CPI HOLDCO INC
Form 10-K
December 20, 2005
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2005

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: 333-11386-04

CPI Holdco, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	75-3142681 (IRS Employer Identification No.)
811 Hansen Way Palo Alto, California 94303-1110 (Address of Principal Executive Offices and Zip Code)	650) 846-2900 (Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act: None	Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each registrant's knowledge, in definitive proxy or information

statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

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

No voting stock of CPI Holdco, Inc. is held by non-affiliates of CPI Holdco, Inc.

The number of outstanding shares of the registrant's common stock as of December 9, 2005, was 4,275,566 shares of Common Stock, $0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE:

(None)

CPI HOLDCO, INC.

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Cautionary Statements Regarding Forward-Looking Statements

This document includes certain ‘‘forward-looking statements’’ within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, our financial condition, our results of operations, our growth strategy and the business of our company generally. In some cases, you can identify such statements by terminology such as ‘‘may’’, ‘‘will’’, ‘‘should’’, ‘‘expects’’, ‘‘plans’’, ‘‘anticipates’’, ‘‘believes’’, ‘‘intends terminology. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. These risks and uncertainties include, without limitation, the risk factors set forth in Item 1A ‘‘Risk Factors’’ of this report and elsewhere in this report and other risks and uncertainties more fully described in this report and in the other filings with the Securities and Exchange Commission (‘‘SEC’’) made by us and our predecessor, Communications & Power Industries Holding Corporation. We caution that the risk factors set forth in this report are not exclusive. We disclaim any obligation to revise or update any forward-looking statement that may be made from time to time by us or on our behalf.

PART I

Item 1. Business

Background

We are a leading provider of microwave and radio frequency (‘‘RF’’) solutions for critical defense, communications, medical, scientific and other applications. Our products include high power microwave amplifiers, satellite communications amplifiers, medical x-ray imaging subsystems, and other related products. Our solutions enable the generation, control and transmission of high power and high frequency microwave and RF signals

Our products are critical elements of numerous high priority domestic and international military programs such as the U.S. Navy’s Aegis surface combatants (the DDG-51 class destroyers and the CG-47 cruisers), the ALE-50 and MK-53 NULKA electronic warfare decoys, Patriot (Advanced Capability and Missile System Radar), F-16 and F/A-18 E/F aircraft, IDECM, High Power Microwave and numerous high power military radar systems. Defense applications of our products include transmitting and receiving radar signals for locating and tracking threats, weapons guidance and navigation, and transmitting decoy and jamming signals for electronic warfare.

In addition to our strong presence in defense applications, we have successfully applied our key technologies to commercial end markets, including communications, medical, industrial and scientific applications, which we believe enables us to leverage our 58 years of design experience and provides a diversified base of sales. In the communications market, we provide microwave amplifiers for satellite communication uplinks for broadcast, video, voice and data transmission. In the medical market, we supply amplifiers used in radiation oncology treatment systems primarily to Varian Medical Systems, Inc., with whom we have a long-standing, sole provider relationship. We also supply x-ray generators, subsystems, software and user interfaces for diagnostic imaging systems, a dynamic, high-technology market where we continue to experience significant growth.

Company History

In 1937, Russell and Sigurd Varian (the historical founders of our business) invented the klystron, which is still a foundation of modern high power microwave applications. In 1948, Russell and Sigurd Varian founded Varian Associates, Inc. and introduced the klystron as its first commercial product. Over time, Varian Associates developed new devices and new uses for its products, including applications for the radar, electronic warfare, communications, medical, industrial and scientific markets. Today, we continue to develop higher power, wider bandwidth and higher frequency microwave solutions that enable significant technological advances in the defense and commercial systems that use our technology

In 1995, a fund managed by Leonard Green & Partners, L.P., together with members of management, purchased the Electron Devices Business from Varian Associates and formed CPI. In January 2004, affiliates of The Cypress Group (collectively ‘‘Cypress’’) acquired Communications & Power Industries Holding Corporation (the ‘‘Predecessor’’) pursuant to a merger (the ‘‘Merger’’) of a wholly-owned subsidiary of CPI Holdco, Inc. (‘‘CPI Holdco’’ or the ‘‘Successor’’) into the Predecessor. As used herein, the ‘‘Company’’, ‘‘we’’, ‘‘us’’ and ‘‘our’’ refer to the Predecessor and its subsidiaries prior to the Merger and to the Successor and its subsidiaries after the Merger, in each case, including its wholly-owned subsidiary, Communications & Power Industries, Inc. (‘‘CPI’’). In October 2004, we purchased Econco Broadcast Service, Inc., a leading rebuilder of high power grid devices.

We are organized into six operating divisions: Microwave Power Products Division (Palo Alto, California), Beverly Microwave Division (Beverly, Massachusetts), Satcom Division and Communications & Medical Products Division (both in Ontario, Canada), Eimac Division (San Carlos, California), and Econco Division (Woodland, California).

Business Strategy

Our goal is to continually enhance our position as a leading supplier of microwave solutions, satellite communications amplifiers, x-ray medical generators and other related equipment for both commercial and defense applications. Our strategies to achieve these objectives include:

- Taking advantage of opportunities in the military satellite communications market, such as the U.S. military’s transformational initiative to become a lighter, faster, more responsive and lethal force.
- Supporting other emerging military initiatives, such as directed energy, that use microwave or RF energy to disable or destroy enemies’ electronic systems or deter unauthorized personnel from approaching high value targets.
- Developing and expanding technologies through a combination of customer-funded research

and development and our own internal research and development efforts.

- Pursuing attractive commercial opportunities by developing new products to pursue growth areas in the commercial markets we serve.
- Leveraging incumbent relationships to help to preserve our access to a valuable stream of spares and repairs business and enhance our ability to win new, upgrade and follow-on business.
- Exploring selective strategic acquisitions in order to acquire complementary technologies and products, achieve higher levels of system integration, grow our existing product base, increase facility utilization or increase our geographic coverage by leveraging our extensive corporate sales and marketing organization.

Markets

We supply complex, high power microwave solutions and high voltage power generation and control components and subsystems for applications and programs in defense and commercial markets. Our defense applications include high power microwave sources and amplifiers and integrated microwave assemblies used in radar, electronic warfare and communications systems. Our products are used within these end markets primarily to generate, control and transmit high power and high-frequency microwave and RF signals. We supply similar high power microwave components and subsystems for use in commercial radar, communications, medical, industrial and scientific markets. We provide high voltage power generators and control systems to the medical and industrial markets. Certain of our products are sold in more than one end market depending on the specific power and frequency requirements of the application and the physical operating conditions of the end product.

End-use applications of our products include:

- The transmission and amplification of radar signals for navigation and location;
- The transmission and amplification of decoy and jamming signals for electronic warfare;
- The transmission and amplification of voice, data and video signals for broadcasting, internet and other types of communications;
- The provision of power and control for medical diagnostic imaging;
- The generation of microwave energy for radiation therapy in the treatment of cancer; and
- The generation of high power microwave signals for non-lethal weapons systems.

Our end markets are described below.

Radar Market

We supply critical products used in various types of military systems, including fire control, ground search, weather and tracking, and synthetic aperture radar systems. In radar systems, our products are used to generate or amplify electromagnetic energy pulses, which are transmitted via the radar system’s antenna through the air until they strike a target. The return ‘‘echo’’ is read and analyzed by the receiving portion of the radar system, which then enables the user to locate and identify the target. Our products have been an integral element of radar systems for over five decades. Our sales in the radar market were $109.4 million in fiscal year 2005, compared to $112.1 million in fiscal year 2004.

Our products include microwave and power grid sources, microwave amplifiers, radar receiver protectors, multifunction integrated microwave assemblies, as well as complete transmitter subsystems consisting of the

microwave amplifier, power supply, and control system. Our products are used in air, ground and shipboard radar systems. We are a leading provider of power grid and microwave power sources for both commercial and defense radar applications, with a large installed base.

The growth in the U.S. defense budget, stemming principally from the Department of Defense's (''DoD'') emphasis on addressing terrorism and homeland security, has had a favorable impact on new radar system development as well as radar system upgrades, which involve the replacement of existing system components with new or upgraded components that satisfy the more advanced specifications of the newer systems. In addition, because of the large population of deployed systems and the DoD's increased focus on operational readiness, the spare and replacement market continues to be a substantial part of the radar business. Our active participation in the upgrade, replacement, spare and repair portions of the radar market has helped us maintain a leadership position in numerous landmark programs, such as the Aegis SPY-1D and MK-99 systems, as well as the U.S. Navy's Phalanx close-in weapons system.

Electronic Warfare Market

We supply critical microwave power amplifiers to the electronic warfare market. Electronic warfare systems provide protection for ships, aircraft and high-value land targets against radar-guided munitions by deceiving or destroying enemy threats, and include onboard electronic equipment, pods that attach under aircraft wings and expendable decoys. Within an electronic warfare system, our components amplify low-level incoming signals received from enemy radar or enemy communications systems and amplify or modify those signals to enable the electronic warfare system either to jam or deceive the threat. We are a leading provider of microwave power sources for the electronic warfare market, with a significant installed base, and a strong position in products for high power and multi-beam phased array systems and expendable decoys. The electronic warfare market also includes devices and subsystems being developed or supplied for high power microwave (''directed energy'') applications. This consists of a number of non-lethal weapons system applications, including electronic attack, counter-improvised explosive devices (''IED'') and active denial. Our sales in the electronic warfare market were $27.7 million in fiscal year 2005, compared to $23.8 million in fiscal year 2004.

Protection of valuable military assets remains a high priority and has resulted in the continuing funding of new, upgrade and replenishment programs in the electronic warfare market. In towed decoy applications, we are the sole provider of the mini-traveling wave tubes (''TWTs'') on the ALE-50 program and are a qualified supplier on the IDECM program. On shipboard decoy programs, we are the sole provider of the TWT on the MK-53 NULKA and the European DLH programs. We are also sole provider of the mini-TWTs in the U.S. Air Force's ALQ-184 electronic warfare jammers and multi-beam phased array systems such as the U.S. Navy's SLQ-32. Many of the electronic warfare programs on which we are a qualified supplier are existing programs that have survived previous reductions in defense budgets.

Communications Market

We divide the communications market into satellite, terrestrial broadcast and over-the-horizon communications applications. Our sales in the communications market were $101.4 million in fiscal year 2005, compared to $74.8 million in fiscal year 2004.

In each of the satellite, broadcast and over-the-horizon communications markets, our products amplify and transmit signals within an overall communications system. Current ground-based satellite communications transmission systems use our products to enable the transmission of microwave signals, carrying either analog or digital information, from a ground-based station to the transponders on an orbiting satellite by boosting the power of the low-level original signal to desired power levels for transmission over hundreds or thousands of miles to the satellite. The signal is received by the satellite transponder, converted to the downlink frequency and retransmitted to a ground-based receiving station. Terrestrial broadcast systems use our products to amplify television signals at very

high (‘‘VHF’’) and ultra high (‘‘UHF’’) frequencies and radio signals at lower frequencies.

Satellite Communications. The majority of our communications products are sold into the satellite communications market. We are a leading producer of power amplifiers, amplifier subsystems and high power microwave devices for satellite uplinks. We believe that we have a worldwide installed base of over 19,000 amplifiers. We believe we offer one of the industry’s most comprehensive lines of satellite communications amplifiers with offerings for virtually every currently applicable frequency and power requirement for both fixed and mobile satellite communications applications in the military and commercial arena. Our technological expertise and our ability to design and manufacture both the fully integrated amplifier and the associated high power microwave device or solid state RF device allows us to introduce products to the market that we believe are more attractive to customers compared to that of our competitors.

The entire communications market, including the market for satellite communications systems, had seen a reduction in demand for new equipment in the prior several years. We believe that this was due, in part, to the large overcapacity that was built up in the late 1990s in anticipation of the need for a rapid expansion of telecommunications infrastructure due to overly-optimistic forecasts for growth of the internet. During the last four years, that overcapacity has subsided as both military and commercial demands have increased, with a resulting increase in capacity requirements for satellite systems, and a resulting increase in demand for satellite amplifiers. In addition, we believe we are well equipped to participate in the newest growth areas which include amplifiers for the 30 gigahertz (‘‘GHz’’) band (‘‘Ka band’’), which is projected to be one of the major new satellite communications growth areas, as well as specialized amplifiers for the military communications market such as the Triband amplifiers that operate at three discrete frequency bands.

Broadcast Communications. We serve the AM, FM and shortwave radio and VHF and UHF television broadcast market with high quality, reliable and efficient high power microwave and RF devices. Our Eimac Division supplies power grid products to the transmitter OEMs directly, and offers immediate delivery of products to the end users through our distributors. Our Econco Division is a provider of rebuilding services, allowing broadcasters to extend the life of their devices at a cost that is lower than buying a new device. Although the terrestrial broadcast industry is considered a mature market, the emerging shortwave digital radio technology will provide new opportunity for our high power products. Through the years, we have established a large installed base in the broadcast market, which provides us with opportunities for replacement, spare, upgrade and rebuilding business.

Over-the-Horizon Communications. The over-the-horizon communications market involves over-the-horizon, microwave-based communication systems. These systems transmit voice, video and data signals for several hundred miles by bouncing the signals off the troposphere, an atmospheric layer above the earth’s surface. Since no satellite is required, these systems can provide an easy-to-install and cost-efficient alternative to satellite-based communications. We expect demand for our products in this market to grow, due to advances in technology and renewed customer interest in this method of communication.

Medical Market

Within the medical market, we focus on diagnostic and treatment applications. We provide x-ray generators, including state-of-the-art, high-efficiency, lightweight power supplies and modern microprocessor-based controls and operator consoles for diagnostic imaging. X-ray generators are used to generate and control the electrical energy being supplied to an x-ray tube and therefore control the dose of radiation delivered to the patient during an x-ray imaging procedure.

In addition, these generators include a user interface to facilitate the selection of technique factors, such as exposure times, or the selection of the anatomic region of the body to be imaged. These generators are interfaced with, and often power and control, auxiliary devices such as patient positioners, cameras and automatic exposure controls to synchronize the x-ray examination with this other equipment. For treatment applications, we provide klystrons and electron guns for high-end cancer therapy machines. Klystrons provide the microwave energy to accelerate a beam of energy towards a cancerous tumor. Sales in this market were $50.7 million in fiscal year 2005, compared to $41.6 million in fiscal year 2004.

Since 1995, when Varian sold us its electron devices business, we have been, and expect to continue to be, the sole provider of high power microwave devices to Varian Medical Systems Inc.'s oncology systems division for use in its High Energy Clinac® cancer therapy machines. Approximately 4,200 systems consisting of Varian Medical Systems' Clinac® accelerators, Ximatron® and Acuity® radiotherapy simulators are in place around the world, treating more than a million patients each year.

The market for our x-ray generators and associated products is broad, ranging from dealers who buy only a few generators per year, up to large OEMs who buy hundreds per year. We sell our x-ray generators and associated equipment worldwide and have been growing our geographic presence and product portfolio. We are a leading independent supplier of x-ray generators in the world and we believe this market provides continued growth opportunities for us. The installed base of radiographic x-ray equipment in most western countries is relatively old, and we believe there is a strong market for equipment modernization, both through the purchase of new equipment and upgrades of existing equipment. The upgrades are performed by our dealers or in some cases the OEMs.

There continues to be demand to expand the imaging capabilities in developing countries, and we are participating in this growth with sales in countries such as China. We have traditionally focused on hospital, or ''mid- to high-end'' applications, and have become a premier supplier to this part of the market. However, there exists substantial demand for private clinic, or ''lower-end'' applications, and we have recently introduced a new family of products that we believe will allow us to participate more fully in this part of the market.

A number of the large OEMs in this market use their in-house design and manufacturing capabilities to supply their own x-ray generator needs, but seldom sell these components to third parties. In recent years we have made sales to some of the larger OEMs who were outsourcing a larger portion of their x-ray equipment and generator requirements. We believe this trend should create additional sales opportunities for us.

Industrial Market

The industrial market includes applications for a wide range of systems used for material processing, instrumentation and voltage generation. We offer a number of specialized product lines to address this diverse market. We produce fully integrated amplifiers and the associated high power microwave devices that are used in instrumentation applications for electromagnetic interference and compatibility testing. Our products are also installed in the power supply modules of industrial equipment to perform pipe and plastic welding using RF energy, textile drying and semiconductor wafer fabrication. Because there is a large, established installed base of our products in this market, the sale of replacements continues to be a substantial part of our industrial business. Recently, we have integrated vertically by introducing a line of fully integrated industrial RF generators using high power microwave technology for various industrial heating and material processing applications. Our sales in the industrial market were $23.1 million in fiscal year 2005, compared to $20.2 million in fiscal year 2004.

Scientific Market

The scientific market consists primarily of equipment used in reactor fusion programs and accelerators for high-energy particle physics, referred to as ‘‘Big Science.’’ Generally, in scientific applications, our products are used to generate high levels of microwave or RF energy. Our sales in the scientific market were $8.4 million in fiscal year 2005, compared to $9.7 million in fiscal year 2004.

Our products generate microwave and RF energy to create a beam of electrons in order to study the atom and its elementary particles. Worldwide, there are over 60 high-energy particle accelerators that are in planning, design, development or construction. We believe these new accelerators will drive the demand for a significant number of very high power microwave sources. Examples include SNS, Tesla, 3rd and 4th generation light sources and High Energy Free Electron Lasers. Our products are also used in research related to the generation of electricity from fusion reactions. Activity in this area continues within the United States Department of Energy, as well as in Europe and Asia.

Industry Trends

We believe the following industry trends will favorably impact demand for our products:

- **Increasing importance of military communications.** Satellite communication is a critical element of the U.S. Department of Defense’s plans to transform military communications to supply real time, high data-rate communications, intelligence and battlefield information to the front-line soldier. The U.S. Government currently has over 30 large defense-related satellite communications programs in various stages of development and production as part of its military satellite communications, Global Information Grid and Transformational Communication Systems initiatives.
- **High power microwave initiatives.** The DoD is increasingly exploring high power microwave solutions for a growing number of threat countermeasures and non-lethal weapons applications.
- **Continued reliance on advances in microwave solutions in military applications.** Microwave technology is a core technology for all of the U.S. military’s radar and electronic warfare capabilities. For existing platforms, improvements in microwave technology—replacing existing components with upgraded solutions—can be a cost-effective means of improving capability with minimal redesign cost.
- **Consolidation of government suppliers.** Government customers are increasingly consolidating their base of suppliers and seeking to purchase complete systems and solutions, rather than individual components. As a result, vendors offering more integrated solutions should benefit from this trend and become further entrenched with government customers.
- **Resurgence of global demand for commercial satellite-based broadband communication and data transmission solutions and technology.** There has been a general resurgence in the demand for and importance of satellite communications, and a significant improvement in the bandwidth and data-carrying capacity of the various underlying technologies, making commercial and government use of satellite solutions more cost effective. As demand continues to grow, we believe the demand for ground-based infrastructure required to provide

these services, including microwave-based satellite uplink technology, will also expand.

- **Growth of radiation treatment in cancer therapy and diagnostic imaging applications for our products.** The market for equipment for radiotherapy treatment of cancer has enjoyed significant growth in the last several years. Our x-ray generator business has enjoyed strong growth in the last several years, as we have developed new products to satisfy increasingly demanding requirements in diagnostic imaging applications.
- **Increased replacement parts, upgrades and spares needed to support aging military platforms.** As military equipment ages, increased levels of replacement parts, upgrades of critical equipment, including radar and electronic warfare and communications systems are necessary.

Products

We have an extensive portfolio of over 4,500 products that includes microwave and power grid vacuum electron devices (‘‘VEDs’’) and other products such as satellite communications amplifier subsystems, radar and electronics warfare subsystems and integrated microwave assemblies, medical x-ray generators and control systems, modulators and transmitters, and various electronic power supply and control equipment and devices. Additionally, we have developed complementary, more highly integrated subsystems for medical imaging and for satellite communications applications with generally higher value added, and higher prices. Our products generally have selling prices ranging from $2,000 to $100,000, with certain limited products priced up to $1,000,000.

VED Products

All of our VED products share similar basic characteristics. A high-energy beam of electrons is created and travels in a vacuum, through a region where it interacts with a low-level microwave input

signal. As a result of the interaction, kinetic energy from the electron beam is transferred to the microwave signal. This produces an amplified microwave signal that is then extracted from the device at a much higher power level. The differences in the devices are related to the various techniques for creating interaction between the electron beam and the microwave signal, and various construction techniques.

VEDs, one of our key technologies, were initially developed for defense applications and have since been applied to many commercial markets. We use tailored variations of this key technology to address different frequency and power requirements in each of our target markets.

Our principal VED products are described below.

Klystrons & Gyrotrons. Klystron amplifiers are linear beam devices in which the interaction structure is comprised of a series of resonant cavities linked by a beam tunnel. Klystrons are typically high power, narrow bandwidth devices, with power output ranges from hundreds of watts to megawatts and frequencies from 500 kilohertz to over 30 GHz. We produce and manufacture klystrons for a variety of radar, communications, medical, industrial and scientific applications.

Satellite communications applications include DBS-band uplinks, which are used extensively in the direct-to-home satellite TV market. Radar applications include the Hawk missile system and the Phalanx close-in weapon system, a

‘‘last chance’’ anti-missile defense for many military vessels.

Gyrotron oscillators and amplifiers are devices that use cyclotron resonance as the fundamental mechanism for power extraction from the electron beam. These devices are characterized by very high power output capability at very high frequencies. Power output of 1 megawatt has been achieved at frequencies greater than 100 GHz. These characteristics have enabled applications such as fusion research for the Department of Energy, electronic warfare active denial and high-resolution radar.

Helix Traveling Wave Tubes. Helix TWTs are linear beam devices, where the interaction of the electron beam with a helix-shaped coil in the device enables very wide bandwidth operation at relatively moderate output power levels (tens to hundreds of watts). These characteristics make the Helix TWT ideal for communications applications and electronic countermeasures. In the communications market, our products are used in medium power satellite communications amplifiers. In the electronic warfare market, our mini-TWT technology is used for expendable decoy applications, such as ALE-50 and MK-53 NULKA, and shipboard and airborne electronic countermeasures systems, including SLQ-32 and ALQ-184.

Coupled Cavity Traveling Wave Tubes. Coupled cavity TWTs are linear beam amplifiers consisting of a series of coupled cavities that have the power generating capability of a klystron with some of the increased bandwidth properties of a Helix TWT. These amplifiers are characterized as medium bandwidth, high power devices, since power output levels can be as high as 1 megawatt. These devices are used primarily for high power and multi-function radars, including front line radar systems operating from S-band to Ka-band, most notably the Aegis shipboard radars (MK-99 Continuous Wave Illuminator and SPY-1D Simplified Driver Radar), the firefinder artillery locating radar and the Patriot Advanced Capability program.

Magnetrons. Magnetron products are cross-field oscillators capable of generating high power output. Power levels are as high as 20 megawatts and magnetrons cover frequencies up to the 40 GHz range. We design and manufacture magnetrons for radar, electronic warfare and missile seeker programs within the defense market. Our magnetrons are on the Harpoon missile system and U.S. military aircraft platforms including the B-52, C-130, F-15, P-3C, F-4 and F-5. Shipboard platforms include search and air traffic control radar on most aircraft carriers, cruisers and destroyers of NATO country naval fleets. Ground-based installations include various military and civil search and Air Traffic Control Systems. We are a major U.S. supplier of magnetrons for use in commercial weather radar. Potential new uses for magnetrons include high power microwave systems for electronic equipment disruption and the disabling or destruction of IEDs.

Cross-Field Amplifiers. Cross-field amplifiers operate like the magnetron, but have an input circuit and amplify a signal like a traveling wave device. These devices are used for high power radar

applications because they have power output capability as high as 10 megawatts. Our cross-field amplifiers are primarily used to support the Aegis radar suite within the U.S. Navy and selected foreign naval vessels. We supply units for both new ships and replacements. Our cross-field amplifiers also have a significant presence in fire control radar systems used by the U.S. Coast Guard and U.S. Navy.

Power Grid Tubes. Power Grid Tubes are lower frequency devices that are used to generate, amplify and control electromagnetic energy. These devices are used in commercial and defense communications systems and radio and television broadcasts. We supply power grid tubes for the shortwave broadcast market, such as the International

Broadcasting Bureau stations, formerly known as the Voice of America. They are also widely used in equipment that serves the industrial markets such as textile drying, pipe welding and semiconductor wafer fabrication.

Other Products

Our principal other products are described below.

Microwave Transmitter Subsystems. Our microwave transmitter products evolved as a natural outgrowth of our VED technology. We offer microwave transmitter subsystems built around our VEDs. These subsystems incorporate specialized high-voltage power supplies, cooling, and control systems that are uniquely designed to work in conjunction with our products to maximize life, performance and reliability. Microwave transmitter subsystems are used in a variety of defense and commercial applications. Our transmitter subsystems are available at frequencies ranging from 1 GHz all the way up to millimeter wave frequencies of 100 GHz and beyond.

Satellite Communications Amplifiers. Satellite communications amplifiers provide integrated power amplification for the transmission of voice, broadcast, data, internet and other communications signals from ground stations to satellites in all frequency bands. We provide a complete, integrated satellite communications amplifier which consists of the VED (or solid state microwave technology), a power supply for the VED (or solid state alternative), RF circuits, electronics to control the amplifier and enable it to interface with the satellite ground station, and a cabinet. These amplifiers are often combined in sub-system configurations with other RF components to meet specific customer requirements. We offer amplifiers for both defense and commercial applications. Our products include TWT amplifiers for both indoor and outdoor usage, klystron high power amplifiers, solid state amplifiers and millimeter amplifiers. In 2000, we introduced the Gen IV high power satellite communications klystron amplifier, which has gained almost 95% market share. In addition, we have recently introduced new Ka band amplifiers that are being used in new telecommunications and broadcast applications and military communications tri-band amplifiers that will improve the reliability of key military communications systems. We are expanding our line of solid state amplifiers that are being designed and manufactured by us to address the market for lower power applications.

Receiver Protectors & Control Components. Receiver protectors are used in the defense market in radar systems to switch both high power transmit pulses and low power echo signals through a common antenna, and to protect sensitive receivers from any high power signals, thereby preventing damage to the receiver. We have been designing and manufacturing receiver protector products for over 50 years. We are the world’s largest manufacturer of receiver protectors and the only manufacturer offering all existing receiver protector technologies including solid state, plasma, ferrite and multipactor designs. Current designs range from low-frequency coaxial, or stripline limiters, to complete pre-transmit/receive and transmit/receive limiters with attenuation and phase control at Ka-band. Our products are manufactured in all transmission line types including stripline, microstrip, coax and waveguide. Our receiver protectors and control components are integrated into prominent fielded military programs including the Patriot Advanced Capability and Harpoon missile systems, the U.S. Navy’s Aegis surface combatants, AWACS, F-14, F-15, F-16 and F/A-18 fighters and the U.S. Air Force’s B-2 and C-130s. As radar systems have evolved to improve performance and reduce size and weight, we have invested heavily in solid state technology to develop the microwave control components and multifunction integrated assemblies required by modern radar systems.

Medical X-Ray Imaging Systems. We design and manufacture medical x-ray generators, consisting of power supplies, cooling, control and display subsystems that drive the x-ray equipment

used by healthcare end-users within the medical imaging market. These generators use the high voltage and control systems expertise developed by us while designing power systems to drive VEDs. We have recently introduced the CMP200, a new line of x-ray generators intended to address the low tier, high volume, part of the market. We also provide the electronics and software that controls and ties together much of the other ancillary equipment in a typical x-ray imaging system.

Semiconductor Power Supplies. We manufacture power electronics equipment that drives semiconductor physical vapor deposition equipment used by semiconductor fabricators to apply specialized films to their wafers. The end application of this technology is the production of integrated circuits and LCD flat screens for televisions, displays and computers.

Backlog

As of September 30, 2005, we had an order backlog of $193.5 million compared to an order backlog of $179.7 million as of October 1, 2004. Based on current product delivery schedules, we expect to ship approximately 96% of order backlog at September 30, 2005 in fiscal year 2006. Although the backlog consists of firm orders for which goods and services are yet to be provided, customers can, and sometimes do, terminate or modify these orders. Historically, the amount of modifications and terminations has not been material compared to total contract volume.

Sales, Marketing and Service

Our global distribution system provides us with the capability to introduce, sell and service our products worldwide. Our distribution system primarily uses direct sales professionals throughout the world. As of September 30, 2005, we had over 125 direct sales, marketing and technical support individuals on staff. Our wide-ranging distribution capabilities enable us to serve our growing international markets, which accounted for approximately 33% of our sales in fiscal year 2005. For financial information about geographic areas, see footnote 15 to the accompanying consolidated financial statements.

Our sales professionals receive extensive technical training and focus exclusively on our products. As a result, they are able to provide knowledgeable assistance to our customers regarding product applications, the introduction and implementation of new technology and at the same time provide local technical support.

In addition to our direct sales force, we use over 39 external sales organizations and one significant stocking distributor, Richardson Electronics, Ltd., to service the needs of low volume customers. The majority of the third-party sales organizations that we use are located outside the United States and Europe, and focus primarily on customers in South America, Southeast Asia, the Middle East, Africa and Eastern Europe. Through the use of third-party sales organizations, we are better able to meet the needs of our foreign customers by establishing a local presence in lower volume markets. Using both our direct sales force and our largest distributor, Richardson Electronics, Ltd., we are able to market our products to both end users and system integrators around the world and are able to provide solutions with short turn-around times.

Given the complexity of our products, their critical function in customers' systems and the unacceptably high costs to our customers of system failure and downtime, we believe our customers view our product breadth, reliability and superior responsive service as key points of differentiation. We offer comprehensive customer support, with direct technical support provided by fifteen strategically located service centers. These service centers are located in the United States (California and New Jersey), The Netherlands, Brazil, China (3), India (2), Taiwan, Japan, Russia, Singapore, Indonesia and South Africa. The service centers enable us to provide extensive technical support and rapid response to customers' critical spare parts and service requirements throughout the world. In addition, we offer on-site installation assistance, on-site service contracts, a 24-hour technical support hotline and complete product training at our facilities, our service centers or customer sites. Many of our customers specify our products in competitive bids based on our responsive global support and product quality.

Financial Information About Segments

Although we define and discuss our business by our end markets discussed above in ‘‘—Markets’’ in order to more clearly describe our business to our investors, we are internally organized into six operating divisions, differentiated based on products. For financial reporting purposes, we have two reportable segments: VED and satcom equipment. Our VED segment consists of five of our operating divisions and our satcom equipment segment consists of one division. For financial information about our segments, see footnote 15 to the accompanying consolidated financial statements.

Research And Development

Total research and development spending was $13.1 million, $10.9 million and $10.6 million during fiscal years 2005, 2004 and 2003, respectively, consisting of Company-sponsored research and development expense of $7.2 million, $7.5 million, and $6.9 million during fiscal years 2005, 2004 and 2003, respectively, and customer-sponsored research and development of $5.9 million, $3.5 million, and $3.7 million during fiscal years 2005, 2004 and 2003, respectively.

Manufacturing

We manufacture our products at six manufacturing facilities in five locations in North America. We have implemented modern manufacturing methodologies based upon a continuous improvement philosophy, including just in time materials handling, demand flow technology, statistical process control and value managed relationships with suppliers and customers. We obtain certain materials necessary for the manufacture of our products, such as molybdenum, cupronickel, OFHC copper, and some cathodes, from a limited group of, or occasionally, sole suppliers. Except for our recently acquired Econco operation, our facilities have all achieved the ISO 9001 international certification standard.

Generally, each of our manufacturing divisions uses similar processes consisting of product development, purchasing, high-level assembly and testing. For satellite communications equipment, the process is primarily one of integration, and we use contract manufacturers whenever possible. Satellite communications equipment uses both VED and solid state technology, and the satellite communications division procures certain of the critical components that it incorporates into its subsystems from our other manufacturing divisions.

Employees

As of September 30, 2005, we had approximately 1,700 employees, including the employees that joined us as a result of the acquisition of Econco. None of our employees is subject to a collective bargaining agreement although a limited number of our sales force members located in Europe are members of work councils or unions. We have not experienced any work stoppages and believe that we have good relations with our employees.

Competition

The industries and markets in which we operate are competitive. We encounter competition in most of our business areas from numerous other companies, including L-3 Communications, e2v technologies plc, the Xicom Division of Radyne ComStream Inc., and Thales Electron Devices, some of which have resources substantially greater than ours. Some of these competitors are also our customers. Our ability to compete in our markets depends to a significant extent on our ability to provide high quality products with shorter lead times at competitive prices, and our readiness

in facilities, equipment and personnel.

We must also continually engage in effective research and development efforts in order to introduce innovative new products for technologically sophisticated customers and markets. There is an inherent risk that advances in existing technology, or the development of new technology, could adversely affect our market position and financial condition. We provide both VED and solid state

alternatives to our customers. Solid state devices are generally best suited for low-power applications, while only microwave VEDs currently serve higher-power and higher-frequency demands. Because of the small dimensions of solid state components, solid state devices have challenges in dissipating the significant amount of excess heat energy that is generated in high power, high frequency applications. As a result, we believe that for the foreseeable future, solid-state devices will be unable to compete on a cost-effective basis in the high power/high-frequency markets that represent the majority of our business. The extreme operating parameters of these applications necessitate heat dissipation capabilities that are best satisfied by our VED products. We believe that VED and solid state technology currently each serves its own specialized market without significant overlap in most applications.

Intellectual Property

Our business is dependent, in part, on our intellectual property rights, including trade secrets, patents and trademarks. We rely on a combination of nondisclosure and other contractual arrangements as well as upon trade secret, patent, trademark and copyright laws to protect our intellectual property rights. We do not believe that any single patent or other intellectual property right or license is material to our success as a whole.

We have entered into agreements pursuant to which we license intellectual property from third parties for use in our business, and we also license intellectual property to third parties. As a result of contracts with the U.S. Government, some of which contain patent and/or data rights clauses, the U.S. Government has acquired royalty-free licenses or other rights in inventions and technology resulting from certain work done by us on behalf of the U.S. Government.

We maintain an intellectual property protection program designed to protect, preserve and enforce our intellectual property rights. Nevertheless, we cannot provide assurance that the steps taken by us will prevent misappropriation or loss of our technology.

U.S. Government Contracts and Regulations

Our business is heavily regulated in many of our fields of endeavor. We deal with numerous U.S. Government agencies and entities, including the DoD. Similar government authorities exist with respect to our international business.

We must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. Government contracts. These laws and regulations, among other things:

- require certification and disclosure of cost or pricing data in connection with certain contracts;
- impose acquisition regulations that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts; and

- restrict the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

U.S. Government contracts are conditioned upon the continuing availability of Congressional appropriations. Long-term government contracts and related orders are subject to cancellation if appropriations for subsequent performance periods are not approved. Congress usually appropriates funds on a fiscal year basis even though contract performance may extend over many years. Consequently, at the outset of a multi year program, the contract is usually partially funded, and Congress annually determines if additional funds are to be appropriated to the contract.

The U.S. Government, and other governments, may terminate any of our government contracts and, in general, subcontracts, at their convenience, as well as for default based on performance. Upon termination for convenience of a fixed-price contract, we normally are entitled to receive the purchase price for delivered items, reimbursement for allowable costs for work-in-process and an allowance for profit on the work performed or adjustment for loss if completion of performance would have resulted

in a loss. Upon termination for convenience of a cost reimbursement contract, we normally are entitled to reimbursement of allowable costs plus a portion of the fee. The amount of the fee recovered, if any, is related to the portion of the work accomplished prior to termination.

In addition, our U.S. Government contracts may span one or more base years and multiple option years. The U.S. Government generally has the right not to exercise option periods and may not exercise an option period if the applicable U.S. Government agency is not satisfied with our performance of the contract. We do not include unexercised options or potential indefinite-delivery/indefinite-quantity orders in our backlog. If any of our contracts are terminated by the U.S. Government, our backlog would be reduced by the expected value of the remaining term of such contracts. Additional risks associated with U.S. Government contracts are set forth in ‘‘Risk Factors.’’

A portion of our business is in support of highly sensitive, or ‘‘classified’’ government programs and cannot be specifically described. The operating results of these classified programs are included in our consolidated financial statements.

Sales of our products and services internationally are subject to local government regulations and procurement policies and practices (including regulations relating to import-export control, investments, exchange controls and repatriation of earnings). Some international customers require contractors to comply with industrial cooperation regulations, sometimes referred to as offset programs. Offset programs may require in-country purchases, manufacturing and financial support projects as a condition to obtaining orders or other arrangements. Offset programs generally extend over several years and may provide for penalties in the event we fail to perform in accordance with offset requirements.

Environmental Matters

We are subject to a variety of U.S. federal, state and local as well as foreign environmental laws and regulations relating, among other things, to wastewater discharge, air emissions, handling of hazardous materials, disposal of solid and hazardous wastes, and remediation of soil and groundwater contamination. We use a number of chemicals or similar substances, and generate wastes, that are classified as hazardous, and we require environmental permits to conduct certain of our operations. Violation of such laws and regulations can result in substantial fines, penalties, and other sanctions.

In connection with the sale of Varian Associates' electron devices business to us in 1995, Varian Medical Systems (as successor to Varian Associates) agreed to indemnify us for various environmental liabilities relating to Varian Associates' electron devices business prior to August 1995. With certain limited exceptions, we are not indemnified by Varian Medical Systems with respect to liabilities resulting from our operations after August 1995. Pursuant to this agreement, Varian Medical Systems is undertaking environmental investigation and remedial work at two our manufacturing facilities, Palo Alto, California and Beverly, Massachusetts, that are known to require remediation. In addition, Varian Medical Systems has been sued or threatened with suit with respect to these two manufacturing facilities.

Our San Carlos California facility has soil and groundwater contamination that has been the subject of some remediation. We have entered into an agreement for the sale of our San Carlos real property. The closing of the sale of the property is subject to a number of conditions, including the requirement that we vacate our facilities and obtain regulatory closure of certain permitted equipment located on the property. In connection with the San Carlos property sale agreement, we agreed to relieve Varian Medical Systems of certain of its environmental indemnity obligations to us, and to reimburse Varian Medical Systems for certain potential environmental costs related to our San Carlos property that are not covered by insurance. In addition, we were named as an additional insured on a pollution liability insurance policy obtained by the purchaser of the San Carlos property that is intended to fund the remediation of the contamination of the property to permit hospital and other ''unrestricted'' uses.

To date, Varian Medical Systems has, generally at its expense, conducted required investigation and remediation work at our facilities and responded to environmental claims arising from Varian

Medical Systems (or its predecessor's) prior operations of the electron devices business. Although we believe that Varian Medical Systems currently has sufficient financial resources to satisfy its environmental indemnity obligations to us, there can be no assurance that Varian Medical Systems will continue to have the financial resources or be willing to comply fully with those obligations, or will continue to perform its obligations. In addition, although we believe that the insurance that has been acquired by the purchaser of our San Carlos property will be sufficient to cover the expected remediation costs and pollution liability associated with that property, there can be no assurance that such insurance proceeds or other sources of recovery will be adequate.

We believe that we have been and are in substantial compliance with environmental laws and regulations and that, subject to Varian Medical Systems fulfilling its environment indemnity obligations to us and the adequacy of the insurance obtained for the remediation of our San Carlos property, we do not expect to incur material costs relating to environmental compliance.

Item 1A. Risk Factors

Investors should carefully consider the following risks and other information in this report and our other filings with

the SEC before deciding to invest in us or to maintain or increase any investment. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties may also adversely impact and impair our business. If any of the following risks actually occur, our business, results of operations, or financial condition would likely suffer. In such case, the trading price of our securities could decline and investors might lose all or part of their investment.

- **We have had historical losses.** In fiscal year 2003, we had our first profitable year since fiscal year 1998, and we had a net loss of $1.9 million in fiscal year 2004. Our ability to generate sales and profits is subject to the risks and uncertainties encountered by companies in competitive markets, including many of the factors described elsewhere in this section. In addition, we have historically experienced margin fluctuations from period to period due to variations in the mix of products sold during any period. If we are not able to maintain our current level of gross margin, our business, results of operations and financial condition will be adversely affected.
- **The markets in which we sell our products are competitive, which can result in reduced sales and loss of market share.** The domestic and international markets in which we sell our products are competitive. Certain of our competitors have substantially greater resources than we do. In addition, some of our competitors offer a variety of products for applications similar to those of our products. Our ability to compete in these markets depends to a large extent on our ability to provide high quality products with shorter lead times at competitive prices, and our readiness in facilities, equipment and personnel. There can be no assurance that we will be able to compete successfully against our current or future competitors or that the competitive pressures we face will not result in reduced sales and market share or seriously harm our business, results of operations and financial condition.
- **The end markets in which we operate are subject to technological change, and changes in technology could adversely affect our sales.** Both our defense and commercial end markets are subject to technological change. Advances in existing technology, or the development of new technology, could adversely affect our business, results of operations and financial condition. Historically, we have relied on a combination of internal research and development and customer-funded activities. To succeed in the future, we must continually engage in effective and timely research and development efforts in order to introduce innovative new products for technologically sophisticated customers and end markets and benefit from activities of our customers. We may not be able to continue to allocate sufficient financial and other resources to our research and development activities or receive customer funding for research and development. If we fail to adapt successfully to technological changes or fail to obtain access to important technologies, our business, results of operations and financial condition may suffer.
- **If we are unable to retain key management and other personnel, our business, results of operations and financial condition could be adversely affected.** Our future performance is dependent on our ability to attract and retain qualified technical, marketing, sales and managerial personnel. The unanticipated departure of any key member of our management team could have an adverse effect on our business, results of operations and financial condition. In addition, certain management and other personnel involved with the manufacture of some of our products are required to have various levels of security clearance, which is a time intensive process. There is competition for such personnel, and the failure to retain and/or recruit additional or substitute key personnel in a timely manner could have an adverse effect on our business, results of operations and financial condition.
- **A significant portion of our sales is, and is expected to continue to be, from contracts with the U.S. Government that are subject to competition, government regulation, changes in governmental appropriations, national defense policies and risks particular to**

government

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contracts. A significant portion of our sales results from, and is expected to continue to result from, contracts with the U.S. Government, either directly or through prime contractors or subcontractors. Over 34%, 37% and 31% of our sales in the 2003, 2004 and 2005 fiscal years, respectively, were made directly or indirectly to the U.S. Government. A significant disruption or decline in U.S. government expenditures in the future, changes in spending priorities, other legislative changes, or a change in our relationship with the U.S. Government would result in a material decrease to our sales, earnings and cash flow. U.S. Government contracts are also conditioned upon continuing congressional approval and the appropriation of necessary funds. Congress usually appropriates funds for a given program each fiscal year even though contract periods of performance may exceed one year. Consequently, at the outset of a major program, multi-year contracts are usually funded for only the first year, and additional monies are normally committed to the contract by the procuring agency only as Congress makes appropriations for future fiscal years.

In addition, we are subject to risks particular to companies supplying defense related equipment and services to the U.S. Government. These risks include the ability of the U.S. Government to unilaterally:

- suspend or debar us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations;
- terminate existing contracts, including for the convenience of the government or because of a default in our performance of the contract;
- reduce the value of existing contracts;
- cancel multi-year contracts or programs;
- audit our contract related costs and fees, including allocated indirect costs; and
- control and potentially prohibit the export of our products, technology or other data.

The U.S. Government may review or audit our direct and indirect costs and performance on certain contracts, as well as our accounting and general business practices for compliance with complex statutes and regulations, including the Truth in Negotiations Act, Federal Acquisition Regulations, Cost Accounting Standards, and other administrative regulations. Like most government contractors, the U.S. Government audits our costs and performance on a continual basis and we have outstanding audits. Based on the results of these audits, the U.S. Government may reduce our contract related costs and fees, including allocated indirect costs. In addition, under U.S. Government regulations, some of our costs, including certain financing costs, research and development costs, and marketing expenses may not be reimbursable under U.S. Government contracts

As a government contractor, we must comply with and are affected by laws and regulations related to our performance of these contracts and our business. These laws and regulations may impose additional costs on our business. In addition, we are subject to audits, reviews and investigations of our compliance with these laws and regulations. If we are found to have failed to comply with these laws and regulations, then we may be fined, we may not be reimbursed for costs incurred in performing the contracts, our contracts may be terminated, and we may be unable to obtain new contracts. Any of these actions would cause our revenue to decrease. If a government review, audit, or investigation uncovers improper or illegal activities, then we may be subject to civil or criminal penalties and administrative sanctions, including forfeiture of claims and profits, suspension of payments, statutory penalties, fines, and suspension or debarment.

Further, because of our business with the U.S. Government, we may also be subject to ‘‘qui tam,’’ or whistle blower, suits brought by private plaintiffs in the name of the U.S. Government upon the allegation that we submitted a false claim to the U.S. Government, as well as to false claim suits brought by the U.S. Government. A judgment against us in a qui tam or false claim suit could cause us to be liable for substantial damages (including treble

damages and monetary penalties) and could carry penalties of suspension or debarment, which would make us ineligible to receive any U.S. Government contracts for a period of up to three years and could potentially have a material adverse effect on our business, results of operations and financial condition.

Some of the business that we will seek from the U.S. Government in the future likely will be awarded through a competitive bidding process. Competitive bidding on government contracts presents risks that are not common to certain commercial contracts, such as: the need to bid on programs in advance of contract performance, which may result in unforeseen performance issues and costs; significant cost, time an effort to prepare bids and proposals for contracts that we may not be awarded; and the expense and delay that may arise if our competitors protest or challenge the award made to us, which could result in a reprocurement, modified contract, or reduced work.

Many of our government contracts require our employees to maintain various levels of security clearances, and we are required to maintain certain facility clearances. Complex regulations and requirements apply to obtaining and maintaining security clearances and facility clearances. Obtaining security clearance and facility clearance can be a lengthy process. If our employees with security clearances leave our company or are unable to maintain their clearances, or we lose our facility clearances, the U.S. Government could terminate these contracts. To the extent we are not able to obtain or maintain security clearances or facility clearances, we also may not be able to seek or perform future classified contracts. If we are unable to do any of the foregoing, we will not be able to maintain or grow our business and our revenue may decline.

Significant changes to appropriations, spending priorities, or national policy, a disruption of our relationship with the U.S. Government or termination of our U.S. Government contracts would have a material adverse effect on our business, results of operations and financial condition.

- **We generate sales from contracts with foreign governments, and significant changes in policies or to appropriations of those governments could have an adverse effect on our business, results of operations and financial condition.** Approximately 19% of our fiscal year 2005 sales were made directly or indirectly to foreign governments. Significant changes to appropriations or national defense policies, disruptions of our relationships with foreign governments or terminations of our foreign government contracts could have an adverse effect on our business, results of operations and financial condition.
- **Our international operations subject us to the social, political and economic risks of doing business in foreign countries, any of which could negatively affect our business, results of operations and financial condition.** We conduct a substantial portion of our business, employ a substantial number of employees, and use external sales organizations, in Canada and in other countries outside of the United States. Direct sales to customers located outside the United States were 34%, 30% and 33% in fiscal years 2003, 2004, and 2005, respectively. As a result, we are subject to risks of doing business internationally. Circumstances and developments related to international operations that could negatively

affect our business, results of operations and financial condition include the following factors:

- difficulties and costs of staffing and managing international operations;
- currency restrictions, which may prevent the transfer of capital and profits to the United States;
- changes in currency rates with respect to the U.S. dollar;
- changes in regulatory requirements;
- domestic and foreign government policies;
- potentially adverse tax consequences;

- restrictions imposed by the U.S. Government on the export of certain products and technology;
- the responsibility of complying with multiple and potentially conflicting laws;
- the impact of regional or country specific business cycles and economic instability; and
- geopolitical developments and conditions, including international hostilities, acts of terrorism and governmental reactions, trade relationships and military and political alliances.

Limitations on imports, currency exchange control regulations, transfer pricing regulations and tax laws and regulations could adversely affect our international operations, including the ability of our non-U.S. subsidiaries to declare dividends or otherwise transfer cash among our subsidiaries to pay interest and principal on our debt.

- **We may not be successful in obtaining the necessary export licenses and technical assistance agreements to conduct operations abroad, and the U.S. Congress may prevent proposed sales to foreign customers.** Licenses for the export of many of our products are required from government agencies in accordance with various statutory authorities, including the Export Administration Act of 1979, the International Emergency Economic Powers Act of 1977, the Trading with the Enemy Act of 1917 and the Arms Export Control Act of 1976. We can give no assurance that we will be successful in obtaining these necessary licenses in order to conduct business abroad. Termination or significant limitation on our ability to export would have an adverse effect on our business, results of operations and financial condition.
- **Our business, results of operations and financial condition may be adversely affected by increased or unexpected costs incurred by us on our contracts and sales orders.** The terms of virtually all of our contracts and sales orders require us to perform the work under the contract or sales order for a predetermined fixed price. As a result, we bear the risk of increased or unexpected costs associated with a contract or sales order, which may reduce our profit or cause us to sustain losses. Future increased or unexpected costs on a significant number of our contracts and sales orders could adversely affect our business, results of operations and financial condition.
- **Environmental regulation and legislation, liabilities relating to contamination and changes in our ability to recover under Varian Medical Systems Inc.'s indemnity obligations could adversely affect our business, results of operations and financial condition.** We are subject to a variety of U.S. federal, state and local, as well as foreign, environmental laws and regulations relating, among other things, to wastewater discharge, air emissions, handling of hazardous materials, disposal of solid and hazardous wastes, and remediation of soil and groundwater contamination. We use a number of chemicals or similar substances, and generate wastes, that are classified as hazardous. We require environmental

permits to conduct many of our operations. Violation of environmental laws and regulations can result in substantial fines, penalties, and other sanctions. Changes in environmental laws or regulations (or in their enforcement) affecting or limiting, for example, our chemical uses, certain of our manufacturing processes, or our disposal practices, could restrict our ability to operate as we are currently operating. In addition, we may experience releases of certain chemicals or other events, including the discovery of previously unknown contamination, which could cause us to incur material cleanup costs or other damages. We are involved from time to time in legal proceedings involving compliance with environmental requirements applicable to our ongoing operations and may be involved in legal proceedings involving exposure to chemicals or the remediation of environmental contamination.

Under the stock sale agreement by and between Varian Associates, Inc., the predecessor of Varian Medical Systems, Inc. and CPI dated June 9, 1995, as amended, Varian Medical Systems retained and has agreed to indemnify us for various environmental liabilities relating to its electron devices business prior to August 1995, with certain exceptions and limitations.

With certain limited exceptions, Varian Medical Systems did not agree to indemnify us with respect to liabilities resulting from our operations after August 1995.

Varian Medical Systems is undertaking the environmental investigation and remedial work at the remaining two of our manufacturing facilities that are known to require remediation, Palo Alto, California and Beverly, Massachusetts. In addition, Varian Medical Systems has been sued or threatened with suit with respect to these manufacturing facilities. Although we believe that Varian Medical Systems currently has sufficient financial resources to satisfy its environmental indemnity obligations to us, there can be no assurance that Varian Medical Systems will continue to have the financial resources or be willing to comply fully with those obligations, or will continue to perform its obligations.

Our San Carlos, California facility, which is under contract for sale and redevelopment, also has preexisting soil and groundwater contamination that has been the subject of some remediation and is expected to undergo additional remediation by the purchaser after the sale closes. In connection with the pending sale of that facility, we released Varian Medical Systems from certain of its environmental indemnity obligations related to that property, although the purchaser of the property has acquired pollution liability insurance that is intended to cover the expected remediation costs of that property associated with the purchaser's intended use of the property. Although we believe that the proceeds of this insurance will be sufficient to cover the expected remediation costs and pollution liability associated with that property, there can be no assurance that such insurance proceeds or other sources of recovery will be adequate and that we will not be required to contribute funds with respect to such costs and liabilities.

If insurance proceeds or indemnification payments from Varian Medical Systems are unavailable or insufficient to satisfy costs and liabilities from adverse environmental conditions arising from our operations or properties, our business, results of operations and financial condition could be materially and adversely affected.

- **We have only a limited ability to protect our intellectual property rights, which are important to our success.** Our success depends, in part, upon our ability to protect our proprietary technology and other intellectual property. We rely on a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements, and patent, copyright and trademark laws to protect our intellectual property rights. The steps we take to

protect our intellectual property may not be adequate to prevent or deter infringement or other violation of our intellectual property, and we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. In addition, we cannot be certain that our processes and products do not or will not infringe or otherwise violate the intellectual property rights of others. Infringement or other violation of intellectual property rights could cause us to incur significant costs and prevent us from selling our products and could have a material adverse effect on our business, results of operations and financial condition.

- **Our inability to obtain certain necessary raw materials and key components could disrupt the manufacture of our products and cause our business, results of operations and financial condition to suffer.** We obtain certain raw materials and key components necessary for the manufacture of our products, such as molybdenum, cupronickel, OFHC copper, and some cathodes from a limited group of, or occasionally sole, suppliers. If any of our suppliers fails to meet our needs, we may not have readily available alternatives. Delays in component deliveries, could cause delays in product shipments and require the redesign of certain products. If we are unable to obtain necessary raw materials and key components from our suppliers under favorable purchase terms and on a timely basis, or to develop alternative sources, our ability to manufacture products could be disrupted or delayed, and our business, results of operations and financial condition could suffer.

- **We may not be successful in implementing part of our growth strategy if we are unable to identify and acquire suitable acquisition targets or integrate acquired companies successfully.** Finding and consummating acquisitions is one of the components of our growth strategy. Our ability to grow by acquisition depends on the availability of acquisition candidates at reasonable prices and our ability to obtain additional acquisition financing on acceptable terms. We may experience competition in making acquisitions from larger companies with significantly greater resources. We are likely to use significant amounts of cash, issue additional equity securities or incur additional debt in connection with future acquisitions, each of which could have a material adverse effect on our business. There can be no assurance that we will be able to obtain the necessary funds to carry out acquisitions on commercially reasonable terms, or at all.

In addition, future acquisitions could place demands on our management and our operational and financial resources and could cause or result in the following:

- difficulties in assimilating and integrating the operations, technologies and products acquired;
- the diversion of our management's attention from other business concerns;
- our operating and financial systems and controls being inadequate to deal with our growth;
- our entering markets in which we have limited or no prior experience; and
- the potential loss of key employees.

- **Our backlog is subject to modifications and terminations of orders, which could negatively impact our business, results of operations and financial condition.** Backlog represents products or services that our customers have committed by contract to purchase from us, including government contracts that are cancelable at will. As of September 30, 2005, we had an order backlog of $193.5 million. Although historically the amount of modifications

and terminations of our orders has not been material compared to our total contract volume, customers can, and sometimes do, terminate or modify these orders. Cancellations of purchase orders or reductions of product quantities in existing contracts could substantially and materially reduce our backlog and consequently, our future revenues. Our failure to replace canceled or reduced backlog could negatively impact our business, results of operations and financial condition..

- **We are in the process of relocating our EIMAC operating division in San Carlos, California to Palo Alto, California, which could result in disruptions to our operations.** The relocation of our San Carlos, California operations to Palo Alto, California could result in delayed product deliveries to our customers. This delay could affect our customer relations, which could result in lower sales. As a result of the move, we bear the risk of increased or unexpected costs through reduced production yields.
- **We may not be able to timely comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.** Beginning in fiscal year 2007, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we must perform and report our evaluation of internal controls over financial reporting, and our independent registered public accounting firm must attest to and report on the adequacy of management's evaluation and the effectiveness of such controls, on an annual basis. Our efforts to comply with Section 404 have resulted in, and are likely to continue to result in, significant costs, the commitment of time and operational resources and the diversion of management's attention. Because compliance with these requirements is complex and time consuming, there can be no assurance that we will be able to implement the requirements of Section 404 in a timely fashion. In addition, because of the time and expense required to evaluate our internal controls, our independent registered public accounting firm may have limited time before its attestation is required, which may prevent our accountants from being able to adequately test and subsequently to report on our

internal controls. If we fail to timely complete our assessment of internal controls, or if our independent registered public accounting firm cannot report on our assessment, we could suffer a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

- **We have a substantial amount of debt and we may incur substantial additional debt in the future, which could adversely affect our financial health and our ability to obtain financing in the future and to react to changes in our business.** We have a substantial amount of debt and may incur additional debt in the future. As of September 30, 2005, our total consolidated indebtedness was $285 million and we had $35.3 million of additional borrowings available under the Revolver under our Senior Credit Facility (each, as defined in ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Senior Credit Facility of CPI''). Our substantial amount of debt could have important consequences to us and you, including, without limitation, the following:
  - it will require us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, which will reduce the funds available for working capital, capital expenditures and other general corporate expenses;
  - it could have the effect of limiting our flexibility in planning for, or reacting to, changes in our business, the markets in which we compete and the economy at large;

- it could place us at a disadvantage compared to our competitors that have proportionately less debt;
- it could adversely affect our relationship with customers and suppliers;
- it could limit our ability to borrow additional funds in the future, if needed, because of applicable financial and restrictive covenants of our indebtedness;
- it could make it more difficult for us to satisfy our obligations to our noteholders under our outstanding notes and our Senior Credit Facility; and
- it could make us more vulnerable to interest rate increases because a portion of our borrowings is, and will continue to be, at variable rates of interest.

A default under our debt obligations could result in the acceleration of those obligations. We may not have the ability to fund our debt obligations in the event of such a default. This may adversely affect our ability to operate our business and therefore could adversely affect our results of operations and financial condition. In addition, we may incur substantial additional debt in the future. If current debt levels increase, the related risks that we and you now face will intensify.

- **The agreements and instruments governing our debt contain restrictions and limitations that could limit our flexibility in operating our business.** Our Senior Credit Facility and the indentures governing our outstanding notes have a number of significant covenants that, among other things, restrict our ability to:
  - incur additional indebtedness;
  - sell assets or consolidate or merge with or into other companies;
  - pay dividends or repurchase or redeem capital stock;
  - make certain investments;
  - issue capital stock of our subsidiaries;
  - incur liens; and
  - enter into certain types of transactions with our affiliates.

These covenants could have the effect of limiting our flexibility in planning for, or reacting to, changes in our business and the markets in which we compete.

In addition, under our Senior Credit Facility, we are required to satisfy and maintain specified financial ratios and tests. Events beyond our control may affect our ability to comply with those provisions, and we may not be able to meet those ratios and tests, which would result in a default under our Senior Credit Facility. The breach of any covenants or obligations in our Senior Credit Facility and the indentures governing our outstanding notes could result in a default under the applicable debt agreement or instrument and could trigger acceleration of (or the right to accelerate) the related debt. Because of cross-default provisions in the agreements and instruments governing our indebtedness, a default under one agreement or instrument could result in a default under, and the acceleration of, our other indebtedness. In addition, the lenders under our Senior Credit Facility could proceed against the collateral securing that indebtedness. If any of our indebtedness were to be accelerated, it could adversely affect our ability to operate our business or we may be unable to repay such debt, and therefore such acceleration could adversely affect our results of operations and financial condition, and consequently, the price of our common stock.

- **Our ability to generate the significant amount of cash needed to service our debt and to fund capital expenditures or other liquidity needs depends on many factors beyond our control.** Our ability to service our debt and to fund our planned capital expenditures and

ongoing operations will depend on our ability to generate cash and to obtain financing in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors affecting our industry that are beyond our control. If we do not generate sufficient cash flow from operations, and sufficient future borrowings are not available under our Senior Credit Facility or from other sources of financing, we may not be able to repay our debt or fund capital expenditures or our other liquidity needs. As of September 30, 2005, on a consolidated basis, we had principal repayment obligations of $0 in each of fiscal years 2006, 2007 and 2008, $16 million in fiscal year 2009, $64 million in fiscal year 2010 and $205 million thereafter. Based on our debt obligations at September 30, 2005, our annual debt service costs are approximately $23 million per year.

- **CPI Holdco is a holding company with no operations, and unless it receives distributions, dividends, advances, loans or other payments from its subsidiaries, it will be unable to meet its debt service and other obligations.** CPI Holdco is holding company, and we conduct all of our operations through our subsidiaries. CPI Holdco does not have, apart from its ownership of CPI, any independent operations. Accordingly, we will need to receive distributions, dividends, advances, loans or other payments from our subsidiaries or raise additional financing in order to service our debt and meet our other obligations. Our subsidiaries are separate and distinct legal entities and are not obligated to make funds available to us in the form of distributions, dividends, advances, loans or otherwise. Furthermore, the ability of our subsidiaries to make dividends and distributions to us is restricted by the terms of our Senior Credit Facility and the indenture governing CPI's 8% Senior Subordinated Notes due 2012 (the ''8% Notes''). Our subsidiaries are permitted under the terms of our Senior Credit Facility and other indebtedness to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to us. These restrictions or prohibitions may preclude our subsidiaries from providing us with sufficient dividends, distributions, or loans to fund scheduled interest and principal payments on our outstanding debt when due.
- **Our outstanding notes and our Senior Credit Facility are subject to change of control provisions. We may not have the ability to raise funds necessary to fulfill our obligations under our debt following a change of control, which would place us in default thereunder.** We may not have the ability to raise the funds necessary to fulfill our obligations under our outstanding notes and our Senior Credit Facility following a change of control. Under the indentures governing our notes, upon the occurrence of specified change of control events, we are required to offer to repurchase the notes. However, we may not

have sufficient funds at the time of the change of control event to make the required repurchase of our notes. In addition, a change of control under our Senior Credit Facility would result in an event of default thereunder and permit the acceleration of the outstanding obligations under the Senior Credit Facility.

- **We are controlled by Cypress**. Cypress controls us and may have conflicts of interest with us or our own investors in the future. Cypress beneficially owns approximately 81% of the outstanding shares of common stock of CPI Holdco, on a fully diluted basis. As a result, Cypress has control over our decisions to enter into any corporate transaction and has the ability to prevent any transaction that requires the approval of stockholders regardless of whether or not other stockholders or holders of the notes believe that any such transaction is in their own best interests. Cypress may also have an interest in causing us to pursue acquisitions,

divestitures, financings or other transactions that, in its judgment, could enhance its equity investment, even though such transactions may involve risks to other stockholders or noteholders.

Item 2. Properties

We own, lease or sublease manufacturing, assembly, warehouse, service and office properties having an aggregate floor space of approximately 1,165,000 square feet, of which approximately 2,950 square feet are leased or subleased to third parties. The table that follows provides summary information regarding principal properties owned or leased by us:

	Square Footage		
Location	Owned	Leased/Subleased	Segments Using the Property
San Carlos, California	322,000[a]	—	VED
Beverly, Massachusetts	169,385[b]	—	VED
Georgetown, Ontario, Canada	126,000	21,975	VED and satcom equipment
Woodland, California	36,900	9,900	VED
Palo Alto, California	—	369,500	VED and satcom equipment
Palo Alto, California	—	49,100[c]	VED
Mountain View, California	—	42,470	VED
Various locations	—	18,249[d]	VED and satcom equipment

(a) As discussed in Item 7, ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations,’’ this property is subject to a contract for sale, and the sale is expected to close in fiscal year 2007.

(b) The Beverly, Massachusetts square footage also includes approximately 2,950 square feet leased to two tenants.

(c) This facility is subleased from Varian, Inc. Varian, Inc. subleases the land from Varian Medical Systems, Inc. and Varian Medical Systems subleases the land from Stanford University.

(d) Leased facilities occupied entirely by our field sales and service organizations.

The lenders under our Senior Credit Facility have a security interest in certain of our interests in the real property that we own and lease.

Our headquarters and one principal complex, including one of our manufacturing facilities, located in Palo Alto, California are subleased from Varian Medical Systems or one of its affiliates or former affiliates. Therefore, our occupancy rights are dependent on the tenant’s fulfillment of its responsibilities to the master lessor, including its obligation to continue environmental remediation activities under a consent order with the California Environmental Protection Agency. The consequences of the loss by us of such occupancy rights could include the loss of valuable improvements and favorable lease terms, the incurrence of substantial relocation expenses and the disruption of our business operations.

Item 3. Legal Proceedings

We may be involved from time to time in various legal proceedings and various cost accounting and other government pricing claims. As of September 30, 2005 we were not involved in any legal proceeding that individually or in the aggregate could have a significant effect on our business, financial condition, results of operation or liquidity. Varian Medical Systems, Inc. is obligated to indemnify us against certain liabilities arising from litigation and governmental claims pertaining to its Electron Devices Business prior to August 1995, with certain exceptions and limitations. Accordingly, management believes that litigation and governmental claims pending against Varian Medical Systems and relating to the Electron Devices Business prior to August 1995 will not have a material adverse effect on our financial condition or results of operations. For more information, see Item 1, ''Business — Environmental Matters''.

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

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal year 2005.

PART II

Item 5. Market For Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

All of the common stock of CPI Holdco is held by Cypress Merchant Banking Partners, L.P. and its affiliates and certain of our directors, and there is no trading market for the common stock of CPI Holdco, Inc. For more information, see Item 12, ''Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.'' As of December 9, 2005, there were six holders of common stock of CPI Holdco. See Item 11, ''Executive Compensation'' for a discussion of Securities Authorized for Issuance Under Equity Compensation Plans.

CPI Holdco paid a special cash dividend of approximately $75.8 million in the aggregate, and $17.0 million, in the aggregate, to holders of its common stock in February 2005 and December 2005, respectively. For additional information, see Item 7, ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.'' CPI Holdco did not pay any cash dividends on its common stock in fiscal year 2004. We currently expect to retain any future earnings for use in the operation and expansion of our business and do not anticipate paying any additional cash dividends on our common stock in the foreseeable future. Any payment of cash dividends on our common stock will be dependent upon the ability of CPI, our wholly-owned subsidiary, to pay dividends or make cash payments or advances to us. The indenture governing the 8% Notes imposes restrictions on CPI's ability to make distributions to us, and the agreements governing our Senior Credit Facility generally do not permit CPI to make distributions to us for the purpose of paying dividends to our stockholders. In addition, the indenture governing CPI Holdco's Floating Rate Senior Notes due 2015 (the ''FR Notes'') also imposes restrictions on CPI Holdco's ability to pay dividends or make distributions to its stockholders. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by our board of directors, including the Delaware General Corporation Law, which provides that dividends are only payable out of surplus or current net profits.

Item 6. Selected Financial Data

The following selected financial data has been derived from the consolidated financial statements. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

FIVE-YEAR SELECTED FINANCIAL DATA (In Thousands)

	Fiscal Year 2001 (Predecessor)	Fiscal Year 2002 (Predecessor)	Fiscal Year 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-Week Period Ended October 1, 2004 (Successor)	Fiscal Year 2005 (Successor)
Statement of Operations Data:						
Sales	$ 272,521	251,245	265,434	79,919	202,266	320,732
Cost of sales	223,332	192,189	183,957	56,189	135,672	215,680
Amortization of acquisition-related inventory write-up (1) (2)	—	—	—	—	5,500	351
Gross profit	49,189	59,056	81,477	23,730	61,094	104,701
Operating expenses	44,352	41,723	40,449	12,585	29,031	54,094
Merger expenses (1)	—	—	—	6,374	—	—
Amortization of acquisition-related intangible assets (1)	—	—	—	—	13,498	7,487
Acquired in-process research and development (1)	—	—	—	—	2,500	—
(Gain) loss on sale of Solid State Products Division (3)	—	3,004	(136)	—	—	—
Operating income	4,837	14,329	41,164	4,771	16,065	43,120
Interest expense, net	20,734	16,508	14,540	8,902	10,518	20,310
Income tax expense	2,950	4,554	10,076	439	2,899	9,138
Net income (loss)	$ (18,847)	(6,733)	16,548	(4,570)	2,648	13,672
Other Data:						
EBITDA (4)	$ 18,183	28,666	47,457	6,549	32,816	57,297
Certain Non-Cash Charges:						
Depreciation and amortization (6)	13,346	11,304	6,293	1,778	16,751	14,177
Stock-based compensation expense	—	—	1,010	1,289	—	6,985
Amortization of deferred debt issuance costs	1,987	1,629	1,383	2,285	743	1,304
Capital expenditures (7)	5,788	3,378	3,067	459	3,317	17,131

Balance Sheet Data:					
Working capital	$ 22,048	1,101	17,241	72,385	65,400
Total assets	204,067	156,189	181,968	431,207	455,882
Long-term debt and redeemable preferred stock	148,569	128,693	128,907	210,606	284,231
Total stockholders' equity (deficit)	(57,608)	(73,104)	(65,445)	107,594	52,667

(1)In fiscal year 2004, as a result of the Merger, we incurred charges for the amortization of inventory write-up and intangible assets, merger expenses and a write-off of in-process research and development. In fiscal year 2005, as a result of the Merger, we incurred charges for the amortization of intangible assets.

(2)In fiscal year 2005, we incurred charges for the amortization of inventory write-up for the Econco acquisition.

(3)On September 26, 2002, we sold the Solid State Products Division. The net pretax loss of $3.0 million in fiscal year 2002 included approximately $2.5 million for the write-off of goodwill.

(4)EBITDA represents earnings before provision for income taxes, interest expense, net and depreciation and amortization. We believe that GAAP-based financial information for highly leveraged businesses, such as ours, should be supplemented by EBITDA so that investors better understand our financial information in connection with their analysis of our business. The following demonstrates and forms the basis for such belief: (i) EBITDA is a component of the measure used by our board of directors and management team to evaluate our operating performance, (ii) our Senior Credit Facility contains covenants that require us to maintain certain interest expense coverage and leverage ratios, which contain EBITDA as a component, and our

management team uses EBITDA to monitor compliance with such covenants, (iii) EBITDA is a component of the measure used by our management team to make day-to-day operating decisions, (iv) EBITDA is a component of the measure used by the management to facilitate internal comparisons to competitors' results and our industry in general and (v) the payment of bonuses to certain members of management is contingent upon, among other things, the satisfaction by CPI Holdco of certain targets, which contain EBITDA as a component. Other companies may define EBITDA differently and, as a result, our measure of EBITDA may not be directly comparable to EBITDA of other companies. Although we use EBITDA as a financial measure to assess the performance of our business, the use of EBITDA is limited because it does not include certain material costs, such as interest and taxes, necessary to operate our business. When analyzing our performance, EBITDA should be considered in addition to, and not as a substitute for, net income (loss), cash flows from operating activities or other statements of operations or statements of cash flows data prepared in accordance with GAAP.

Thefollowing table reconciles net income (loss) to EBITDA ($ in thousands).

	Fiscal Year 2001 (Predecessor)	Fiscal Year 2002 (Predecessor)	Fiscal Year 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-week Period Ended October 1, 2004 (Successor)	2004 (Pro Forma)[5]	2005 (Successor)
Net income (loss)	$ (18,847)	$ (6,733)	$ 16,548	$ (4,570)	$ 2,648	$ (1,922)	$ 13,672

Depreciation and amortization[6]	13,346	11,304	6,293	1,778	16,751	18,529	14,177
Interest expense, net	20,734	16,508	14,540	8,902	10,518	19,420	20,310
Income tax expense	2,950	4,554	10,076	439	2,899	3,338	9,138
Write-off of goodwill	—	2,525	—	—	—	—	—
Impairment of property, plant and equipment	—	508	—	—	—	—	—
EBITDA	$ 18,183	$ 28,666	$ 47,457	$ 6,549	$ 32,816	$ 39,365	$ 57,297

The EBITDA amounts presented above contain certain charges that are not anticipated to recur regularly in the ordinary course of business, as described in the following table ($ in thousands):

	Fiscal Year 2001 (Predecessor)	Fiscal Year 2002 (Predecessor)	Fiscal Year 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-week Period Ended October 1, 2004 (Successor)	Fiscal Year 2004 (Pro Forma)[5]	Fiscal Year 2005 (Successor)
Consolidation costs[a]	$ 7,074	$ 922	$ —	$ —	$ —	$ —	$ —
Gain on sale of building[b]	(887)	—	—	—	—	—	—
Loss (gain) on sale of Solid State Products Division[c]	—	479	(136)	—	—	—	—
Other income[d]	—	—	(267)	—	—	—	—
Stock compensation expense[e]	—	—	1,010	1,289	—	1,289	—
Amortization of acquisition-related inventory write-up[f]	—	—	—	—	5,500	5,500	351
Merger expenses[g]	—	—	—	6,374	—	6,374	—
Acquired in-process research and development[h]	—	—	—	—	2,500	2,500	—
Compensation expense from performance-based stock options[i]	—						