Listing Rules or the Disclosure and Transparency Rules, the Company will not necessarily update any of them in light of new information or future events and undertakes no duty to do so. Shareholders should note that this paragraph is not intended to qualify the statements as to working capital set out in paragraph 12 of this Part 6 of this document.

3. Incorporation and registered office

3.1 Cobham was incorporated and registered in England and Wales on 20 December 1889 with registered number 30470 as a private company limited by shares with the name Manitoba and North West Land Corporation. On 1 March 1982, Cobham was re-registered as a public company limited by shares and its name was changed to Flight Refuelling (Holdings) Public Limited Company. On 7 November 1994 the company name was changed to Cobham plc.

3.2 Cobham is domiciled in England and Wales and its registered head office is at Brook Road, Wimborne, Dorset, BH21 2BJ (telephone number: +44 (0)1202 882020).

3.3 The principal legislation under which Cobham operates is the Companies Act and regulations made thereunder.

4. Share capital

The issued and fully paid share capital of Cobham as at the Effective Date is as follows:

Issued number of Cobham Shares	Number	Amount (£)
Ordinary Shares	1,214,527,625	30,363,190.63[1]
Preference Shares	19,700	19,700
Total	1,214,547,325	30,382,890.63[2]

Notes:

(1) 75,951,724 shares are held as treasury shares (representing 6.25 per cent. of the total ordinary share capital in issue). Treasury shares retain no voting rights.

(2) On a poll, there is one vote for every £1 in nominal value of shares.

5. Directors

The Directors and their positions as at the date of this document are as follows:

Name of Director	Position
John Devaney	Non-executive Chairman
Robert Murphy	Chief Executive Officer
Simon Nicholls	Chief Financial Officer
Michael Wareing	Senior Independent Director
Birgit Nørgaard	Independent Non-executive Director
Mark Ronald	Independent Non-executive Director
Michael Hagee	Independent Non-executive Director
Alison Wood	Independent Non-executive Director
Jonathan Flint	Independent Non-executive Director

6. Directors' and Senior Managers' interests in Cobham

As at the Effective Date (being the latest practicable date prior to the posting of this document), the aggregate interests of each of the Directors in the share capital of the Company which have been notified by each Director to the Company pursuant to DTRs 3.1.2R and 3.1.3R or the interests of persons connected with them which would, if the connected person were a Director, be required to be disclosed under DTRs 3.1.2R and 3.1.3R and the existence of which is known to, or could with reasonable diligence be ascertained by, that Director were as follows:

Name of Director	Number of ordinary shares(1)
Robert Murphy	102,137
Simon Nicholls	17,816
John Devaney	30,000
Mark Ronald	5,000
Michael Hagee	5,000
Michael Wareing	20,000
AlisonWood	5,000
Birgit Nørgaard	5,000
Jonathan Flint	5,000

(1) Assuming there are no further exercise of options under Cobham's share option schemes.

6.2 The interests of the Directors and senior managers together represent approximately 0.016 per cent. of the issued share capital of Cobham as at the Effective Date.

6.3 Mark Ronald is a director of Aeroflex and holds 14,299 Aeroflex Shares. Mark Ronald has not participated in any discussions, or the review of any documents, relating to the Acquisition and has recused himself from all Board meetings at which the Acquisition was discussed and approved. Mark Ronald has informed the Board that due to his role as a director of Cobham, that he has also not participated in any discussions, or the review of any documents, at Aeroflex relating to the Acquisition and has recused himself from all Aeroflex board meetings at which the Acquisition was discussed and approved.

6.4 Directors' and senior managers' options and awards:

(a) *Cobham Performance Share Plan **(PSP)***

As at close of business on the Effective Date, participation by Directors and senior managers in the Cobham Performance Share Plan was as follows:

Director/senior manager	Number of vested shares	Number of unvested shares
Robert Murphy	80,027	1,298,058
Simon Nicholls	17,816	56,239

Awards are made on an annual basis and will vest subject to performance after a period of at least three years. The Remuneration Committee may adjust the level of vesting, either up or down, should the formulaic outcome be considered not to reflect underlying business performance. The Remuneration Committee may make a dividend equivalent payment to reflect dividends that would have been paid over the performance period on shares that vest.

(b) *Cobham Bonus Co-investment Plan (**BCP**)*

As at close of business on the Effective Date, participation by senior managers in the Cobham Bonus Co-investment Plan was as follows:

Director/Senior manager	Number of vested shares	Number of unvested shares
Robert Murphy	22,110	45,979

Individuals may receive a matching award under the BCP in respect of any bonus deferred subject to the achievement of performance conditions. The Remuneration Committee may adjust the level of the matching award vesting, either up or down, should the formulaic outcome be considered not to reflect underlying business performance. The Remuneration Committee may make a dividend equivalent payment to reflect dividends that would have been paid over the performance period on shares that vest.

(c) *Share Options*

As at the close of business on the Effective Date, the following options over Cobham Shares have been granted to Directors and senior managers under certain of the Cobham share schemes:

	Outstanding	Exercise price (p)	Exercise period	Name of plan
Simon Nicholls	204,151	0	2016-2023	PSP (Nil Cost option)
Simon Nicholls	201,857	0	2017-2024	PSP (Nil Cost Option)

7. Significant interests in shares

7.1 As at the Effective Date, in so far as it has been notified to Cobham by virtue of the notifications pursuant to the Companies Act and/or Chapter 5 of the Disclosure and Transparency Rules, the name of each person, other than a Director who, directly or indirectly, is interested in three per cent. or more of the voting rights in Cobham and the amount of such person's interest, is as follows:

Shareholder	Number of Cobham Shares	Percentage of existing issued share capital as at the date Cobham had been notified pursuant to the Companies Act and/or the Disclosure and Transparency Rules
M&G Investment Mgt	69,933,528	6.48
MFS International Mgt	59,351,685	5.50
Sprucegrove Investment Mgt	48,851,079	4.53
Artemis Investment Mgt	48,732,364	4.52
Threadneedle Investments	39,307,705	3.64
MFS Investment Mgt	38,395,192	3.56
Legal & General Investment Mgt	34,543,617	3.20

7.2 Save as disclosed in this paragraph 7, Cobham is not aware of any interest (within the meaning of the Disclosure and Transparency Rules) which will represent three per cent. or more of the voting rights in Cobham following completion.

8. Related party transactions

Save as disclosed in the financial information relating to related party transactions as set out:

(a) in note 32 in the notes to the consolidated financial statements for the year ended 31 December 2013 on page 122 of Cobham's 2013 Annual Report and Accounts;

(b) in note 32 in Cobham's notes to the consolidated financial statements for the year ended 31 December 2012 on page 110 of the 2012 Annual Report and Accounts;

(c) in note 33 in the notes to the consolidated financial statements for the year ended 31 December 2011 on page 106 of Cobham's 2011 Annual Report and Accounts,

each of which are incorporated by reference into this circular, and below, for each of the years ended 31 December 2013, 2012 and 2011, and during the period between 31 December 2013 and the Effective Date, the Cobham Group entered into no transactions with related parties.

Please refer to paragraph 16 of this Part 6 of this document for further details about information incorporated by reference into this document.

9. Directors' service contracts and benefits upon termination of employment

9.1 *Executive Directors*

Cobham has entered into service contracts with each of the Executive Directors, the particulars of which as at the Effective Date are:

Name	Appointment date/Date of service agreement if different	Basic annual salary	Notice period
Robert Murphy	20 April 2012	£704,477[(1)]	12 months
Simon Nicholls	16 November 2012	£412,000[(2)]	12 months

(1) Robert Murphy's employment terms and conditions are based on US law and his salary payments are made in US dollars and have been converted to UK pounds using the average annual conversion rate of US$1.5657:£1. Robert Murphy's salary on appointment was US$1,040,000.
(2) Simon Nicholls' salary on appointment was £400,000.

The Executive Directors' service contracts can be terminated immediately by the Company for cause, which is defined in the contract. Cobham may elect to terminate the Executive Directors' service contracts with immediate effect by making payments in lieu of notice which will not exceed 12 months' salary and benefits, which can also include, but are not limited to, pension, outplacement and legal fees.

9.2 *Non-executive Directors*

The Non-executive Directors do not have service contracts but have letters of appointment to the Company for an initial period of three years. At the end of the initial term, the appointment may be renewed for a further term by agreement of the Non-executive Director and the Board. Save as set out in the subsequent sentence, their appointment may be terminated by one month's written notice and immediately by the Company for cause, which is defined in the contract. Mark Ronald's letter of appointment does not include such termination provisions.

Non-executive Director	Date of original appointment	Date of expiry of current appointment period
John Devaney	1 February 2010	24 April 2016
Michael Wareing	1 December 2010	1 December 2016
Birgit Nørgaard	24 April 2014	23 April 2017
Mark Ronald	1 January 2007[(1)]	24 April 2016
Michael Hagee	3 December 2008	3 December 2014
Alison Wood	1 July 2011	1 July 2014
Jonathan Flint	1 May 2013	1 May 2016

(1) The effective date for commencement of the appointment was subsequently agreed to be 8 January 2007.

Set out below are the annual fees payable:

Chairman	£270,000
Non-executive Director	£55,000
Senior Independent Director	£10,000
Audit Committee chairmanship	£10,000
Remuneration Committee chairmanship	£10,000
Membership of the Audit Committee	£2,500
Membership of the Remuneration Committee	£2,500

10. Material contracts

10.1 *Cobham Group*

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) to which Cobham or any other member of the Cobham Group is or has been a party:

(a) within the two years immediately preceding the date of this document which is, or may be, material; or

(b) at any time, which contains provisions under which any member of the Cobham Group has any obligation or entitlement which is material to the Cobham Group as at the date of this document:

Merger Agreement and Support Agreement

A description of the principal terms of the Merger Agreement and the Support Agreement is set out in Part 4 of this document.

Placing Agreement

On 20 May 2014 Cobham entered into a placing agreement (the **Placing Agreement**) with Merrill Lynch International and UBS Limited (together, the **Banks**), pursuant to which 60 million new Cobham Shares (the **Placing Shares**) representing 5.6 per cent. of the existing issued ordinary share capital of Cobham before the Placing were placed by the Banks at a price of 300 pence per Placing Share. Closing of the Placing and admission of the Placing Shares to the Official List of the FCA and to trading on the main market of the London Stock Exchange took place on 23 May 2014. The purpose of the Placing was to part finance the Acquisition.

In consideration for the services provided by the Banks in connection with the Placing, Cobham paid the Banks a commission agreed between the Banks and Cobham, together with all properly incurred out-of-pocket expenses of the Banks in connection with the Placing. The Placing Agreement contains certain warranties, undertakings and indemnities by Cobham in favour of the Banks that are customary in such an agreement.

Bridge Facility Agreement

Cobham has entered into a US$1,300,000,000 term loan facility agreement (the **Bridge Facility Agreement**) with Bank of America Merrill Lynch International Limited and The Royal Bank of Scotland plc (the **Bridge Facility**) on 20 May 2014 (the **Signing Date**).

The Acquisition Facility may be used to finance its and Merger Sub's payment obligations under the Merger Agreement for the purposes of consummating the Acquisition and to repay certain financial indebtedness of Aeroflex and its subsidiaries.

Availability

The Bridge Facility is made available on a certain funds basis as set out in the Bridge Facility Agreement. The Bridge Facility is available from the Signing Date until the earlier of: (a) the date on which Cobham publicly announces that it is no longer pursuing the Acquisition; and (b) the date falling 12 months after the Signing Date.

Maturity

The Bridge Facility matures on the date falling 12 months after the Signing Date (the **Initial Maturity Date**), subject to extension options for the maturity date of the Bridge Facility to be extended to:

(i) if Cobham gives notice to extend the Initial Maturity Date not more than 30 business days and not less than five business days before the Initial Maturity Date, the date falling 18 months after the Signing Date; and

(ii) following notice being given in paragraph (i) above, if Cobham gives notice to extend the maturity date not more than 30 business days and not less than five business days before the date falling 18 months after the Signing Date, the date falling 24 months after the Signing Date.

Mandatory prepayment/cancellation provisions

The Bridge Facility includes mandatory prepayment events, including (a) illegality; (b) a change of control of Cobham (if a lender so requires); (c) disposals of businesses or companies; and (d) the proceeds of any new financings (in each case subject to agreed exceptions).

Security

The Bridge Facility is unsecured.

Representations, warranties, covenants and events of default

The Bridge Facility Agreement contains customary representations, warranties, covenants (including financial covenants) and events of default consistent with its other existing corporate borrowings.

Governing law and jurisdiction of courts

The Bridge Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

10.2 *Aeroflex Group*

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) to which Aeroflex is or has been a party:

(a) within the two years immediately preceding the date of this document which is, or may be, material; or

(b) at any time, which contains provisions under which Aeroflex has any obligation or entitlement which is material to Aeroflex as at the date of this document:

Merger Agreement and Support Agreement

A description of the principal terms of the Merger Agreement and Support Agreement is set out in Part 4 of this document.

Consent Agreement

A description of the Consent Agreement is set out in paragraph 11.2 of this Part 6.

11. Legal and arbitration proceedings

11.1 *Cobham Group*

On 3 June 2014, a putative class action complaint was commenced by Ramon Acevedo, in connection with the Acquisition, against Aeroflex, Aeroflex's directors, Cobham, and Merger Sub in the Delaware Chancery Court. The complaint alleges that Cobham and Merger Sub aided and abetted alleges breaches of fiduciary duty by the Aeroflex directors. The claimant has not quantified the damages, fees or costs sought as at the date of this document; however the outcome of the complaint is not expected to be material to Cobham or the Enlarged Group. VGG and certain significant equityholders of VGG, who collectively own approximately 76.28 per cent. of the outstanding Aeroflex Shares, have committed not to participate in any litigation challenging the Acquisition. For further details please see paragraph 11.2 of this Part 6.

Also on 3 June 2014, a putative class action complaint was commenced by Tom Turberg, in connection with the Acquisition, against Aeroflex, Aeroflex's directors, Cobham, and Merger Sub in the Supreme Court of the State of New York, County of Nassau. The complaint alleges that Cobham and Merger Sub aided and abetted alleges breaches of fiduciary duty by the Aeroflex directors. The claimant has not quantified the damages, fees or costs sought as at the date of this document; however the outcome of the complaint is not expected to be material to Cobham or the Enlarged Group. VGG and certain significant equityholders of VGG, who collectively own approximately 76.28 per cent. of the outstanding Aeroflex Shares, have committed not to participate in any litigation challenging the Acquisition. For further details please see paragraph 11.2 of this Part 6.

On 24 February 2014 the Cobham Group voluntarily contacted the United States Department of Justice (**DoJ**) to inform it that Cobham had undertaken an initial internal investigation into potentially irregular sales practices concerning sales to Asia of certain commercial, non-classified products manufactured by TracStar Systems Inc. (**TracStar**). TracStar is based in Orlando, Florida and is part of the Cobham Group's SATCOM business. The business manufactures a range of inertial stabilisation and satellite tracking systems used by government and commercial customers globally for land based applications. Its total worldwide revenue in 2013 was under £15 million, representing less than one per cent. of Cobham Group revenue. Cobham will continue to co-operate with the DoJ in relation to this matter however, the circumstances are under review and neither the outcome nor the timescale for resolution can be estimated at present.

Except as disclosed above, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Cobham is aware) during a period covering the previous 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on Cobham's and/or the Cobham Group's financial position or profitability.

11.2 *Aeroflex Group*

On 3 June 2014, a putative class action complaint was commenced by Ramon Acevedo (the **Acevedo Complaint**), in connection with the Acquisition, against Aeroflex, Aeroflex's directors, Cobham, and Merger Sub in the Delaware Chancery Court. The plaintiff purports to bring the action on behalf of the shareholders of Aeroflex. The plaintiffs seeks (among other things) (a) equitable relief, (b) to enjoin the consummation of the Acquisition, (c) damages allegedly sustained as a result of the conduct described within the Acevedo Complaint, and (d) fees and costs. The plaintiff alleges in the Acevedo Complaint that the directors of Aeroflex breached their fiduciary duties by (among other things) undervaluing Aeroflex and failing to maximise the value of Aeroflex to its shareholders through allegedly "preclusive deal protection devices." The Acevedo Complaint alleges that Cobham, Aeroflex and Merger Sub aided and abetted the alleged breaches of fiduciary duty. The claimant has not quantified the damages, fees or costs sought as at the date of this document; however the outcome of the Acevedo Complaint is not expected to be material to Cobham or the Enlarged Group. VGG and certain significant equityholders of VGG, who collectively own approximately 76.28 per cent. of the outstanding Aeroflex Shares, have committed not to participate in any litigation challenging the Acquisition.

On 3 June 2014, another putative class action complaint was commenced by Tom Turberg (the **Turberg Complaint**), in connection with the Acquisition, against Aeroflex, Aeroflex's directors, Cobham, and Merger Sub in the Supreme Court of the State of New York, County of Nassau. The plaintiff purports to bring the action on behalf of the shareholders of Aeroflex. The plaintiffs seeks (among other things) (a) equitable relief, (b) to enjoin the consummation of the Acquisition, (c) to rescind (to the extent already implemented) the Acquisition or any terms of the Acquisition or the grant of rescissory damages, (d) damages allegedly sustained as a result of the conduct described within the Acevedo Complaint, and (e) fees and costs. The plaintiff alleges in the Turberg Complaint that the directors of Aeroflex breached their fiduciary duties by (among other things) undervaluing Aeroflex and failing to maximise the value of Aeroflex to its shareholders through allegedly "preclusive deal protection devices." The Turberg Complaint further alleges that Cobham, Aeroflex and Merger Sub aided and abetted the alleged breaches of fiduciary duty. The claimant has not quantified the damages, fees or costs sought as at the date of this document; however the outcome of the Turberg Complaint is not expected to be material to Cobham or the Enlarged Group. VGG and certain significant equityholders of VGG, who collectively own approximately 76.28 per cent. of the outstanding Aeroflex Shares, have committed not to participate in any litigation challenging the Acquisition.

Aeroflex identified instances of noncompliance with the International Traffic in Arms Regulations (**ITAR**), in certain of its past business activities as well as in the pre-acquisition business activities of certain acquired companies. These include the inadvertent misclassification and subsequent export of products without the required licence, the misuse of certain licence exemptions, as well as causing the unauthorised export of defence articles. These matters were formally disclosed to the U.S. Department of State from time to time from the 2007 financial year and virtually all have been resolved without penalty. However, to resolve all those outstanding violations of the Arms Export Control Act (**AECA**) and the ITAR during the period from 1999 to 2009 that were disclosed by Aeroflex voluntarily to the State Department concerning space related hardware items that were exported to China and, without the requisite State Department licenses, to end users in numerous other foreign countries, without admitting or denying the allegation of the violations, Aeroflex has entered into a Consent Agreement effective as of 6 August 2013, with the U.S. Department of State, Office of Defense Trade Controls Compliance (the **Consent Agreement**). The Consent Agreement involves, among other things, a total fine of US$8.0 million in respect of these and other ITAR and AECA violations payable without interest over a two year period, US$4.0 million of which is suspended and eligible for credit based on pre and post Consent Agreement compliance expenditures and investments made by the Aeroflex and approved by the State Department. During the 2013 financial year, Aeroflex recorded a charge of US$8.0 million representing the legal obligation to the State Department under the then proposed terms of the Consent Agreement.

In March 2005, Aeroflex sold the net assets of its shock and vibration control device manufacturing business (**VMC**). Under the terms of the sale agreements, Aeroflex retained certain liabilities relating to adverse environmental conditions that existed at the premises occupied by VMC as of the date of sale. Aeroflex recorded a liability for the estimated remediation costs related to adverse environmental conditions that existed at the VMC premises when it was sold. The accrued environmental liability at 30 June 2013 was US$1.4 million, of which US$300,000 was expected to be paid within one year.

Except as disclosed above, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Cobham is aware) during a period covering the previous 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Aeroflex Group.

12. Working Capital

Cobham is of the opinion that the Enlarged Group has sufficient working capital for its present requirements that is, for at least the next 12 months from the date of this document.

13. No Significant Change

Cobham Group

Save for the Placing (as described in paragraph 6 of Part 2 of this document) and the entry into the Merger Agreement (as described in paragraph 2 of Part 4 of this document), there has been no significant change in the financial or trading position of the Cobham Group since 31 December 2013, being the date of the Cobham 2013 Annual Financial Statements.

Aeroflex Group

Save for the entry into the Merger Agreement (as described in paragraph 2 of Part 4 of this document) there has been no significant change in the financial or trading position of the Aeroflex Group since 31 March 2014, being the date of the Aeroflex 2014 Quarterly Financial Statements.

14. Consents

14.1 BofA Merrill Lynch has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they are included or referenced.

14.2 PwC is a member firm of the Institute of Chartered Accountants in England and Wales and has given, and not withdrawn, its written consent to the inclusion of its report on the unaudited reconciliations of the consolidated financial information of Aeroflex in Section A of Part 5 of this document and its report on the unaudited pro forma statement of net assets in Section B of Part 5 of this document, in the form and context in which they appear.

15. Aeroflex's profit forecast

In its announcement of its third quarter fiscal 2014 results published on 7 May 2014, Aeroflex stated that:

"For the fourth quarter ending June 30, 2014, Aeroflex expects net sales to be between $186 million and $196 million, GAAP income from continuing operations to be between $18 million and $21 million, Adjusted EBITDA to be between $48 million and $52 million, GAAP income from continuing operations per share to be between $0.21 and $0.25 and Non-GAAP net income per share to be between $0.28 and $0.31.

The range of expected GAAP and Non-GAAP earnings per share for the fiscal fourth quarter was calculated using GAAP and Non-GAAP effective tax rates of 28% and 32%, respectively."

The statements regarding GAAP income from continuing operations, Adjusted EBITDA, GAAP income from continuing operations per share and non-GAAP income per share together constitute a profit forecast for the purposes of the Listing Rules.

The Directors believe that the profit forecast set out above continues to be valid based upon management accounts for the month of 30 April 2014 and actual performance up to the date of this document. The Directors confirm that the profit forecast has been properly compiled on the basis of the assumptions stated below and that the basis of accounting is consistent with the accounting policies of Cobham plc.

Basis of preparation

The profit forecast was prepared by Aeroflex management in accordance with its US GAAP accounting policies which, as regards the profit forecast, is on a basis consistent with, and not materially different from, the accounting policies adopted by Cobham plc in the preparation of its audited financial statements for the year ended 31 December 2013. There have been no material changes or amendments to the accounting policies since 31 December 2013 and the same policies are expected to be adopted in the financial statements for the year ending 31 December 2014, which will be the first year in which Aeroflex's post acquisition results will be incorporated.

Adjusted EBITDA is calculated by adjusting net income (loss) to exclude income from discontinued operations, interest expense, provision (benefit) for income taxes, depreciation and amortisation, restructuring related costs, share-based payment compensation, non-cash purchase accounting adjustments, business acquisition and divestment related costs, including any costs in relation to the acquisition of Aeroflex by Cobham, and current period impact of acquisition related adjustments.

Non-GAAP income is calculated by deducting from adjusted EBITDA depreciation (excluding depreciation arising from non-cash purchase accounting adjustments), interest expense (excluding deferred financing fees) and taxation assuming a Non-GAAP effective tax rate of 32 per cent.
GAAP income from continuing operations excludes income from discontinued operations and any transaction or integration related costs relating to the acquisition of Aeroflex by Cobham and is prepared assuming a GAAP effective tax rate of 28 per cent. and a Non-GAAP effective rate of 32 per cent.

Principal assumptions

The profit forecast has been compiled on the basis of the following assumptions:

Assumptions which are outside the influence or control of Aeroflex management and the Directors:

- The assumed Aeroflex GAAP effective tax rate of 28 per cent. and Non-GAAP effective tax rate of 32 per cent, which are based on historical tax charges, remain valid for the forecast;
- All pre-completion requirements of the Merger Agreement, as set out in part 4 of this document are complied with;
- There will be no material change in the operational strategy or current management of Aeroflex;
- There will be no material change in the current trading environment and economic conditions;
- There will be no significant changes to the exchange rates used in compiling the forecasts;
- There will be no material change in the competitive environment and resulting customer preferences in which the Aeroflex Group operates;
- There will be no significant adverse weather conditions; and
- There will be no material business interruptions, including natural disasters or industrial disputes.

Assumptions which are within the influence or control of Aeroflex management and the Directors:

- The Acquisition will not complete prior to 30 June 2014;
- There are no share options issued during the period from 19 May 2014 to 30 June 2014; and
- There will be no acquisitions or disposals (other than the Acquisition) during the quarter ending 30 June 2014.

16. Incorporation by reference

Your attention is drawn to the following information which is incorporated by reference into this document:

Reference document	***Information incorporated by reference***
Cobham's 2013 Annual Report and Accounts	Cobham 2013 Annual Financial Statements
Cobham's 2012 Annual Report and Accounts	Information on Related Party Transactions in note 32 to the consolidated financial statements for the year ended 31 December 2012
Cobham's 2011 Annual Report and Accounts	Information on Related Party Transactions in note 33 to the consolidated financial statements for the year ended 31 December 2011

17. Documents on display

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD up to and including the date of the General Meeting and for the duration of the General Meeting:

(a) the articles of association of Cobham;

(b) the Cobham 2013 Annual Financial Statements;

(c) the written consents referred to in paragraph 14 of this Part 6;

(d) the Merger Agreement;

(e) the Consent Agreement; and

(f) this document and the Form of Proxy.

PART 7

DEFINITIONS

The following expressions have the following meanings throughout this document, unless the context otherwise requires:

Acquisition	the proposed acquisition by Cobham of Aeroflex by way of merger of Aeroflex with Merger Sub pursuant to the terms and conditions of the Merger Agreement;
Aeroflex	Aeroflex Holding Corp., a Delaware corporation;
Aeroflex 2014 Quarterly Financial Statements	the interim unaudited consolidated financial statements of Aeroflex for the nine months ended 31 March 2014;
Aeroflex Group	Aeroflex and its subsidiaries from time to time and, where the context requires, each one of them;
Aeroflex Shares	issued and outstanding shares of common stock of Aeroflex;
Aeroflex Shareholder	a holder of Aeroflex Shares from time to time;
ATES	Aeroflex Test Equipment Services;
Annual Report and Accounts	the annual report and financial information of Cobham which is published on Cobham's website and made up to the accounting reference date of 31 December each year;
BofA Merrill Lynch	Merrill Lynch International;
Board	the board of Directors of Cobham;
BCP	Cobham Bonus Co-investment Plan;
Cobham	Cobham plc, a public limited company registered in England and Wales under registered number 30470;
Cobham 2013 Annual Financial Statements	the annual audited consolidated accounts of Cobham for the year ended 31 December 2013, including the accountant's notes and the auditor's opinion on them as set out at pages 74 to 126 of Cobham's Annual Report and Accounts;
Cobham Group	Cobham and its subsidiaries from time to time and, where the context requires, each one of them;
Cobham Shares	Ordinary Shares and Preference Shares;
CFIUS	Committee on Foreign Investment in the United States;
Companies Act	the Companies Act 2006, as amended;
Company	Cobham plc, a public limited company registered in England and Wales under registered number 30470;
CREST	the relevant system, as defined in the CREST Regulations (in respect of which Euroclear is the operator as defined in the CREST Regulations);
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended;

Directors	the directors of Cobham, whose names appear on page 5 of this document;
Disclosure and Transparency Rules	the rules made by the FCA under Part VI of FSMA relating to the disclosure of information (as amended from time to time);
DSS	Defence Security Service;
Effective Date	13 June 2014 (being the latest practicable date before the publication of this document);
EiD	Excellence in Delivery;
Enlarged Group	the Cobham Group and the Aeroflex Group following completion of the Acquisition;
Executive Directors	the executive directors of Cobham;
FCA	the Financial Conduct Authority of the United Kingdom;
Form of Proxy	the form of proxy for use at the General Meeting;
FSMA	the Financial Services and Markets Act 2000, as amended from time to time;
GAAP	generally accepted accounting principles;
General Meeting	the general meeting of Cobham to be held at 9.30 a.m. on 2 July 2014 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD, notice of which is set out in Part 8 of this document;
HSR Act	Hart–Scott–Rodino Antitrust Improvements Act of 1976, as amended;
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board;
Listing Rules	the Listing Rules made by the FCA under Part VI of FSMA (as amended from time to time);
London Stock Exchange	London Stock Exchange plc;
Merger Agreement	the agreement and plan of merger entered into by and among Cobham, Aeroflex and Merger Sub on 19 May 2014, setting out the terms and conditions of the Acquisition, as described in more detail in Part 4 of this document;
Merger Sub	Army Acquisition Corp.;
Non-executive Directors	the non-executive directors of Cobham;
Notice of General Meeting	the notice of the General Meeting contained in Part 8 of this document;
Ordinary Shares	fully paid ordinary shares of 2.5 pence each in the capital of Cobham;
Placing	the placing of 60 million new Cobham Shares, representing approximately 5.6 per cent. of Cobham's existing issued ordinary share capital, which was announced by Cobham on 20 May 2014;
Placing Agreement	the placing agreement dated 20 May 2014 between Cobham and BofA Merrill Lynch and UBS Limited setting out the terms and conditions of the Placing;

Preference Shares	fully paid 6 per cent. second cumulative preference shares of £1 each in the capital of Cobham;
PwC	PricewaterhouseCoopers LLP, a limited liability partnership registered in England with registered number OC303525 and whose registered office is 1 Embankment Place, London, WC2N 6RH;
Registrar	Equitini Limited;
Remuneration Committee	the remuneration committee of the Board;
Resolution	the resolution to be proposed at the General Meeting set out in the Notice of General Meeting;
Shareholder	a holder of Cobham Shares from time to time;
Sponsor	BofA Merrill Lynch;
Sterling, GBP or £	the lawful tender for the time being and from time to time of the United Kingdom;
U.S.	the United States of America;
US GAAP	Generally Accepted Accounting Principles in the United States;
US$, $ or Dollar	the lawful currency of the U.S. from time to time.

PART 8

NOTICE OF GENERAL MEETING

Cobham plc (the Company)

(Incorporated and registered in England and Wales with registered number 30470)

NOTICE OF GENERAL MEETING

NOTICE IS GIVEN that a GENERAL MEETING of COBHAM PLC (the **Company**) will be held at 9.30 a.m. on 2 July 2014 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

THAT the proposed acquisition by the Company of Aeroflex Holding Corp. (the **Acquisition**), substantially on the terms and subject to the conditions of the agreement and plan of merger dated as of 19 May 2014 by and among the Company, Army Acquisition Corp., a wholly owned subsidiary of the Company and Aeroflex Holding Corp. (the **Merger Agreement**), as summarised in Part 4 of the circular to shareholders of the Company, dated 16 June 2014 (the **Circular**) and all other agreements and ancillary documents contemplated by the Merger Agreement, be and are approved and the directors of the Company (or any duly authorised committee of the directors) (the **Board**) be authorised:

(a) to do or procure to be done all such acts and things on behalf of the Company and any of its subsidiaries as the Board considers necessary, desirable or expedient in connection with, and to implement, the Acquisition;

and

(b) to agree such modifications, variations, revisions, waivers, extensions, additions or amendments to any of the terms and conditions of the Acquisition and/or to any documents relating to it, as they may in their absolute discretion think fit, provided such modifications, variations, revisions, waivers, extensions, additions or amendments are not of a material nature.

By order of the Board

Lyn Colloff

Company Secretary

16 June 2014

Registered No: 30470. Registered office: Brook Road, Wimborne, Dorset, BH21 2BJ

Notes:

1. A member entitled to attend and vote at the General Meeting who is unable or does not wish to attend the General Meeting may appoint one or more proxies (provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him) to attend, to speak and, on a poll, to vote on his or her behalf. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. Appointment of a proxy does not preclude a member of the Company from attending the General Meeting and voting in person.
2. A form of proxy is enclosed for use by shareholders. In order to be valid an appointment of proxy must be returned to the Company's Registrars by one of the following methods:
   - in hard copy form (together with the power of attorney or other authority, if any, under which it is signed) by post, by courier or by hand not later than 9.30 a.m. on 30 June 2014 (or not less than 48 hours before the time of any adjourned meeting) to the Company's Registrars, Equitini Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom;

     or

- online through the website of our Registrar, Equitini Limited at www.sharevote.com. You will need your Voting I.D., Task I.D. and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy). Full instructions are given on the website. You are advised to read the terms and conditions of use carefully. Any electronic communication found to contain a computer virus will not be accepted.

3. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting Equitini Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom on 0871 384 2163 (calls to this number are charged at 8 pence per minute plus network extras) or +44 (0) 121 415 7047 (lines open 8.30 am to 5.30 pm, Monday to Friday, excluding bank holidays) or you may photocopy the form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. A member must inform the Company's registrars in writing of any termination of the authority of a proxy.

4. Alternatively, if you are a member of CREST, you may register the appointment of a proxy by using the CREST electronic proxy appointment service. Further details are contained below.

   CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by using the procedures, and the address, described in the CREST Manual (available via www.euroclear.com) subject to the provisions of the Company's articles of association. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear UK and Ireland Limited's (**Euroclear**) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in the notice of the General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

   In each case the proxy appointments must be received by the Company not less than 48 hours before the time appointed for holding the General Meeting or any adjournment of it.

5. If two or more valid but differing appointments of a proxy are received in respect of the same share for use at the same meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.

6. Any or all joint holders of shares may attend the General Meeting, although only one holder may vote in person or by proxy. In the case of joint holders, where more than one of the joint holders purports to vote or to appoint a proxy, only the vote or appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

7. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, in order to be able to attend and vote at the General Meeting (either in person or by proxy, and also for the purposes of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the Company at 6.00 p.m. on 30 June 2014 (the **Specified Time**). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting. Should the General Meeting be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes a person may cast) at the adjourned General Meeting. Should the General Meeting be adjourned for a longer period, to be so entitled members must have been entered on the register of members by 6.00 p.m. two days prior to the adjourned General Meeting or, if the Company gives notice of the adjourned General Meeting, at the time specified in such notice.

8. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 (the **Act**) (**Nominated Persons**). Nominated Persons may have a right under an agreement with the registered shareholder by whom they were nominated to be appointed (or to have someone else appointed) as a proxy. Alternatively, if Nominated Persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

9. Copies of the documents listed in paragraph 17 of Part 6 of the Circular are available for inspection at the offices of Allen & Overy LLP, One Bishops Square, London E16AD during normal business hours from the date of this notice until the close of the General Meeting (Saturdays, Sundays and public holidays excepted) and will be available for inspection at the place of the meeting during the meeting.

10. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

11. Any member attending the General Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered. The Chairman may also nominate a Company representative to answer a specific question after the General Meeting.

12. A copy of this notice, and other information required by Section 311A of the Act, can be found at www.cobham.com.

13. Voting will be conducted by way of a poll rather than a show of hands. As at 13 June 2014 (being the last practicable date before the publication of this notice) the Company's issued share capital consists of 1,214,527,625 ordinary shares of 2.5 pence each, with 75,951,724 shares held as treasury shares (representing 6.25 per cent. of the total ordinary share capital in issue as at 13 June 2014), and 19,700 preference shares of £1 each. Treasury shares retain no voting rights. On a poll, there is one vote for every £1 in nominal value of shares. Therefore, the total voting rights in the Company as at 13 June 2014 is 28,484,097. As soon as practicable following the General Meeting, the results of the voting at the meeting and the numbers of all votes cast for and against and the number of votes actively withheld in respect of each of the resolutions will be announced via a Regulatory Information Service and also placed on the Company's website www.cobham.com.

14. You may not use any electronic address (within the meaning of Section 333(4) of the Act) provided in this Notice of General Meeting (or in any related documents including the Chairman's letter and proxy form) to communicate with the Company for any purposes other than those expressly stated.

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