CPI HOLDCO INC
Form 10-Q
February 08, 2005

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UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2004

or

o **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
(I.R.S. Employer Identification No.)
811 Hansen Way
Palo Alto, California 94303-1110
(650) 846-2900
(Address of Principal Executive Offices and Telephone Number,
Including Area Code)

Indicate by check mark whether each 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 þ No o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding for each of the Registrant s classes of Common Stock, as of the latest practicable date: 4,275,566 shares of Common Stock, $.01 par value, at February 11, 2005.

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Cautionary Statements Regarding Forward-Looking Statements

This document contains forward-looking statements that relate to future events or the future financial performance of CPI Holdco, Inc. (collectively, with its subsidiaries, the Company). In some cases, readers can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, e. predict, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Company nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. All written and oral forward-looking statements made in connection with this report that are attributable to the Company or persons acting on the Company s behalf are expressly qualified in their entirety by the risk factors, and other cautionary statements included herein and in the other filings with the Securities and Exchange Commission (SEC) made by the Company and its predecessor, Communications & Power Industries Holding Corporation. The Company is under no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in the Company s expectations.

The information in this report is not a complete description of the Company s business or the risks and uncertainties associated with an investment in the Company s securities. You should carefully consider the various risks and uncertainties that impact the Company s business and the other information in this report and the Company s other filings with the SEC before you decide to invest in the Company or to maintain or increase your investment. Such risks and uncertainties include, but are not limited to, the following:

the Company s indebtedness is substantial;

the Company s debt agreements have restrictions that limit its flexibility in operating its business;

the Company s ability to generate the significant amount of cash needed to service its debt and to fund capital expenditures or other liquidity needs depends on many factors beyond its control;

the Company has had historical losses;

the Company may be unable to retain and/or recruit key management and other personnel;

the markets in which the Company sells its products are competitive;

the end markets in which the Company operates are subject to technological change;

a significant portion of the Company s sales is, and is expected to continue to be, from contracts with the U.S. Government;

the Company generates sales from contracts with foreign governments;

the Company s international operations subject it to social, political and economic risks of doing business in foreign countries;

the Company 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;

the Company s results of operations and financial condition may be adversely affected by increased or unexpected costs incurred by it on its contracts and sales orders;

environmental regulation and legislation, liabilities relating to contamination and changes in the Company s ability to recover under Varian Medical Systems Inc. s indemnity obligations could adversely affect its business;

the Company has only a limited ability to protect its intellectual property rights;

the Company s inability to obtain certain necessary raw materials and key components could disrupt the manufacture of its products and cause its financial condition and results of operations to suffer;

the relocation of the Company s San Carlos, California operating division to Palo Alto, California could result in disruption to the Company s operations;

the Company may not be able to timely comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002; and

the Company is controlled by affiliates of The Cypress Group L.L.C.

Any of the foregoing factors could cause the Company s business, results of operations, or financial condition to suffer, and actual results could differ materially from those expected.

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PART I: FINANCIAL INFORMATION

ITEM 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands-unaudited)

	December 31, 2004	October 1, 2004
Assets		
Current Assets		
Cash and cash equivalents	$ 26,924	$ 40,476
Restricted cash	2,458	2,279
Accounts receivable, net	38,898	35,914
Inventories	41,275	38,074
Deferred tax assets	13,094	12,285
Prepaids and other current assets	5,255	3,796
Total current assets	127,904	132,824
Property, plant and equipment, net	73,244	70,127
Debt issue costs, net	8,623	8,910
Intangible assets, net	80,721	78,481
Goodwill	145,822	139,614
Other long-term assets	1,070	1,251
Total assets	$ 437,384	$ 431,207
Liabilities and Stockholders Equity		
Current Liabilities		
Current portion of term loan	$ 88	$ 3,944
Accounts payable	15,777	15,790
Accrued expenses	23,948	20,939
Product warranty	6,064	6,074
Income taxes payable	5,197	1,661
Advance payments from customers	11,860	12,031
Total current liabilities	62,934	60,439
Deferred income taxes	38,863	39,118
Advance payments from sale of San Carlos property	13,450	13,450
Senior term loan	85,584	85,606
Senior subordinated notes	125,000	125,000
Total liabilities	325,831	323,613
Stockholders Equity		
Common stock	43	43
Additional paid-in capital	103,579	103,534

Accumulated other comprehensive income		2,185		1,369
Retained earnings		5,746		2,648
Net stockholders equity		111,553		107,594
Total liabilities and stockholders equity	$	437,384	$	431,207

See accompanying notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands unaudited)

	Fiscal Year 2005 13-Week Period Ended December 31, 2004 (Successor)	Fiscal Year 2004 13-Week Period Ended January 2, 2004 (Predecessor)
Sales	$ 73,733	$ 68,313
Cost of sales	49,678	47,141
Amortization of acquisition-related inventory write-up	351	
Gross profit	23,704	21,172
Operating costs and expenses:		
Research and development	1,448	1,733
Selling and marketing	4,068	3,624
General and administrative	4,025	3,700
Merger expenses		430
Amortization of acquisition-related intangible assets	4,906	
Total operating costs and expenses	14,447	9,487
Operating income	9,257	11,685
Interest expense, net	4,080	3,559
Income before taxes	5,177	8,126
Income tax expense	2,079	3,287
Net income	3,098	4,839
Preferred dividends:		
Senior redeemable preferred stock		1,609
Junior preferred stock		1,048
Net income attributable to common stock	$ 3,098	$ 2,182
Other comprehensive income, net of tax:		
Unrealized gain on cash flow hedges	816	

Comprehensive income	$ 3,914	$ 2,182

See accompanying notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands unaudited)

	Fiscal Year 2005 13-Week period ended December 31, 2004 (Successor)	Fiscal Year 2004 13-Week period ended January 2, 2004 (Predecessor)
OPERATING ACTIVITIES		
Net cash provided by operating activities	$ 10,112	$ 6,194
INVESTING ACTIVITIES		
Expenses relating to sale of San Carlos property	(8)	
Purchase of Econco, net of cash acquired	(18,685)	
Purchase of property, plant and equipment	(1,194)	(239)
Net cash used in investing activities	(19,887)	(239)
FINANCING ACTIVITIES		
Repayments of senior term loan	(3,878)	
Repayments on capital leases	(20)	
Net proceeds (repayments) from bank overdraft	121	(1,639)
Net cash used in financing activities	(3,777)	(1,639)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(13,552)	4,316
Cash and cash equivalents at beginning of period	40,476	33,751
Cash and cash equivalents at end of period	$ 26,924	$ 38,067
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 1,410	302
Cash paid for taxes, net of refunds	$ 120	739
Supplemental Disclosures of Noncash Investing and Financing Activities		
Dividends on senior preferred stock	$	1,609

See accompanying notes to the condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

For periods ending prior to January 23, 2004, the accompanying condensed consolidated financial statements represent the consolidated results and financial position of Communications & Power Industries Holding Corporation (Holding or the Predecessor). On January 23, 2004, the Predecessor merged (the Merger) with CPI Merger Sub Corp. (Merger Sub), a wholly-owned subsidiary of CPI Holdco, Inc. (CPI Holdco or the Successor), a Delaware corporation formerly known as CPI Acquisition Corp., controlled by affiliates of The Cypress Group L.L.C. (Cypress) as more fully described in Note 2. As a result of the Merger, the Predecessor became a wholly owned subsidiary of CPI Holdco. The financial statements for periods subsequent to January 22, 2004 represent the condensed consolidated financial statements of CPI Holdco after giving effect to the Merger. References to the Company refer to the Predecessor prior to the Merger and the Successor post-Merger.

CPI Holdco s fiscal years are the 52- or 53-week periods that end on the Friday nearest September 30. The Successor s fiscal year did not change from that of the Predecessor. Fiscal year 2005 comprises the 52-week period ending September 30, 2005, and fiscal year 2004 comprised the 52-week period ended October 1, 2004.

Management believes that these unaudited interim condensed consolidated financial statements contain all adjustments, all of which are of a normal recurring nature, necessary to present fairly the financial position of the Company and its results of operations and cash flows for the interim periods presented. The results for the interim periods reported are not necessarily indicative of the results for the complete fiscal year 2005. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted and, accordingly, these financial statements should be read in conjunction with the financial statements and the notes thereto contained in the Company s Annual Report on Form 10-K for the fiscal year ended October 1, 2004.

There is currently no public market for the Company s common stock.

As allowed by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, the Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Under this method, compensation expense is recorded only if the current market price of the underlying stock exceeded the exercise price at the measurement date. All stock options issued by the Successor were issued at, or above, the current market price of the underlying stock. During fiscal year 2003, the Company issued stock options to employees that were subsequently determined to have been issued below the fair value of the stock on the date of grant. The compensation cost associated with the 2003 stock options was amortized as a charge against income under the caption General and administrative in the Condensed Consolidated Statement of Operations and Comprehensive Income on a straight-line basis over the four year vesting period until they became fully vested at the time of the Merger.

If compensation cost for the Company s stock-based compensation plan had been determined consistent with SFAS No. 123, the Company s net income would have changed to the pro forma amounts indicated below (in thousands):

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued
(unaudited)

	2005 13-Week Period ended December 31, 2004 (Successor)	2004 13-Week Period ended January 2, 2004 (Predecessor)
Net income as reported	$ 3,098	$ 4,839
Add:		
Stock-based compensation included in net income determined under intrinsic value method, net of tax	45	94
Deduct:		
Stock-based compensation determined under fair value based method, net of tax	218	203
Pro forma net income	$ 2,925	$ 4,730

No options were granted during the 13-weeek period ending December 31, 2004 and January 2, 2004.

2. Mergers

Cypress Merger

On January 23, 2004, CPI Holdco s wholly-owned subsidiary, Merger Sub, merged with and into Holding pursuant to the terms of the Agreement and Plan of Merger (the Merger Agreement), dated as of November 17, 2003, by and among Holding, CPI Holdco, Merger Sub and Green Equity Investors II, L.P., as the representative of the security holders of Holding, under which CPI Holdco, Merger Sub s parent corporation and a corporation controlled by affiliates of Cypress, agreed to acquire Holding. In the Merger, each share of Holding s common stock and stock options outstanding immediately prior to the Merger, other than a portion of stock options held by certain members of management (which were converted into options to purchase shares of CPI Holdco) and other than any shares of common stock owned by Holding or CPI Holdco, were converted into the right to receive a pro rata portion of the aggregate merger consideration of $131.7 million. In connection with the Merger, CPI Holdco received an equity contribution of $100.0 million before expenses from affiliates of Cypress in exchange for 4,251,122 shares of common stock of CPI Holdco. Members of management of Holding, as a result of rolling over their options to purchase common stock of Holding, received stock options to purchase 167,513 shares of common stock of CPI Holdco (Rollover Options). The fair value of Rollover Options was $5.0 million and was accounted for as Merger purchase price as of January 23, 2004. Members of Holding management that were residents of Canada received 1,485 stock options to purchase shares of common stock of CPI Holdco as payment of Merger escrow proceeds in respect of their options to purchase shares of Holding.

In connection with the Merger, Holding and Communications & Power Industries, Inc. (CPI) refinanced all of their outstanding indebtedness. As part of the refinancing, CPI effected a covenant defeasance of $74.0 million outstanding aggregate principal amount of its 12% Senior Subordinated Notes (12% Notes) and redeemed the 12% Notes in full, each pursuant to the terms of the Indenture governing the 12% Notes. In addition, CPI terminated its credit facility, and Holding paid off all amounts owing under, and terminated, the loan agreement related to its San Carlos Property. CPI also redeemed all of the outstanding shares of its 14% Junior Cumulative Preferred Stock and its Series B 14% Senior Redeemable Exchangeable Cumulative Preferred Stock.

The Merger transaction was accounted for using the purchase method of accounting as required by the SFAS 141, Business Combinations . Accordingly, the assets acquired and liabilities assumed were recorded at fair value and the excess of the purchase price over the fair value of the assets acquired was recorded as goodwill. The allocation of the purchase price to specific assets and liabilities was based, in part, upon independent appraisals and internal estimates of cash flow and recoverability. The following table summarizes the final estimates of fair value of the assets acquired and liabilities assumed at January 23, 2004 (in thousands):

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(unaudited)

Cash	$ 13,866
Accounts receivable	29,587
Inventory, including $5.5 million of fair value write-up	43,608
Other current assets	3,241
Property, plant and equipment	70,079
Identifiable intangible assets	92,160
Acquired in-process research and development	2,500
Goodwill	139,614
Debt and preferred stock	(172,881)
Deferred tax liabilities, net	(33,169)
Other liabilities	(56,934)
Total	$ 131,671

The $2.5 million of acquired in-process research and development represents the estimated fair value of acquired in-process research and development projects that had not yet reached technological feasibility on January 23, 2004 and had no alternative future use. Accordingly, this amount was written off at the Merger date. The value assigned to acquired in-process research and development is related to technology application projects involving development of VEDs (Vacuum Electron Devices) for communications, scientific and military applications and development of power supplies, x-ray generators and transmitters for industrial, medical and military applications.

The following unaudited pro forma summary presents information as if the Merger had taken place at the beginning of each period presented. The pro forma amounts include certain adjustments, including depreciation based on the allocated purchase price of property and equipment, amortization of finite lived intangible assets acquired, interest expense and taxes. One-time charges for the inventory write-up, merger expenses, acquired in-process research and development and backlog amortization, net of applicable taxes, are excluded from the pro forma net income amounts (in thousands):

(in thousands)	13-Week period ended December 31, 2004	13-Week period ended January 2, 2004
Sales	$ 73,733	$ 68,313
Pro forma net income	$ 5,716	$ 4,948

Corporate Reorganization

On March 12, 2004, Holding was merged with and into its wholly-owned subsidiary, CPI, with CPI as the surviving corporation (the Intercompany Merger). As a result of the Intercompany Merger, the corporate structure of the Company and its subsidiaries consists of one parent holding corporation, CPI Holdco, and all of the obligations of

Holding existing prior to the Intercompany Merger became obligations of CPI.

3. Inventories

Inventories are stated at the lower of average cost or market (net realizable value). The main components of inventories are as follows (in thousands):

	December 31, 2004	October 1, 2004
Raw materials and parts	$ 27,218	$ 23,500
Work in process	9,484	10,067
Finished goods	4,573	4,507
Total	$ 41,275	$ 38,074

4. Accrued Warranty

The Company s products are generally warranted for a variety of periods, typically one to three years or a predetermined product usage life. The Company assesses the adequacy of its preexisting warranty liabilities and adjusts the balance based on actual

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued
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experience and changes in future expectations. The following table reconciles the changes in the Company s accrued warranty (in thousands):

	2005 13-Week Period ended December 31, 2004 (Successor)	2004 13-Week Period ended January 2, 2004 (Predecessor)
Beginning accrued warranty	$ 6,074	$ 5,401
Cost of warranty claims	(741)	(972)
Accruals for product warranty	731	1,701
Ending accrued warranty	$ 6,064	$ 6,130

5. Senior Credit Facility

In connection with the Merger, CPI entered into a $130.0 million credit agreement, which was amended and restated on November 29, 2004 (Senior Credit Facility). The Senior Credit Facility consists of a $40.0 million revolving commitment, with a sub-facility of $15.0 million for letters of credit and $5.0 million for swingline loans (Revolver), which expires on January 23, 2010, and a $89.6 million term loan (Term Loan), which expires on July 23, 2010, of which $85.7 million was outstanding as of December 31, 2004. The Senior Credit Facility is guaranteed by CPI Holdco and all of CPI s domestic subsidiaries and is secured by substantially all of their assets.

The Revolver borrowings currently bear interest at a rate equal to LIBOR plus 3.00% per annum or the Alternate Base Rate (ABR) plus 2.0% per annum. The Term Loan borrowings currently bear interest at a rate equal to LIBOR plus 2.5% per annum or the ABR plus 1.5% per annum. The ABR is the greater of (a) the Prime Rate and (b) the Federal Funds Rate plus 0.50%. In addition to customary fronting and administrative fees under the Senior Credit Facility, CPI pays letter of credit participation fees equal to the applicable LIBOR margin (discussed above) per annum on the average daily amount of the letter of credit exposure, and a commitment fee of 0.50% per annum on the average daily unused amount of revolving commitment.

The Senior Credit Facility provides that upon specified conditions, CPI may seek commitments for a new class of term loans, not to exceed $75 million. Such new term loans (a) may be part of the existing tranche of term loans or may be part of new tranche of term loans and (b) subject to certain exceptions, shall have terms generally identical to the terms of the existing term loans, provided that the applicable margins with respect to such new term loans shall not be greater than 50 basis points higher than the highest possible margins on the existing term loans.

The Senior Credit Facility contains a number of covenants that, among other things, restrict the ability of CPI Holdco, CPI and certain of its subsidiaries to sell assets; engage in mergers and acquisitions; pay dividends and distributions or repurchase their capital stock; incur additional indebtedness or issue equity interests; make investments and loans;

create liens or further negative pledges on assets; engage in certain transactions with affiliates; enter into sale and leaseback transactions; change their business or ownership; amend agreements or make prepayments relating to subordinated indebtedness; amend or waive provisions of charter documents, agreements with respect to capital stock or any other document related to the Merger Agreement or related transaction documents in a manner that is materially adverse to the lenders; and change their fiscal year. These covenants are subject to certain exceptions.

In addition, the Senior Credit Facility requires CPI and its subsidiaries to maintain the following financial covenants: a minimum interest coverage ratio; a maximum total leverage ratio; a minimum fixed charge coverage ratio; and a maximum capital expenditures limitation. At December 31, 2004, CPI was in compliance with all Senior Credit Facility covenants.

The Term Loan requires 1.0% of the loan amount to be repaid annually in quarterly installments of 0.25% beginning June 30, 2004 and continuing for five years, with the remainder due in equal quarterly installments thereafter. The Term Loan also requires an annual prepayment to be made within 90 days after the end of the fiscal year based on a calculation of Excess Cash Flow (ECF), as defined in the Senior Credit Facility, multiplied by a factor of 25%, 50% or 75% depending on the leverage ratio at the end of the fiscal year, less optional prepayments made during the fiscal year. On December 30, 2004, CPI made an ECF payment of $3.9 million. The ECF payment was applied pro rata, in accordance with the provisions of the term loan, against the remaining scheduled installments of principal due up to, but not including, the September 30, 2009 scheduled

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principal installment.

6. 8% Senior Subordinated Notes

In connection with the Merger, CPI issued an aggregate principal amount of $125.0 million of its 8% Senior Subordinated Notes due 2012 (8% Notes), which will mature in their entirety on February 1, 2012; there are no sinking fund requirements. CPI is required to pay interest on the 8% Notes semiannually, beginning on August 1, 2004. The indenture governing the terms of the 8% Notes (the 8% Indenture) contains restrictive covenants which, among other things, limit CPI and certain of its subsidiaries from incurring certain indebtedness, selling assets or consolidating or merging with or into other companies, paying dividends or repurchasing or redeeming capital stock, making certain investments and entering into certain types of transactions with their affiliates. The Company is in compliance with the covenants contained in the 8% Indenture as of December 31, 2004. The payment of principal, premium and interest on, and other obligations evidenced by the 8% Notes is subordinated in right of payment, as set forth in the 8% Indenture, to the prior payment in full of all senior debt (as defined in the 8% Indenture), including indebtedness under the Senior Credit Facility, whether outstanding on the date of the 8% Indenture or thereafter incurred. CPI s payment obligations under the 8% Notes are jointly and severally guaranteed by CPI Holdco and all of CPI s domestic subsidiaries. The 8% Notes may be redeemed as described in, and subject to the terms and conditions set forth in, the 8% Indenture. In addition, the 8% Indenture requires the Company to make an offer to purchase the 8% Notes in certain circumstances.

7. Financial Instruments

As of December 31, 2004, CPI had outstanding forward contract commitments to purchase Canadian dollars for an aggregate U.S. notional amount of $31.0 million; the last forward contract expires on March 10, 2006. The Company s foreign currency forward contracts are designated as a cash flow hedge and are considered highly effective , as defined by FASB Statement No. 133. At December 31, 2004, the fair value of unrealized foreign currency forward contracts was $3.1 million and the unrealized gain was approximately $2.2 million, net of related tax expense. The unrealized gains from these forward contracts are included in other comprehensive income and are shown as a component of stockholders equity.

8. Segments and Related Information

The Company has two reportable segments: VEDs and satcom equipment. Management evaluates performance and allocates resources based on earnings before provision for interest expense, income taxes, depreciation and amortization (EBITDA).

Summarized financial information concerning the Company s reportable segments is shown in the following table:

	Fiscal Year	
	2005	2004
	13-Week	13-Week
		Period ended

(In thousands)	Period ended December 31, 2004 (Successor)	January 2, 2004 (Predecessor)
Revenues from external customers		
VEDs	$ 62,268	$ 58,594
Satcom equipment	11,465	9,719
Total	$ 73,733	$ 68,313
Intersegment product transfers		
VEDs	$ 5,752	$ 3,293
Satcom equipment	2	
Total	$ 5,754	$ 3,293
EBITDA		
VEDs	$ 16,542	$ 14,393
Satcom equipment	1,378	228
Other	(2,444)	(1,512)
Total	$ 15,476	$ 13,109

Included in the Other category of EBITDA are unallocated corporate operating expenses and amortization of acquisition-related inventory write-up. Intersegment product transfers are recorded at cost.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued
(unaudited)

EBITDA represents earnings before interest expense, provision for income taxes, depreciation and amortization. EBITDA is presented because the Company believes that EBITDA is used by some investors as a financial indicator of a company s ability to service indebtedness. While management considers EBITDA to be an important measure of comparative operating performance, it should be considered in addition to, but not as a substitute for or superior to, operating income, net earnings (loss), cash flow and other measures of financial performance prepared in accordance with accounting principles generally accepted in the United States. EBITDA does not reflect cash available to fund cash requirements, and the items excluded from EBITDA, such as depreciation and amortization, are significant components in assessing the Company s financial performance. Other significant uses of cash flows are required before cash will be available to the Company including debt service, taxes and cash expenditures for various long-term assets. The Company s calculation of EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited. A reconciliation of EBITDA from reportable segments to income before taxes is as follows:

	Fiscal Year	
(In thousands)	2005 13-Week Period ended December 31, 2004 (Successor)	2004 13-Week Period ended January 2, 2004 (Predecessor)
EBITDA	$ 15,476	$ 13,109
Less:		
Depreciation and amortization	6,219	1,424
Interest expense, net	4,080	3,559
Income before taxes	$ 5,177	$ 8,126

Sales by geographic area to unaffiliated customers (based on the location of customer) are as follows:

	Fiscal Year	
(In thousands)	2005 13-Week Period ended December 31, 2004 (Successor)	2004 13-Week Period ended January 2, 2004 (Predecessor)

United States	$ 50,633	$ 44,760
All foreign countries	23,100	23,553
Total sales	$ 73,733	$ 68,313

The Company had one customer, the United States Government, that accounted for 10% or more of consolidated sales. Sales to this customer were $13.6 million and $15.1 million of the Company s consolidated sales for the 13-week periods ended December 31, 2004 and January 2, 2004, respectively. A substantial majority of these sales were VED segment products, but this customer also purchased satcom equipment products.

9. Recent Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments . Issue No. 03-01 requires certain quantitative and qualitative disclosures be made for debt and marketable equity securities classified as available-for-sale under SFAS No. 115 that are impaired at the balance sheet date, but for which an other-than-temporary impairment has not been recognized. Issue No. 03-01 was initially to be effecti