FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-07-27** | Period of Report: **1999-06-30**
SEC Accession No. 0001047469-99-028662

FILER

IFR SYSTEMS INC

CIK:**785546**| IRS No.: **480777904** | State of Incorp.:**DE** | Fiscal Year End: **0331**
Type: **10-Q** | Act: **34** | File No.: **000-14224** | Film No.: **99670694**
SIC: **3825** Instruments for meas & testing of electricity & elec signals

Mailing Address
10200 WEST YORK STREET
WICHITA KS 67215

Business Address
10200 W YORK ST
WICHITA KS 67215
3165224981

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

FORM 10 - Q

(Mark One)

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

For the quarterly period ended June 30, 1999

OR

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

For the transition period from _________ to ________

Commission file number 0-14224

IFR SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	48-1197645
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

10200 WEST YORK STREET, WICHITA, KANSAS 67215
(Address and zip code of principal executive offices)

(316) 522-4981
(Registrant's telephone number, including area code)

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

There were 8,226,265 shares of common stock, par value $.01 per share, of the Registrant outstanding as of July 19, 1999.

IFR SYSTEMS, INC.
FORM 10 - Q
INDEX

<TABLE>
<CAPTION>

</TABLE>

PART I -- FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

IFR SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

<S>	JUNE 30, 1999 (UNAUDITED) <C>	MARCH 31, 1999 (NOTE) <C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,542	$ 5,086
Accounts receivable, less $723 and $731 allowance for doubtful accounts, respectively	27,177	27,306
Inventories:		
Finished products	13,969	15,568
Work in process	9,358	8,811
Materials	14,252	13,650
	37,579	38,029
Prepaid expenses and sundry	6,312	6,042
Deferred income taxes	2,465	2,492
Current assets of discontinued operations	18,710	17,460
TOTAL CURRENT ASSETS	96,785	96,415
PROPERTY AND EQUIPMENT:		
Property and equipment	36,381	36,079
Allowances for depreciation	(14,956)	(13,835)
	21,425	22,244
PROPERTY UNDER CAPITAL LEASE:		
Building and machinery	5,201	5,201
Allowances for depreciation	(2,075)	(1,962)
	3,126	3,239
PROPERTY AND EQUIPMENT OF DISCONTINUED OPERATIONS, NET OF ALLOWANCES FOR DEPRECIATION OF $4,538 AND $4,380, RESPECTIVELY	3,051	3,058
OTHER ASSETS:		
Cost in excess of net assets acquired, less amortization of $998 and $812, respectively	21,299	21,485
Developed technology, less amortization of $1,326 and $1,092, respectively	17,474	17,708
Other intangibles, less amortization of $1,807 and $1,594, respectively	12,959	13,172
Other	2,300	2,090
Other assets related to discontinued operations - net	7,434	7,632
	61,466	62,087
TOTAL ASSETS	$ 185,853	$187,043

</TABLE>

Note: The balance sheet at March 31, 1999 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

IFR SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

<S>	JUNE 30, 1999 (UNAUDITED) <C>	MARCH 31, 1999 (NOTE) <C>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank borrowings (NOTE 2)	$ 19,100	$ 17,700
Accounts payable	8,655	9,883
Accrued compensation and payroll taxes	4,383	4,401
Other liabilities and accrued expenses	9,038	8,890
Federal and state income taxes and local taxes	1,479	1,120
Current maturity of capital lease obligations	185	185
Current maturity of long-term debt	4,500	4,250
Current liabilities of discontinued operations	5,456	3,823
TOTAL CURRENT LIABILITIES	52,796	50,252
CAPITAL LEASE OBLIGATIONS	3,395	3,442
LONG-TERM DEBT	92,000	93,125
DEFERRED INCOME TAXES	11,445	11,828
DEFERRED INCOME TAXES OF DISCONTINUED OPERATIONS	196	168
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value---authorized 1,000,000 shares, none issued	-	-
Common stock, $.01 par value---authorized 50,000,000 shares, issued 9,266,250 shares	93	93
Additional paid-in capital	7,229	7,368
Cost of common stock in treasury--1,039,985 and 1,056,985 shares, respectively	(8,473)	(8,611)
Accumulated other comprehensive income (loss)	(2,618)	(1,187)
Retained earnings	29,790	30,565
	26,021	28,228
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 185,853	$ 187,043

</TABLE>

See notes to condensed consolidated financial statements.

IFR SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,	
	1999	1998
SALES	$ 33,991	$ 39,815
COST OF PRODUCTS SOLD	19,061	27,578
GROSS PROFIT	14,930	12,237
OPERATING EXPENSES:		
Selling	6,186	7,492
Administrative	3,711	3,560
Engineering	4,275	4,418
	14,172	15,470
OPERATING INCOME (LOSS)	758	(3,233)
OTHER INCOME (EXPENSE):		
Interest income	113	202
Interest expense	(2,609)	(2,329)
Other, net	(108)	(74)
	(2,604)	(2,201)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(1,846)	(5,434)
INCOME TAX BENEFIT	(745)	(2,395)
LOSS FROM CONTINUING OPERATIONS	(1,101)	(3,039)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS LESS APPLICABLE INCOME TAXES (NOTE 3)	326	(80)
NET LOSS	$ (775)	$ (3,119)
EARNINGS (LOSS) PER SHARE - BASIC:		
Loss from continuing operations	$ (0.13)	$ (0.37)
Income (loss) from discontinued operations	0.04	(0.01)
Net loss	$ (0.09)	$ (0.38)
EARNINGS (LOSS) PER SHARE - DILUTED:		
Loss from continuing operations	$ (0.13)	$ (0.37)
Income (loss) from discontinued operations	0.04	(0.01)
Net loss	$ (0.09)	$ (0.38)
AVERAGE COMMON SHARES OUTSTANDING	8,223	8,196
DILUTIVE COMMON SHARES OUTSTANDING	8,223	8,196

</TABLE>

See notes to condensed consolidated financial statements.

IFR SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30, 1999	1998
OPERATING ACTIVITIES		
Net loss	$ (775)	$ (3,119)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	1,392	1,678
Amortization of intangibles	766	1,138
Deferred income taxes	(428)	(5,047)
Utilization of acquired tax loss carryforwards	-	416
Changes in operating assets and liabilities:		
Accounts receivable	(723)	806
Inventories	61	7,867
Other current assets	(179)	1,630
Accounts payable and accrued liabilities	(224)	(8,857)
Other current liabilities	1,118	(1,282)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,008	(4,770)
INVESTING ACTIVITIES		
Purchases of property and equipment	(874)	(1,374)
Proceeds from sale of equipment	17	1,071
Sundry	(210)	1,704
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	(1,067)	1,401
FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(47)	(175)
Principal payments on long-term debt	(875)	-
Principal payments on short-term bank borrowings	(1,100)	-
Proceeds from short-term bank borrowings	2,500	2,000
Proceeds from exercise of common stock options	(1)	1,023
NET CASH PROVIDED IN FINANCING ACTIVITIES	477	2,848
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(962)	314
DECREASE IN CASH AND CASH EQUIVALENTS	(544)	(207)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,086	366
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,542	$ 159

See notes to condensed consolidated financial statements.

IFR SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JUNE 30, 1999

NOTE 1 -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended June 30, 1999 are not necessarily indicative of the results that may be expected for the year ending March 31, 2000. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 1999.

The Company operates in one significant business segment, electronic test and measurement (ETM Division).

NOTE 2 -- BANK BORROWINGS

In March 1998, the Company entered into an amended and restated Credit Agreement with a bank syndication (the Agreement) to provide available lines of credit aggregating $30,000,000. The Agreement expires on February 5, 2004. Under the terms of the Agreement, borrowings bear interest at a spread over LIBOR based on certain financial criteria. The Agreement also includes a counter indemnity with a foreign bank to provide letters of credit and overdraft facilities totaling $3,300,000. As of June 30, 1999, the Company has available unused lines of credit aggregating $5,700,000.

On March 31, 1999, the Company completed an amendment to the Agreement which increased the interest rate by approximately 25 basis points effective June 1, 1999. The interest rate on the outstanding portion of the lines of credit was 8.32% at June 30, 1999. In addition, the amendment provides for a reduction in the aggregate revolving loan commitment from $30,000,000 to $25,000,000.

On June 25, 1999, the Company completed an amendment to the Agreement which modified certain financial covenants, effective July 1, 1999.

NOTE 3 -- DISCONTINUED OPERATIONS

On June 25, 1999, the Board of Directors approved a formal plan to sell the Company's Optical Test and Measurement (OTM) Division. The sale was completed on July 7, 1999 to GN Nettest, a company in the GN Great Nordic Group, Copenhagen, Denmark for $43,000,000 in cash. A net of tax gain of approximately $12,000,000 (approximately $1.45 per share) will be recorded in the quarter ending September 30, 1999. The proceeds from the sale were used to reduce the Company's outstanding debt obligation in July 1999, with $31,740,000 applied to long-term debt and $11,260,000 used to reduce short-term debt.

The results of operations for the OTM Division have been segregated and classified as discontinued operations in the consolidated statements of operations and prior periods have been restated. Selected results of operations for the OTM Division follows: (IN THOUSANDS):

<TABLE>
<CAPTION>

	Three Months Ended June 30,	
	1999	1998
<S>	<C>	<C>
Sales	$8,335	$9,416
Income tax expense	310	193
Income (loss) from discontinued operations	326	(80)

</TABLE>

The consolidated balance sheets have been segregated to reflect the OTM Division as discontinued operations and prior periods have been restated. The consolidated statements of cash flows include the OTM Division.

NOTE 4 - COMPREHENSIVE INCOME

Total comprehensive loss was $2,206,000 and $2,908,000 for the three months ended June 30, 1999 and 1998, respectively. The difference between the total comprehensive loss and net loss is foreign currency translation adjustments.

NOTE 5 - RESTRUCTURING

Restructuring liabilities from the Marconi acquisition of approximately $7,700,000 were recorded for severance and related costs associated with the shutdown of certain acquired facilities. Payments in the amount of $6,634,000 have been charged against the liability through June 30, 1999.

NOTE 6 - EARNINGS PER SHARE DATA

The following is a reconciliation of the numerator and denominators used in computing basic and diluted earnings per share from continuing operations (in thousands, except per share data):

	THREE MONTHS ENDED JUNE 30, 1999	1998
NUMERATOR		
Loss from continuing operations available to common shareholders	$(1,101)	$(3,039)
DENOMINATORS		
Basic earnings (loss) per share:		
Weighted-average common shares outstanding	8,223	8,196
Basic loss per share from continuing operations	$(0.13)	$(0.37)
Diluted earnings (loss) per share:		
Weighted-average common shares outstanding	8,223	8,196
Effect of stock options	1	414
Weighted-average common shares outstanding - diluted	8,224	8,610
Diluted loss per share from continuing operations	$(0.13)	$(0.35)

Note - Because the effect of stock options for 1999 and 1998 is antidilutive for the periods presented, diluted per share amounts are equal to the basic per share amounts.

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

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 - FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains forward-looking statements and information that are based on management's beliefs and assumptions, as well as information currently available to management. Forward-looking statements are all statements other than statements of historical fact included in this report. When used in this document, the words "anticipate", "estimate", "expect", "intend", "believe", and similar expressions are intended to identify forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable and are based on reasonable assumptions within the bounds of its knowledge of its business and operations, it can give no assurance that such expectations will prove to be correct and that actual results will not differ materially from the Company's expectations. Such forward-looking statements speak only as of the date of this report, and the Company cautions readers not to place undue reliance on such statements.

Factors that could cause actual results to differ from expectations include: (1) the degree and nature of competition, including pricing pressure and the development of new products or discoveries of new technologies by competitors, (2) fluctuations in the global economy and various foreign countries including recent developments adversely affecting the economies of various Asian countries, (3) demand for the Company's products, (4) loss of significant customers, (5) the Company experiencing delays in developing new products and technologies, (6) the ability of the Company to continue the transition to digital technologies in the communications test equipment products, (7) the failure of such technologies or products to perform according to expectations, (8) difficulties in manufacturing new products so they may be profitably priced on a competitive basis, (9) lack of adequate market acceptance of new products or technologies, (10) changes in products or sales mix and the related effects on gross margins, (11) availability of components, parts, and supplies from third party suppliers on a timely basis and at reasonable prices, (12) currency fluctuations, (13) inventory risks due to changes in market demand or the Company's business strategies, (14) unanticipated problems arising from the failure of one or more suppliers or customers of the Company or others to be able to maintain normal business operations after 1999 because of "Year 2000" computer difficulties, (15) inability to hire sufficient personnel at reasonable levels of compensation and other labor problems, (16) inability to realize anticipated efficiencies and savings from the Company's acquisition of Marconi Instruments, Limited and (17) other risks described herein.

YEAR 2000 READINESS DISCLOSURES

The Company, like all other companies, is confronted with so-called "Year 2000" issues that might arise as a result of existing computer programs and systems not being able to properly recognize a date in a year that begins with "20" rather than "19". Year 2000 problems can arise (a) because the operating, manufacturing, and the information technology equipment operated by the Company fails to operate properly after December 31, 1999 (is not "Year 2000 compliant"), (b) because the Company's products will not operate properly after that date, or (c) because material customers and vendors of the Company, or public utilities, financial systems, or others on whom the Company is dependent are unable to conduct their business operations normally because of Year 2000 problems.

Because of the pervasive nature of computers and computer systems in the Company's products and equipment, as well as throughout the nation and world, it is impossible for the Company to provide any assurances that its efforts at identifying and remedying Year 2000 issues will be totally effective or that Year 2000 problems of others will not have a material adverse effect on the Company's operations and profits notwithstanding any efforts the Company may make. Accordingly, the following discussion contains numerous "forward looking" statements that are subject to the qualifications and cautionary statements contained in this Report under the heading private securities litigation reform act of 1995 - "Forward looking Statements".

Based on the results to date of its assessment of the Year 2000 issues of which the Company is aware at this time, the Company does not believe Year 2000 problems will have a materially adverse effect on the Company or its operations. No assurance can be given, however, that the Company has been able to identify all potential Year 2000 problems or that if Year 2000 problems are discovered by the Company in the future, it will be able to resolve them satisfactorily and at an affordable cost.

IFR PRODUCTS. The Company has evaluated all of its existing products and has evaluated those used by customers and has concluded such products now being manufactured will not require modification in order to be Year 2000 compliant.

IFR'S OPERATING AND MANUFACTURING EQUIPMENT. IFR has conducted an assessment of all of its manufacturing and other operating equipment and has either upgraded or made arrangements for the upgrade of all significant items of equipment that are found not to be Year 2000 compliant. To date, the Company has incurred approximately $300,000 in Year 2000 equipment upgrade expenditures and anticipates spending approximately $10,000 to complete the upgrade process. IFR does not anticipate any serious difficulty in completing the upgrade process and testing its equipment prior to December 31, 1999.

INFORMATION TECHNOLOGY AND ACCOUNTING SYSTEMS. IFR has completed its assessment of its significant information technology and principal accounting systems and has made a substantial portion of the modifications necessary for them to be Year 2000 compliant. Total expenditures to date for such modifications have been approximately $1,575,000 of which approximately $1,100,000 was spent to acquire new equipment or software prior to the time it would otherwise have been acquired. It is anticipated that the Company will incur additional expenditures of approximately $185,000 to complete the upgrade of its information technology in order to be Year 2000 compliant.

SUPPLIERS AND CUSTOMERS. The Company has written to certain of its customers and vendors whose failure to be able to conduct business normally after December 31, 1999, because of Year 2000 problems might materially affect IFR, requesting written information as to their Year 2000 compliance and preparation. The Company has received written responses from most of such customers and vendors that appear to indicate generally they are or expect to be sufficiently Year 2000 compliant. The Company intends to continue to closely monitor the Year 2000 compliance and preparation of its material customers and vendors. This portion of the Company's Year 2000 compliance and assessment program has not resulted in material expenditures by IFR and is not anticipated to do so.

POTENTIAL EFFECTS OF YEAR 2000 PROBLEMS. The Company is unable to predict with any degree of certainty the potential consequences to it of Year 2000 issues. Obviously, any sort of major prolonged inability of public utilities or financial systems in any portion of the world where the Company operates manufacturing facilities or has substantial customers or vendors could materially adversely impact the Company's revenue or delay the receipt of revenue and could, theoretically, even cause a national or global economic crisis or downturn. Similarly, the inability of a significant number of the Company's customers or vendors to operate normally, either because of their own Year 2000 problems or because of Year 2000 problems of persons on whom they, in turn, are dependent, could have a material adverse impact on the Company. There is also some likelihood that an inability of the Company to deliver its products in the normal manner might cause it to lose customers or incur contractual liability to customers. While the Company has no reason to believe that any of such matters will occur in such a manner as to produce severe economic consequences to the Company, all of these matters are beyond the ability of the Company to predict or quantify with any assurance.

CONTINGENCY PLANS. The Company has and is continuing to develop contingency plans that address the processes necessary to maintain critical business functions should a significant third party system or critical internal system fail. These contingency plans generally include the repair of existing systems and, in some instances, the use of alternative systems or procedures. The Company is developing business continuity plans specific to Year 2000 issues that are based on these existing plans.

DISCONTINUED OPERATIONS

On June 25, 1999, the Board of Directors approved a formal plan to sell the Company's Optical Test and Measurement (OTM) Division. The sale was completed on July 7, 1999 to GN Nettest, a company in the GN Great Nordic Group, Copenhagen, Denmark for $43,000,000 in cash. A net of tax gain of approximately $12,000,000 (approximately $1.45 per share) will be recorded in the quarter ending September 30, 1999. The proceeds from the sale were used to reduce debt in July 1999, with $31,740,000 applied to long-term debt and $11,260,000 used to reduce short-term debt. The sale will allow the Company to further focus on the ETM Division.

As a consequence of the divestiture, the results of operations for the OTM Division have been segregated and classified as discontinued operations in the consolidated statements of operations and prior periods have been restated. The consolidated balance sheets have been segregated to reflect the OTM Division as discontinued operations and prior periods have been restated. The consolidated statements of cash flows include the OTM Division.

RESULTS OF OPERATIONS

Sales for the first quarter ended June 30, 1999 were $33,991,000 compared to $39,815,000 in the first quarter of the prior year. This represents a decrease of 14.6% or $5,824,000 due to lower sales of communication test instruments to government and commercial customers.

Gross margins increased to 43.9 % for the current year quarter as compared to 30.7% in the previous year quarter. The previous year quarter included inventory valuation charges related to the Marconi acquisition of $7,106,000. Excluding the effect of the acquisition adjustment, gross margins for the previous year quarter was 48.6%. The decrease of 4.7% is due to an unfavorable product mix and lower sales volume to cover fixed overhead costs.

Operating expenses increased 2.8% to 41.7% of sales for the current quarter. Administrative expenses increased 1.9%, engineering expenses increased 1.5% and selling expenses decreased 0.6% as a percentage of sales. Operating expenses in general increased as a percent of sales because of the lower sales volume.

Other expenses increased $403,000 compared to the prior year quarter due mainly to the higher interest expense related to the debt incurred to fund the acquisition.

The estimated effective income tax rate was approximately 40.4% for the current period and 44.1% for the previous year period. The decrease represents the impact of the foreign subsidiaries and their related tax rates.

LIQUIDITY AND SOURCES OF CAPITAL

The Company maintains an adequate financial position with working capital of $43,989,000 at June 30, 1999. The Company generated cash from operations of $1,008,000 for the three months period ended June 30, 1999 compared to a cash outflow of $4,770,000 for the previous year quarter. The increase in cash provided from operations was due to a decrease in the net loss for the period ($2,344,000) and decreases in working capital accounts.

Cash used in investing activities was $1,067,000 for the current quarter compared to cash inflows of $1,401,000 in the previous year quarter. The decrease in funds provided is due to proceeds from the sale of Company owned cars and cash inflows related to reclassification of restructuring costs in the previous year quarter.

Cash flows provided in financing activities was $477,000 and $2,848,000 for the three months period ended June 30, 1999 and 1998, respectively. The decrease in funds provided was due primarily to principal payments on long-term debt and reduced proceeds from the exercise of stock options.

No cash dividends were paid in fiscal year 1999 and no cash dividends are anticipated to be paid in fiscal year 2000. Certain restrictive payments concerning the debt incurred with the purchase of Marconi allow for cash dividends to be paid only when certain leverage ratios are obtained.

On September 20, 1996, the Board of Directors of the Company authorized the repurchase of up to 750,000 shares of the Company's common stock. The main purpose of the shares buyback program is to offset the dilution of stock option exercises and as a utilization of the anticipated excess cash flow during the year. As of June 30, 1999, the Company had purchased an aggregate of 470,000 shares under the program. Certain restrictive covenants concerning the debt incurred with the purchase of Marconi limit the amount of capital stock allowed to be purchased.

At June 30, 1999, $19,100,000 was outstanding under the lines of credit.

On March 31, 1999, the Company completed an amendment to the Agreement which increased the interest rate by approximately 25 basis points effective June 1, 1999. In addition, the amendment provides for a reduction in the aggregate revolving loan commitment from $30,000,000 to $25,000,000.

At June 30, 1999 the Company was in violation of the leverage ratio restrictive covenant in the Agreement and obtained an appropriate waiver from the bank. On June 25, 1999, the Company completed an amendment to the Agreement which modified certain financial covenants, effective July 1, 1999, to more obtainable terms. The Company expects to be in compliance with the financial covenants for the next twelve months.

The Company anticipates that available lines of credit and funds generated from operations will be adequate to meet capital asset expenditures, debt payments, interest and working capital needs for the current fiscal year ending March 31, 2000.

OUTLOOK

The sale of the OTM Division, effective July 7, 1999, helps restore the Company's financial flexibility and positions the Company to benefit from the opportunities presented by the continuing change in the test and measurement marketplace. All of the Company's efforts are now focused on building the Electronic Test & Measurement (ETM) Division business where long-term growth opportunities have been identified in the expanding wireless communications and related market segments. The continuing investments in engineering and marketing have strengthened the Company's competitive position in these areas. The Company is optimistic that it is properly positioned to benefit from future growth in the global test equipment industry. In the meantime, a variety of cost reduction steps have been implemented which, together with reduced interest expense, should result in better financial performance for the balance of the fiscal year.

PART II -- OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.24 Waiver to Credit Agreement, dated as of July 16, 1999, for the fiscal quarter ending June 30, 1999.

27.0 Financial Data Schedule

(b) No Form 8-K was filed during the quarter ended June 30, 1999.

SIGNATURES

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

IFR SYSTEMS, INC.

Date: July 27, 1999

/s/ Iain M. Robertson

Iain M. Robertson,
Director, President and
Chief Operating Officer
(Duly authorized officer)

/s/ Jeffrey A. Bloomer

Jeffrey A. Bloomer,
Executive Vice President,
Chief Financial Officer
and Treasurer
(Principal financial and chief
accounting officer)

July 16, 1999

IFR SYSTEMS, INC.
10200 West York Street
Wichita, KS 67215
Attention: Chief Financial Officer

Dear Sir:

Reference is hereby made to that certain Amended and Restated Credit Agreement dated as of March 19, 1998 by and among IFR Systems, Inc., a Delaware corporation (the "BORROWER"), the lenders from time to time parties thereto (collectively, the "LENDERS") and The First National Bank of Chicago, as one of the Lenders and in its capacity as contractual representative (the "AGENT") on behalf of itself and the other Lenders, as amended by an Amendment No. 1 and Waiver, an Amendment No. 2 and an Amendment No. 3, dated as of November 3, 1998, March 31, 1999 and June 25, 1999, respectively (as amended and as the same may be amended, restated, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"). Terms used herein and not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

The Borrower has informed the Lenders that it has consummated the sale of the OTM Division, and in connection therewith has caused the proceeds of the sale of the OTM Division to be placed in escrow pending the expiration and termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. In accordance with the provisions of SECTION 10.3 of the Credit Agreement, the Borrower has requested that, subject to the terms hereof and only so long as such proceeds remain in escrow, the Required Lenders waive any default arising solely from the Borrower's failure to maintain a Leverage Ratio less than 5.75 to 1.00 for the fiscal quarter ending June 30, 1999.

The Required Lenders hereby agree to such waiver.

Very truly yours,

THE FIRST NATIONAL BANK OF
CHICAGO, as Agent and as Lender

By:

Name:
Title:

INTRUST BANK, as a Lender

By:

Name:
Title:

THE BANK OF NOVA SCOTIA, as a Lender

By:

Name:
Title:

HARRIS TRUST AND SAVINGS BANK, as a Lender

By:

Name:
Title:

NATIONAL WESTMINSTER BANK PLC, as a Lender

By:

Name:
Title:

UNION BANK OF CALIFORNIA, N.A., as a Lender

By:

Name:
Title:

LLOYDS BANK PLC, as a Lender

By:

Name:
Title:

WAIVER DATED JULY 16, 1999

<TABLE> <S> <C>

<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEETS AND CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS IN THE COMPANY'S FORM 10-Q.
</LEGEND>
<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	MAR-31-2000
<PERIOD-START>	APR-01-1999
<PERIOD-END>	JUN-30-1999
<CASH>	4,542
<SECURITIES>	0
<RECEIVABLES>	27,900
<ALLOWANCES>	723
<INVENTORY>	37,579
<CURRENT-ASSETS>	96,785
<PP&E>	41,582
<DEPRECIATION>	17,031
<TOTAL-ASSETS>	185,853
<CURRENT-LIABILITIES>	52,796
<BONDS>	95,395
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	93
<OTHER-SE>	25,928
<TOTAL-LIABILITY-AND-EQUITY>	185,853
<SALES>	33,991
<TOTAL-REVENUES>	33,991
<CGS>	19,061
<TOTAL-COSTS>	19,061
<OTHER-EXPENSES>	14,172
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	2,609
<INCOME-PRETAX>	(1,846)
<INCOME-TAX>	(745)
<INCOME-CONTINUING>	(1,101)
<DISCONTINUED>	326
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(775)
<EPS-BASIC>	(0.09)
<EPS-DILUTED>	(0.09)

</TABLE>