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EDO MBM Technology Limited

Report and Financial Statements

31 December 2006

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COMPANIES HOUSE

Directors

P Hills
P Davies
A Roberts
J Eaton

Secretary

A Roberts

Auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Registered office

Emblem House
Home Farm Business Park
Home Farm Road
Brighton
East Sussex
BN1 9HU

Directors' report

The directors present their report and financial statements for the year ended 31 December 2006.

Results and dividends

The loss after tax, for the year amounted to £497,000 (2005 profit after tax of £923,000) The directors do not recommend the payment of any dividends

Principal activities and review of the business

The principal activity of the company during the year was the design, manufacture and assembly of a range of electro-mechanical equipment. The company continues to invest in development of new and existing products

The company provided in full (£842,000) against its investment in EDO Rugged Systems Limited where sales and orders were not materialising to expected levels

Involvement of the staff in the business is considered by the directors to be extremely important and various methods of communication are undertaken including an Employees Involvement Council, monthly briefings and various committees

The directors aim to maintain the management policies which have resulted in the company's continued successful operational performance. Following the excellent order intake and the further capital investment in 2006 the directors consider that 2007 will exceed the performance in 2006

Financial key performance indicators

The company consider the following to be the key financial performance indicators –

	2006	2005
Sales	£11.5m	£11.5m
Operating Profit	£0.2m	£1.3m
Order Input	£13.7m	£13.2m
Cash Flow from Operations	£0.2m	£0.8m
Capital Expenditure	£0.3m	£0.4m

The directors consider the results achieved in the year to be satisfactory and the key performance indicators to be in line with expectations

Research and development

The company remains committed to developing new products and technologies in its core business areas

Directors' report

Directors and their interests

The directors who served during the year and subsequent to the year end are shown below

P Hills
P Davies
P Davis (Resigned 16th March 2007)
A Roberts
J Eaton

There are no director's interests requiring disclosure under the Companies Act 1985

The company has indemnified the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision was in force during the year and is in force as at the date of approving the directors' report

Principal risks and uncertainties

The principal risks and uncertainties facing the company are as follows –

Competitive Risk

The majority of our contracts are obtained through a competitive bidding process. The successful award of these contracts is uncertain.

Legislative Risk

As a contractor and sub contractor to the UK Government we are subject to various laws and regulations that are more restrictive than those applicable to non-government contractors. Failure to comply with these regulations may impact on the performance of company.

Technical Skill Risk

There is a continuing demand for qualified technical personnel, and we believe that our future growth and success will depend upon our ability to attract, train and retain such personnel. Competition for personnel in the industry is intense, and there are a limited number of persons with knowledge of, and experience in, this industry. Although we currently experience relatively low rates of turnover for our technical personnel, the rate of turnover may increase in the future. An inability to attract or maintain a sufficient number of technical personnel could have a material adverse effect on our contract performance or on our ability to capitalise on market opportunities.

Financial Risk

The financial performance of the company may be at risk to fluctuations in foreign currency rates and failure of counterparties to discharge their financial obligations. To minimise the risk of foreign currency rate fluctuations the company may use forward foreign currency contracts to reduce exposure or may ensure foreign currency assets and liabilities are equally matched. To minimise the risk of a customer failure to discharge its obligations the company employs stringent internal policies to ensure that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures.

Contingencies and events occurring after the balance sheet date

On 22 March 2007, proposed changes to UK Corporation Tax were announced. In outline, the rate of Corporation Tax on profits will be reduced from 30% to 28%, the rate of allowance for expenditure on plant and equipment will be reduced from 25% p a to 20% p a, a new class of fixtures qualifying for allowances at 10% p a will be defined later this year and allowances for industrial buildings will be reduced over the period 1 April 2008 to 31 March 2011 and withdrawn with effect from 1 April 2011.

Directors' report

The combined effect of these changes, which will take effect for accounting purposes when the Finance Bill 2007 is substantively enacted, is anticipated to be reflected in the 2007 accounts, which cannot currently be estimated until further legislative details are made available.

Disclosure of information to the auditors


So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information required by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the shareholders at the Annual General Meeting.

On behalf of the board

P Hills
Director



Date 17th August 2007

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of EDO MBM Technology Limited

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of EDO MBM Technology Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst Young LLP

Ernst & Young LLP
Registered Auditor
Southampton

21 August 2007

Profit and loss account
for the year ended 31 December 2006

	<i>Notes</i>	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Turnover	2	11,470	11,497
Cost of sales		<u>(5,655)</u>	<u>(5,342)</u>
Gross profit		5,815	6,155
Administrative expenses		<u>(5,575)</u>	<u>(4,854)</u>
Operating profit	3	240	1,301
Interest receivable	6	133	81
Exceptional item	11	<u>(842)</u>	<u>-</u>
(Loss)/Profit on ordinary activities before taxation		(469)	1,382
Tax (charge) on profit on ordinary activities	7	<u>(28)</u>	<u>(459)</u>
(Loss)/Profit retained for the financial year		<u>(497)</u>	<u>923</u>


Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £497,000 attributable to the shareholders for the year ended 31 December 2006 (2005 - profit of £923,000)

Balance sheet

at 31 December 2006

	<i>Notes</i>	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	1,789	1,814
Investments	11	-	842
		<u>1,789</u>	<u>2,656</u>
Current assets			
Stocks	12	1,412	1,489
Debtors	13	7,788	5,200
Cash at bank		1,220	3,017
		<u>10,420</u>	<u>9,706</u>
Creditors amounts falling due within one year	14	<u>(2,792)</u>	<u>(2,462)</u>
Net current assets		<u>7,628</u>	<u>7,244</u>
Total assets less current liabilities		<u>9,417</u>	<u>9,900</u>
Provisions for liabilities and charges			
	15	<u>(219)</u>	<u>(205)</u>
		<u>9,198</u>	<u>9,695</u>
Capital and reserves			
Called up share capital	17	5,200	5,200
Share premium account	18	10	10
Profit and loss account	18	3,988	4,485
Shareholders' funds	18	<u>9,198</u>	<u>9,695</u>


 P Hills
 Director

Date 17th August 2007

Notes to the financial statements

at 31 December 2006

1. Accounting policies

Basis of preparation

The financial statements of EDO MBM Technology Limited were approved for issue by the Board of Directors on the date shown on the balance sheet

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards. In preparing the financial statements for the current year, the company has adopted FRS20 'Share-based payment'. There is no material financial impact for the current and prior financial years.

Preparation of group accounts

The company has utilised the exemption available under section 248 of the Companies Act 1985, as a parent company of a small or medium sized group, not to prepare group accounts. These accounts therefore present information about the company as an individual undertaking and not about its group.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No. 1 (revised) from including a cash flow statement. The cash flows of the company are included in the group accounts of the ultimate parent undertaking EDO Corporation.

Related parties transactions

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with shareholders or investees of the EDO Corporation group.

Goodwill and intangible fixed assets

For acquisitions of a business, purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of 20 years, with a full years charge for amortisation in the year of acquisition.

If an impairment is identified the carrying value of such goodwill is written down immediately to its recoverable amount.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write-off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Plant and machinery	10% to 33 1/3% straight line
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The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Fixed asset investments

Investments in subsidiary undertakings, which are held as fixed assets, are stated at cost less provision for any impairment. The carrying values are reviewed for impairment if events or changes in circumstances of the subsidiary undertaking indicate the carrying value may not be recoverable.

Stocks and long term contracts

Stocks and work in progress, other than on long term projects, are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to

Notes to the financial statements

at 31 December 2006

1. Accounting policies (continued)

completion and all relevant marketing, selling and distribution costs

Work in progress on long term contracts as defined by SSAP 9 is included as amounts recoverable on contracts under debtors. Advance and progress payments are included under creditors to the extent that they exceed the related work in progress. The change in work in progress is included within turnover.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

Operating lease agreements

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

2. Turnover

Turnover, which is stated net of value added tax, represents sales to third parties, and arises from the principal activities of the company.

An analysis of turnover by geographical market is given below:

	2006 £000	2005 £000
United Kingdom and Continental Europe	7,729	7,371
The Americas	3,722	4,015
Rest of the World	19	111
	<u>11,470</u>	<u>11,497</u>

Notes to the financial statements
at 31 December 2006

3. Operating profit

This is stated after charging/(crediting)

	2006 £000	2005 £000
Auditors' remuneration - statutory audit services	30	32
- other services	5	16
	<u>368</u>	<u>353</u>
Depreciation of owned fixed assets	368	353
Operating lease rentals - land and buildings	315	306
Foreign exchange	(34)	212
	<u>315</u>	<u>212</u>

The company has a share-based payment arrangement for all permanent UK employees, whereby the company purchases shares of its ultimate parent company, EDO Corporation, worth \$325 (2005 \$325) to each employee annually. The operating profit is stated after this charge.

4. Staff Costs

	2006 £000	2005 £000
Wages and salaries	3,127	3,664
Social security costs	323	287
Other pension costs	297	173
	<u>3,747</u>	<u>4,124</u>

The monthly average number of employees during the year was as follows

	2006 No	2005 No
Production staff	94	96
Sales and distribution staff	10	9
Administrative staff	41	43
	<u>145</u>	<u>148</u>

Notes to the financial statements
at 31 December 2006

5. Directors' emoluments

	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Emoluments	<u>380</u>	<u>293</u>
Value of company pension contributions to money purchase schemes	<u>45</u>	<u>33</u>

	<i>2006</i> <i>No</i>	<i>2005</i> <i>No</i>
Members of money purchase pension schemes	<u>5</u>	<u>5</u>

The amounts in respect of the highest paid director are as follows

	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Emoluments	<u>94</u>	<u>65</u>
Value of company pension contributions to money purchase schemes	<u>14</u>	<u>8</u>

6. Interest receivable

	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Bank interest receivable	<u>133</u>	<u>81</u>

7. Taxation on ordinary activities

(a) Tax on profit on ordinary activities

The tax (credit)/charge is made up as follows

	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
<i>Current tax</i>		
UK corporation tax	-	138
Adjustment in respect of prior year	(28)	(60)
Group relief	42	264
Total current tax (note 8(b))	<u>14</u>	<u>342</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	(1)	43
Adjustment in respect of prior year	15	74
Tax on profit on ordinary activities	<u>28</u>	<u>459</u>

Notes to the financial statements
at 31 December 2006

8. Taxation on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2005 – 30%) The differences are reconciled below

	2006 %	2005 %
Standard rate of tax as a percentage of profit	<u>30</u>	<u>30</u>
Effects of		
Disallowed expenses	(43)	-
Capital allowances in excess of depreciation	-	(8)
Movement in short term timing differences	1	-
Prior period adjustments	<u>6</u>	<u>3</u>
Current tax rate as a percentage of profit	<u>(6)</u>	<u>25</u>

(c) Deferred tax

Deferred tax is comprised as follows

	2006 £000	2005 £000
Capital allowances in advance of depreciation	<u>(219)</u>	<u>(205)</u>
Provision for deferred taxation	<u>(219)</u>	<u>(205)</u>

9. Intangible fixed assets

	<i>Goodwill</i> £000
Cost	
At 1 January 2006 and 31 December 2006	<u>100</u>
Amortisation	
At 1 January 2006 and 31 December 2006	<u>100</u>
Net Book Value	
At 1 January 2006 and 31 December 2006	<u>-</u>

In 2002 the company acquired the trade and assets of Automatic Systems Laboratories Limited for a cash consideration of £171,000. The book value of assets acquired of £71,000 comprised £35,000 of tangible fixed assets and £36,000 of stock. Goodwill of £100,000 has been capitalised and has been amortised on a straight line basis over three years.

Notes to the financial statements
at 31 December 2006

10. Tangible fixed assets

	<i>Plant & Machinery</i> £000
Cost	
At 1 January 2006	5,305
Additions	343
Disposals	-
At 31 December 2006	<u>5,648</u>
Depreciation	
At 1 January 2006	3,491
Provided during the year	368
Disposals	-
At 31 December 2006	<u>3,859</u>
Net Book Value	
At 31 December 2006	<u>1,789</u>
At 1 January 2006	<u>1,814</u>

11. Investments

Investment in subsidiary undertakings

	£'000
Cost	
At 1 January 2006 and 31 December 2006	<u>842</u>
Amounts provided	
At 1 January 2006	-
Provided during the year	842
At 31 December 2006	<u>842</u>
Net Book Value	
At 31 December 2006	<u>-</u>
At 1 January 2006	<u>842</u>

During the year, investment in EDO Rugged Systems Limited was fully impaired and disclosed as exceptional item in the Profit and Loss Account

The subsidiaries are

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Proportion of ordinary share held</i>	<i>Nature of business</i>
EDO Rugged Systems Limited	United Kingdom	100%	Design and sale of rugged computer equipment

Notes to the financial statements
at 31 December 2006

12. Stocks

	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Raw materials and consumables	903	907
Work in progress	509	582
	<u>1,412</u>	<u>1,489</u>

13. Debtors

	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Trade debtors	2,291	1,504
Amounts owed by group undertakings	5,360	3,524
Prepayments and accrued income	137	172
	<u>7,788</u>	<u>5,200</u>

14. Creditors: amounts falling due within one year

	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Trade creditors	936	789
Amounts owed to group undertakings	716	645
Corporation tax	46	80
Other taxation	295	146
Accruals and deferred income	799	802
	<u>2,792</u>	<u>2,462</u>

Outstanding amounts in respect of the defined contribution scheme payable at the balance sheet date were £24,000 (2005 £25,000)

15. Provisions for liabilities and charges

	<i>Deferred taxation £000</i>
At 1 January 2006	205
Profit and loss movement during the year (note 8)	14
At 31 December 2006	<u>219</u>

Notes to the financial statements

at 31 December 2006

16. Commitments under operating leases

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	<i>Land and buildings</i>	
	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Operating leases which expire		
Within one year	-	-
In two to five years	321	312
	<u>321</u>	<u>312</u>

17. Share capital

	<i>Authorised</i>	
	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	<u>5,200</u>	<u>5,200</u>
	<i>Allotted and called up</i>	
	<i>2006</i>	<i>2005</i>
	<i>No</i>	<i>No</i>
	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	5,200,000	5,200,000
	<u>5,200</u>	<u>5,200</u>

18. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Share premium</i>	<i>Profit and loss</i>	<i>Total share-</i>
	<i>£000</i>	<i>account</i>	<i>account</i>	<i>holders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2005	5,200	10	3,562	8,772
Profit for the year	-	-	923	923
At 31 December 2005	<u>5,200</u>	<u>10</u>	<u>4,485</u>	<u>9,695</u>
Loss for the year	-	-	(497)	(497)
At 31 December 2006	<u>5,200</u>	<u>10</u>	<u>3,988</u>	<u>9,198</u>

19. Ultimate parent company and controlling party

The company's immediate parent undertaking is EDO (UK) Limited, a company incorporated in England. In the directors' opinion, the company's ultimate parent undertaking and controlling party is EDO Corporation, which is incorporated in the United States. Copies of its group financial statements, which include the company, are available from

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