White Electronic Designs

2006 ANNUAL REPORT

ONE
COMPANY

ONE
SOLUTION

WWW.WEDC.COM

Board of Directors

Hamid R. Shokrgozar
Chairman, President & Chief Executive Officer - White Electronic Designs

Edward A. White (1)(2)
Vice Chairman of the Board - White Electronic Designs

Thomas M. Reahard (1)
Chairman & Chief Executive Officer, Symmetry Software Corporation
Lead Director - White Electronic Designs
Chairman of the Compensation Committee - White Electronic Designs

Thomas J. Toy (3)
Partner - PacRim Venture Partners
Chairman of the Corporate Governance and Nominating Committee - White Electronic Designs

Jack A. Henry
Managing Director of Sierra Blanca Ventures
Chairman of the Audit Committee - White Electronic Designs

Paul D. Quadros (2)(3)
Managing Partner - Tenex Greenhouse Ventures

(1) Member of Corporate Governance and Nominating Committee
(2) Member of the Compensation Committee
(3) Member of the Audit Committee

WEDC Executive Officers

Hamid R. Shokrgozar
Chairman, President & Chief Executive Officer

Roger A. Derse
Vice President & Chief Financial Officer

Dan V. Tarantine
Executive Vice President, Worldwide Sales & Marketing

WEDC Senior Management

Corporate

Karen Kock
Vice President, Human Resources

Jim Kritcher
Director, Information Technology

Divisional

Bev Cameron
Vice President Operations – Microelectronics

Dan Doyle
Vice President Business Development – Multi-Divisional

Jeff Eidinger
Vice President Supply Chain Management – Microelectronics

BJ Heggli
Vice President Engineering – Microelectronics

Aaron Olsen
Operations Manager – Interface Electronics

Jeff Osmun
Vice President – Microelectronics Sales

Wayne Parkinson
Vice President Business Development – Multi-Divisional

David Slobodin
Vice President, General Manager – Display Systems

Eric Tzeng
Director of International Operations

Dan Wyss
Plant Manager – Electromechanical Products

Online Annual Report

www.wedc.com/annualreport2006

Common Stock

NASDAQ:WEDC

Notice of Annual Meeting

White Electronic Designs Corporation
3601 E. University Drive
Phoenix, AZ 85034
Tel: 602-437-1520
Fax: 602-437-1731
March 7, 2007
11:00 a.m. Mountain Standard Time

Transfer Agent and Registrar

American Stock Transfer Company
59 Maiden Lane, Suite 206
New York, NY 10007
718-921-8206

Counsel

Snell & Wilmer LLP
One Arizona Center
Phoenix, AZ 85004

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
1850 North Central Avenue, Suite 700
Phoenix, AZ 85004

OUR MISSION

Our Mission Statement

White Electronic Designs will become the recognized leader for innovative electronic solutions to satisfy global markets by:

- providing superior values to its customers
- providing excellent returns to its investors
- achieving balanced growth
- maintaining a positive environment for its employees

About White Electronic Designs Corporation

White Electronic Designs Corporation (WEDC) consists of two segments, Microelectronics and Display. We offer advanced semiconductor packaging and high-density memory products; LCD panels, touch panels and rugged displays; interface devices, keypads, graphic overlays; and contract manufacturing to industries such as military, avionics, data and voice communications, medical, home appliance and consumer electronics.

Locations:

- Microelectronics, Phoenix, Arizona
- Display Systems, Hillsboro, Oregon
- Interface Electronics, Columbus, Ohio
- Electromechanical Products, Fort Wayne, Indiana

NASDAQ: WEDC

Locations

Corporate Headquarters
3601 E. University Drive
Phoenix, AZ 85034
Tel: 602-437-1520
Fax: 602-437-9120

Microelectronics Division
3601 E. University Drive
Phoenix, AZ 85034
Tel: 602-437-1520
Fax: 602-437-9120
74,000 sq. ft.

Display Systems Division
21333 NW Jacobson Road
Hillsboro, OR 97124
Tel: 503-690-2460
Fax: 503-690-2490
58,000 sq. ft.

Interface Electronics Division
539 Industrial Mile Road
Columbus, OH 43228
Tel: 614-279-6326
Fax: 614-279-0249
41,000 sq. ft.

Electromechanical Products Division
8000 Bluffton Road
Fort Wayne, IN 46809
Tel: 260-747-3121
Fax: 260-747-9601
75,000 sq. ft.

Sales Representatives Worldwide

Certificates
FAA Certified
ISO 9001:2000
MIL-PRF-38534
MIL-PRF-38535

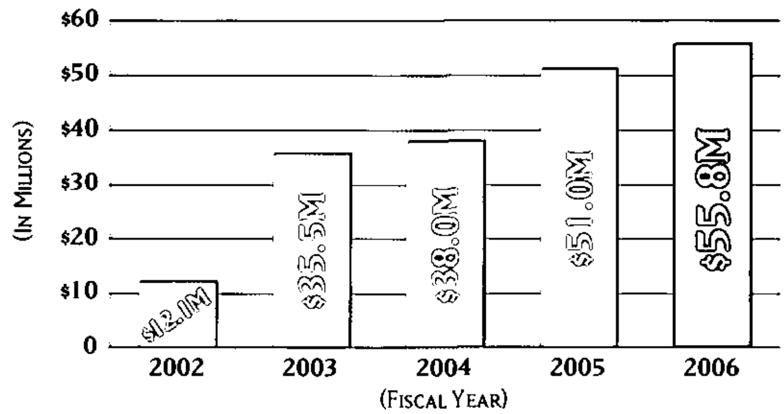
To Our Valued Shareholders

Fiscal year 2006 was a solid year for White Electronic Designs Corporation. We were consistently profitable and we continued to become better positioned as our markets worked their way toward increased stability and future growth. Market conditions continued to be somewhat challenging throughout most of 2006; however, we began to see signs of marginal improvement toward the end of the fiscal year. While there is no way to be assured that market conditions are definitively improved, we have increasing optimism that fiscal 2007 will bring about a better operational environment. Going forward, we believe that there are a number of new opportunities that will be available because of our dedication to research and development, and our focus on managing expenses and driving manufacturing efficiencies.

Financial Results of Fiscal 2006

Net sales for the fiscal year ended September 30, 2006 were $108.9 million, compared to net sales of $117.0 million for fiscal 2005. Net income for fiscal year 2006 was $6.0 million, or $0.24 per diluted share, compared to a net loss of $3.5 million, or $0.14 per share, for fiscal 2005. During the fourth quarter of the previous fiscal year, the Company recognized a non-cash impairment of goodwill of $11.4 million, or $0.47 per diluted share; and a $0.8 million, or $0.03 per diluted share, favorable adjustment of tax reserves.

Cash & Cash Equivalents



During the year, we executed on a strategic decision not to pursue certain low-margin business which had an impact on our full year revenues. While we were successful in attracting new business at expanded margins during fiscal 2006, we were not able to fully recoup the revenue stream from the lower margin business. Having made that difficult decision, and redirecting our resources, we now believe that the stage is set for closing that revenue gap as we continue to develop new business at improved margins going forward. It is important that we strive to generate the best possible margins in all the product lines that we manufacture. In that regard, we will continuously look to compete in market segments that provide us the opportunity for expanded margins for our leading-edge technologies.

From an operational standpoint, we were very pleased with the consistency and the strength of the financial results of each of the four quarters of fiscal 2006. Net sales trended up throughout the year, from $24.9 million in the first quarter to $29.7 million in the fourth quarter. Net income per share tracked likewise from $0.03 per diluted share in the first quarter to $0.08 per diluted share in the fourth quarter.

Microelectronic and Display Segment Results

Fiscal year 2006 revenues in our Microelectronic segment were $60.2 million compared to $64.1 million in the previous year. Bookings, an indicator of future sales, in the Microelectronic segment for the fiscal year were $60.2 million, equating to a book-to-bill ratio of 1.00. We believe this is a good base to begin our sales and marketing efforts going into fiscal year 2007.

Many of the products that we manufacture for the nation's primary defense contractors are considered high-reliability products and are used in aerospace, defense; and military applications. Many of these products are designed for the most sophisticated weapons systems that give the United States its military superiority. These "military products" are designed to meet more stringent standards and are resistant to adverse conditions, such as extreme high and low temperatures. With respect to the recent change in the political leadership of Congress, we believe that the market for these products will be unaffected and will continue to be robust.

We are particularly pleased with the potential in the coming years for our anti-tamper ("AT") products. Net sales of AT products for fiscal 2006 totaled $4.8 million. As U.S. government regulations increasingly require anti-tamper technology in all high-end weapons systems, we are well positioned to be a leading provider of this technology to the primary U.S. military defense contractors. We believe this could be a future growth driver in our military Microelectronic business.

In our Display segment, revenues for fiscal year 2006 were $48.7 million compared to $52.9 million in the previous year. Financial results in the Display segment were significantly impacted in fiscal 2006 by our strategic decision to discontinue certain low-margin business. At the same time, fiscal year 2006 saw a number of developments that will serve us well going forward.

During fiscal year 2006, we collaborated with a number of leading personal computer and LCD manufacturers to develop computer screen products for mobile PCs and tablet PCs featuring our Max-Vu™ technology, and our proprietary "touch-screen" capabilities. Max-Vu™ technology provides the improved contrast and the clarity necessary for readability under high ambient lighting conditions. In addition to eliminating glare, Max-Vu™ provides an increased level of mechanical strength or "ruggedization" that will keep the product operational in harsh physical conditions. We believe that mobile and tablet PCs are a growing area of the computing market, as industry-specific hand-held computing devices are increasingly utilized to dramatically enhance operating efficiencies and employee productivity.

As our customers increasingly look to take full advantage of the emerging digital convergence of WiFi, telephony, Bluetooth and WAN (wide area networks), power consumption in mobile devices will become even more crucial in maintaining battery life. Our Max-Vu™ technology improves power consumption by 10 to 12 percent and provides the critical edge that will permit our end-user customers to achieve the efficiencies they seek.

The combination of improved contrast, increased brightness, reduced power consumption, increased mechanical ruggedness and "repairability" makes Max-Vu™ the technology of choice for the leading providers of mobile devices. We think that mobile PC products have the potential to become a major growth market in the years to come. This very specialized type of technology can command higher margins and can lead us to become a more profitable company in the future. We remain dedicated to funding our research and development efforts with the goal of continuing to bring to market "breakthrough" technology that can command higher margins.

Expanded Segment Management

To assist in identifying new opportunities for the future, we expanded our operational management and sales and marketing capabilities in fiscal year 2006 by adding David E. Slobodin as Vice President, General Manager Display Systems Products; and Jeffrey R. Osmun as Vice President, Sales and Marketing Microelectronic Products. Prior to joining us, Mr. Slobodin was Chief Technology Officer of InFocus Corporation, a worldwide market leader in digital projectors and large-screen display systems. Mr. Osmun was Corporate Vice President, Worldwide Sales and Marketing of STATS ChipPAC, a leading provider of semiconductor test and packaging services. Both Mr. Slobodin and Mr. Osmun will be focused on the growth of our current Display and Microelectronic segments. These are successful industry professionals on whose experience and expertise we will rely to drive growth in both of our segments.

Stock Buyback

On June 19, 2006, our Board of Directors authorized a stock repurchase program pursuant to which up to 5%, or 1,231,108 shares, of our outstanding common stock may be repurchased from time to time. The duration of the repurchase program is open-ended and is being implemented through a Rule 10b5-1 Stock Purchase Plan. Under the program, we can purchase shares of common stock through the open market on a daily basis at prices equal to or less than $5.50 per share without further approval by the Board. The timing and amount of repurchase transactions under this program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available cash balances. As of September 30, 2006 the Company had purchased a total of 241,145 shares on the open market. We are dedicated to supporting our loyal shareholders by acquiring shares pursuant to our plan.

Looking Ahead

We have established a number of initiatives that we believe will generate new market opportunities in the years to come. We are focusing on achieving 'Class K' certification in the second quarter of fiscal 2007, which will permit us to produce components for military satellite and outer space applications. This extension of our current competencies could potentially become a meaningful contributor to top- and bottom-line results in the coming years.

Secondly, we now have the production and manufacturing capabilities to offer full system integration solutions to our key military component customers. We can take display panels, electronic systems, and the necessary interface electronics to deliver fully integrated solutions for many of the weapons systems that primary U.S. defense contractors produce. Our customers will increasingly have the option of receiving individual components or a fully integrated circuit board application from us. We believe that this type of comprehensive service will provide our customers' end products greater operational efficiencies and more streamlined delivery schedules.

In addition to the work we do for primary U.S. defense contractors, we believe there is future potential for the use of AT technology in commercial and industrial applications as more and more businesses begin to protect their intellectual property from reverse engineering and other forms of intellectual property theft. We believe that we are uniquely positioned to capitalize on this initiative and attract new customers who require more sophisticated applications and solutions to protect intellectual property.

We will also continue to make improvements to our Max-Vu™ display technology that will open the doors to new and even broader applications for mobile PCs and hand-held industry specific computing tools. We will also look to fully integrate "touch-screen" technology into our Max-Vu™ displays for selected highly sophisticated applications. We believe that these are embryonic markets that will offer superior growth potential in the coming years.

Managing our business in the most efficient manner possible will also continue to be a leading priority for our management team. Over the past few years, we have worked diligently to consolidate operations, pursue higher margin business and strategically add industry-tenured professionals to grow our business and to operate at the highest levels of efficiency.

We ended fiscal year 2006 with a strong cash position of approximately $55.8 million and no debt. We are committed to generating positive cash flow in 2007 and beyond.

We remain dedicated to seeking out strategic acquisitions of operations that we can "bolt-on" to our existing business segments, and that can be accretive in a relatively short period of time. We intend to maintain our pricing discipline and will not compete in bidding wars that would hinder our ability to attain profitability on a timely basis. There is an old adage that goes ... "sometimes the best deal is the one you don't do." We believe that our patience will be rewarded and that our shareholders will be the ultimate beneficiaries.

As always, we thank you for your ongoing support. Although we have faced challenging markets in the past few years, we believe that many of the steps taken during that time have better positioned us for improved performance in the years to come.

Hamid R. Shokrgozar

Hamid R. Shokrgozar

President and Chief Executive Officer

Chairman of the Board

Financial Highlights

Consolidated Statement of Operations

Year Ended	9/30/06	10/1/05	10/2/04	9/27/03	9/28/02
Net Sales	$108.93	$117.03	$108.96	$113.53	$90.46
Income/(loss) before provision for income taxes	$9.00	($1.51)	$6.94	$15.12	$9.13
Net Income/(loss)	$6.01	($3.54)	$4.81	$10.15	$8.74
Net Income/(loss) per common share — basic	$0.25	($0.14)	$0.20	$0.48	$0.44
Shares used in per-common-share calculation — basic	24,488,041	24,437,672	24,201,436	21,320,307	19,815,162

In Millions

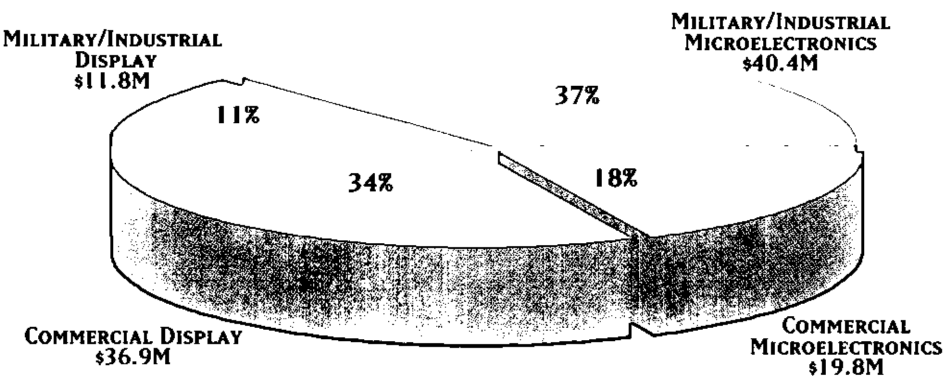
Consolidated Balance Sheet

Year Ended	9/30/06	10/1/05	10/2/04	9/27/03	9/28/02
Working Capital	$89.58	$81.84	$73.68	$63.74	$35.47
Total Assets	$130.51	$121.27	$124.90	$119.81	$68.37
Shareholders' Equity	$110.18	$104.22	$107.22	$101.03	$54.77

In Millions

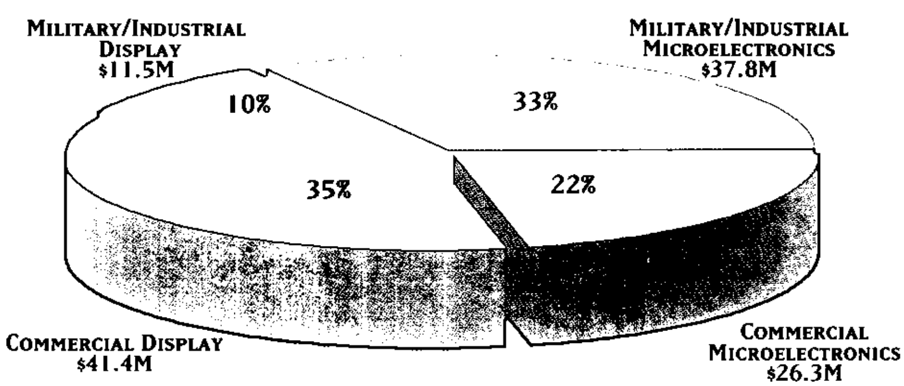
Net Sales Breakdown
(In Millions)

Total Net Sales $108.9 M



Twelve Months Ending September 30, 2006

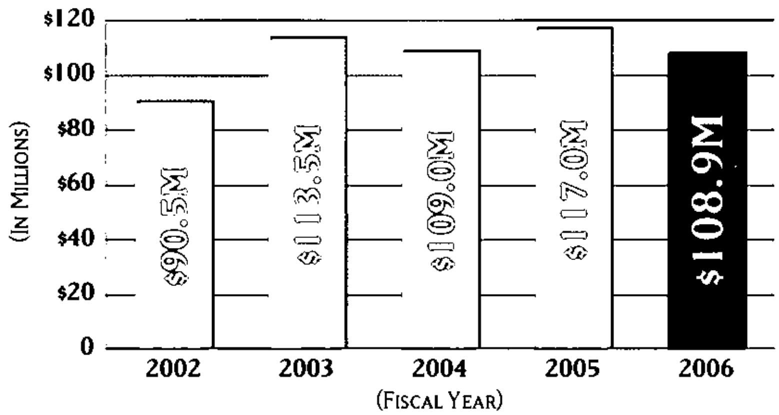
Total Net Sales $117.0 M



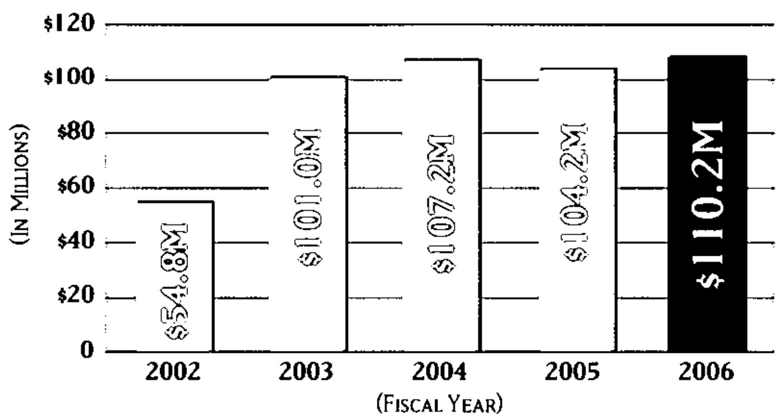
Twelve Months Ending October 1, 2005

Financial Highlights

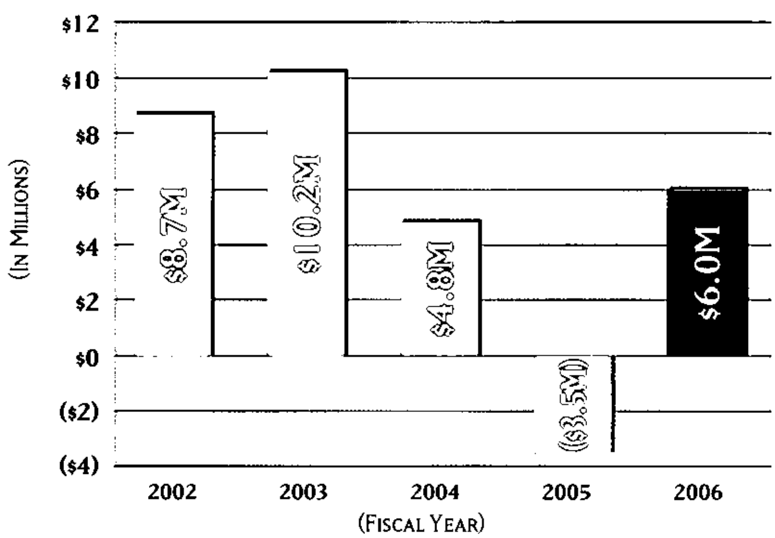
Annual Net Sales



Shareholders' Equity



Net Income



MICROELECTRONICS SEGMENT

Military Microelectronics

Our Military Microelectronics division, located in Phoenix, Arizona, supports Commercial-Off-The-Shelf (COTS) initiatives for extended environment/ military applications. We cater to the high-reliability Original Equipment Manufacturer (OEM) market by designing multi-chip package solutions with multiple applications to leverage die, substrate and assembly costs that meet the budget goals of extended environment designs.

WEDC expertise includes mounting multiple silicon die on a microcircuit laminate while staying within the confines of a defined molded package. Our custom components provide the density and organization required to meet customer design needs. We also provide a range of memory configurations utilizing ceramic, hermetic packages and plastic encapsulated microcircuits.

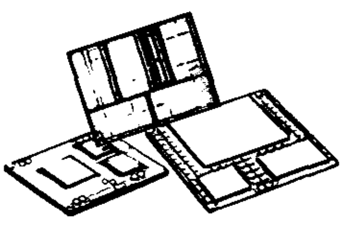
Growing needs of the semiconductor industry have driven technologies such as System in a Package (SiP). SiP solutions integrate multiple die to form a fully functional system or subsystem. By expanding our industry expertise we are able to satisfy these growing needs.

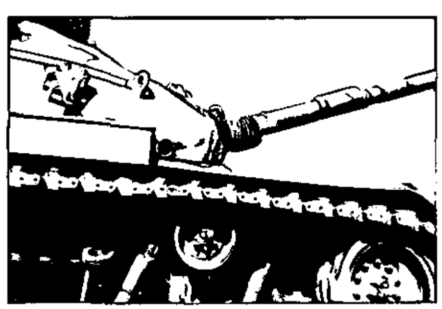
Capabilities

Capabilities include Flip Chip assembly to ceramic and laminate substrates; multi-chip package design and fabrication; testing; surface mount assembly; chip on board; wire bond; tamper resistant coatings; and obsolescence management. We have full internal capability for manufacturing plastic and ceramic Ball Grid Arrays (BGAs).

We procure COTS plastic memory devices and upgrade them using military qualification and test methods for extended temperature plastic applications. These memories are tested to industrial or military temperature ranges with burn-in or temperature cycling available upon request.

Our military microelectronics products are in demand for critical applications in harsh environments.





Microelectronics Segment

Commercial Microelectronics

Also located in Phoenix, Arizona, our Commercial Microelectronics division manufactures high density memory products, including memory modules and PCMCIA cards. WEDC offers asynchronous and synchronous SRAM technologies as well as synchronous DRAM and Flash. We offer value-added services such as source control, revision control, 100% burn-in, serialization and long-term availability.

Our CompactFlash™ cards are available in densities from 256MB to 8GB.

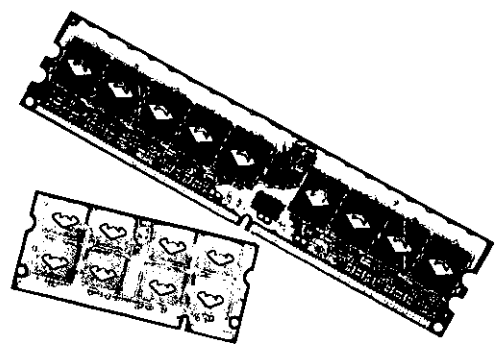
Our module or modular products (SIMM, DIMM, SO-DIMM) provide field replaceable or product upgrades, following JEDEC standards for memory-based products wherever applicable.

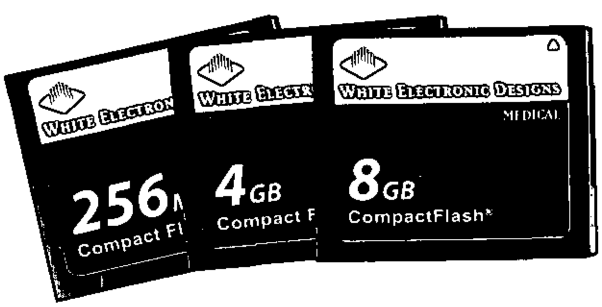
WEDC's contract manufacturing service includes SMT, BGA, COB, Flip Chip and integration of keypad and display products. We offer an electronic assembly operation where we produce prototypes, pilot runs and low-to-medium volume production quantities of electronic sub-assemblies or complete products. We have a full-service R&D lab to support new material formulations as well as world class testing.

We provide a comprehensive array of services including design of semiconductor packages, circuit board design and layout, component selection, turnkey circuit card assembly and system assembly.

Our Commercial Microelectronics products are widely used in:

- ◊ High-performance computing – telecom/datacom, super computers
- ◊ Medical – diagnostic and treatment systems
- ◊ Test and measurement – automated test equipment and hand-held diagnostic test equipment





Display Segment

Display Systems

Our Display Systems division, located in Hillsboro, Oregon, is a renowned provider of enhanced Active Matrix Liquid Crystal Display (AMLCD) solutions for commercial and industrial markets, and the high-performance military/aerospace industry.

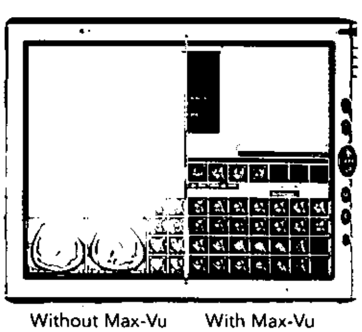
Our team of experts provides the display industry with advanced design engineering by developing superior products to increase the brightness and viewability of Flat Panel Displays (FPDs). These features can be added to or removed from a display, enabling custom design to meet unique customer needs.

Working with COTS displays, WEDC offers low-cost, high-performance, value-added solutions to customers. Strategic relationships with world-class AMLCD manufacturers position WEDC with the latest FPD technology.

Capabilities

Offering a full range of products and services, we provide individual components, subsystems, fully integrated systems, engineering solutions and niche manufacturing to meet customer display requirements.

Our patented Max-Vu™ technology is a process that accomplishes glass lamination in a cost-effective manner for many of today's commercial applications. Max-Vu provides improved viewability and enhanced environmental performance.



Without Max-Vu   With Max-Vu

Max-Vu can also be used to attach touch switches.

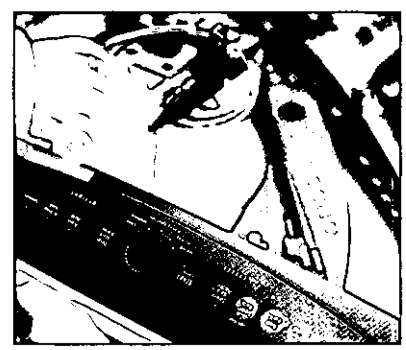
Max-Vu™ is a trademark of White Electronic Designs Corporation.

Interface Electronics

Located in Columbus, Ohio, our Interface Electronics division has an excellent reputation for superior reliability and high-durability products. We are a leading supplier of human interface solutions such as touch panels, membrane/elastomer keypads, flexible circuits, graphic overlays, Radio Frequency Identification (RFID) tags and complete electronic packages.

WEDC supports the growing touchscreen technology by designing and manufacturing both resistive and capacitive touchscreens. This advanced technology simplifies computer interface by enabling users to touch a computer screen or simulate a touch to enter or access data.

Extensive experience allows us to provide a complete turnkey package including design, manufacture, assembly and testing of products for custom applications. The result is a reliable, durable product that meets customer expectations.



Capabilities

Manufacturing capabilities include roll-to-roll, sheet and digital processes to support a full range of production requirements including quick-turn prototypes and high-volume needs. Further, we have the capability to incorporate electronic components, chips and value-added assemblies with our keypads and circuits.

Whether the component is surface mount, through-hole, or a combination of both, we can custom manufacture a wide array of engineering designs. Additional secondary operations use proprietary technologies, such as high temperature plastic dome-forming, to produce products that consistently surpass industry standard specifications.

Display Segment

Electromechanical Products

WEDC's Electromechanical Products division, located in Fort Wayne, Indiana, designs and manufactures interface devices and electromechanical assemblies that offer the highest quality and most cost-effective solutions for OEMs in military/aerospace markets.

We have the capability to incorporate the latest sensor technology with our electronic and display products to manufacture the total system. From initial concept through the manufacturing process, our integrated design and production team works with customers to provide an innovative, customized electronic product.

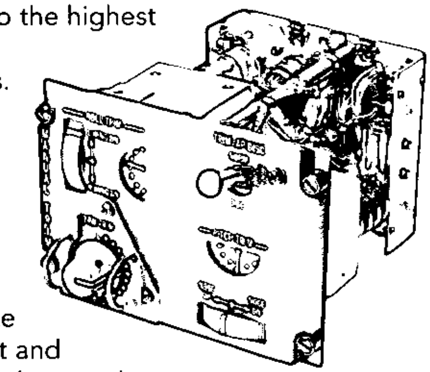
Capabilities

WEDC offers turnkey production service including component sourcing, assembly and full functional testing.

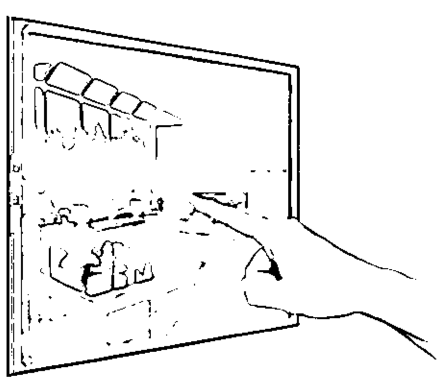
Manufacturing capabilities include: machine shop; precision assembly; environmental testing and finishing; prototype fabrication; integrated switch panels and keyboards; front panel assemblies; stand-alone terminals; complete box-build assembly and electronic contract manufacturing.

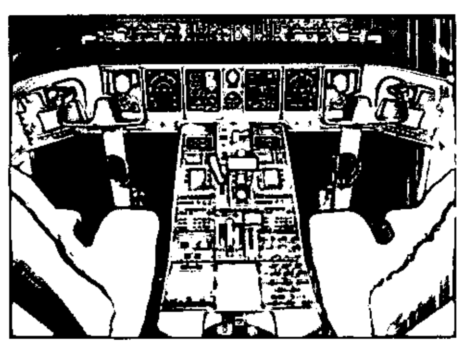
Electronic Contract Manufacturing

Electronic Contract Manufacturing is a complex field, demanding significant experience and resources. WEDC leverages its technical expertise and experience to implement electronic systems that reduce time and risk for customers' mission-critical projects. WEDC's products can be found worldwide in technical systems designed to operate to the highest levels of reliability in demanding conditions.



Our history of providing technology leadership in some of the world's most challenging environments enables us to minimize risk, maximize technology investment and deliver preeminent turnkey product development.





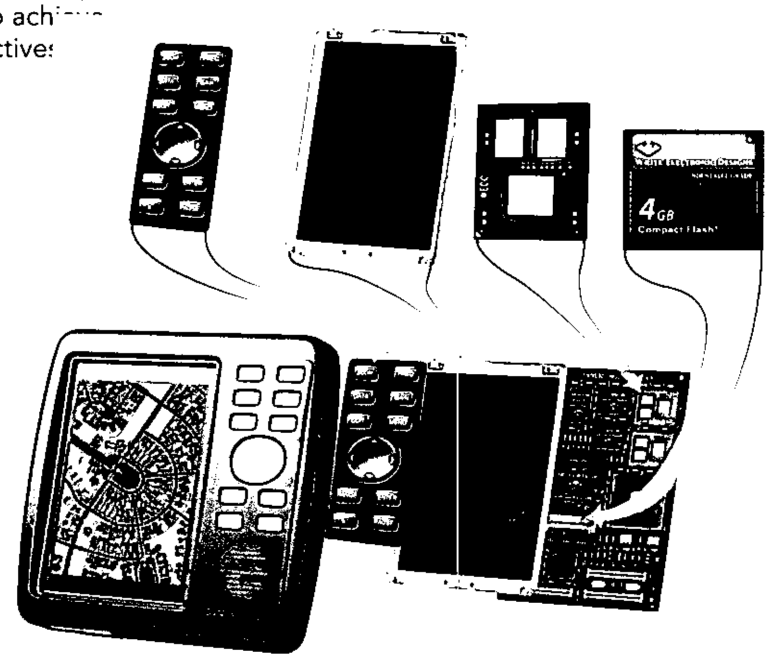
System Integration

System Integration

At WEDC, we have the capacity and expertise to create a complete solution for our customers. From the initial consulting and planning, to integrating and even managing technology solutions, we have the depth and experience to respond to unique challenges and opportunities.

Our systems integration expertise helps customers implement and integrate proven, state-of-the-art technologies to ach[illegible] specific business objective[illegible]

We leverage the collective knowledge and experience of our employees in order to create the most innovative solutions for our customers. Customers can select from our wide array of products, including memory modules, keypads, touch panel displays and product housings, to create their individual system.



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

Form 10-K

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

For the Fiscal Year Ended: September 30, 2006

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 1-4817

WHITE ELECTRONIC DESIGNS CORPORATION

(Exact name of registrant as specified in its charter)

Indiana	**35-0905052**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
3601 E. University Drive Phoenix, Arizona	**85034**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (602) 437-1520

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, stated value $.10 per share	The NASDAQ Stock Market, LLC

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 Exchange Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of 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 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $112,289,000 as of December 12, 2006, based upon the sale price on the NASDAQ Global Market reported for such date. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's common stock on December 12, 2006 was 24,668,340.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement prepared in connection with the 2007 Annual Meeting of Shareholders to be held on March 7, 2007 are incorporated by reference into PART III, Items 10, 11, 12, 13, and 14 of this Annual Report on Form 10-K.

TABLE OF CONTENTS

NOTE REGARDING FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

This Annual Report on Form 10-K ("Form 10-K"), including the "Management's Discussion and Analysis of Financial Condition and Results of Operations," and documents incorporated herein by reference contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995, as amended, provides a "safe harbor" for such forward-looking statements. The words "believe," "expect," "estimate," "anticipate," "intend," "may," "might," "will," "would," "could," "project" and "predict", or similar words and phrases regarding expectations, generally identify forward-looking statements.

We intend to qualify both our written or oral forward-looking statements made from time to time in connection with filings with the Securities and Exchange Commission ("SEC") or in public news releases for protection under the safe harbors discussed above. Forward-looking statements are based largely on management's expectations and because they are estimates, such statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and are beyond our control. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements, each of which speaks only as of the date the statement is made. Statements in this Form 10-K, including those set forth in the Notes to the Consolidated Financial Statements and the sections entitled "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and under the subheading entitled "Risk Factors," describe factors that could contribute to or cause actual results to differ materially from our expectations. Some factors that could cause actual results to differ materially from those expressed in such forward-looking statements include, but are not limited to:

- the loss of one or more principal customers or delays or cancellations of orders due to the impact of adverse business conditions on one or more principle customers;
- the failure of customers to accept our anti-tamper packaging or the development of improved anti-tamper packaging by competitors;
- the inability to procure required components and raw materials;
- any downturn in the semiconductor, electronics, home appliance, telecommunications or other markets in which we operate, which could cause a decline in selling unit prices;
- reductions in military spending or changes in the acquisition requirements for military products;
- the ability to locate appropriate acquisition candidates, negotiate an appropriate purchase price, and integrate into our business the people, operations, and products from acquired businesses;
- the inability to develop, introduce and sell new products or the inability to develop new manufacturing technologies;
- changes or restrictions in the practices, rules and regulations relating to sales in international markets; and
- a negative outcome in our current litigation or additional litigation complaints.

In addition, new factors, other than those identified in this Form 10-K, may emerge from time to time and it is not possible for management to predict all of these factors, nor can it assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from forward-looking statements. We do not undertake, and we specifically disclaim, any obligation to publicly update or review any forward-looking statement contained in this Form 10-K or in any document incorporated herein by reference, whether as a result of new information, future events or otherwise, except as required by applicable law.

PART I

ITEM 1 *BUSINESS*

GENERAL

We design, develop and manufacture innovative microelectronic and display components and systems for inclusion in high technology products for military, industrial and commercial markets. Our microelectronic solutions include advanced semiconductor and state of the art multi-chip packaging, as well as our proprietary process for applying anti-tamper protection to mission critical semiconductor components in military applications. Our display solutions include enhanced flat panel display products, interface devices and electromechanical assemblies. Our customers, which include military prime contractors in the United States and Europe as well as commercial original equipment manufacturers ("OEMs"), outsource many of their microelectronic and display components and systems to us as a result of the combination of our design, development and manufacturing expertise.

We are an Indiana corporation, originally incorporated in 1951 as Bowmar Instrument Corporation ("Bowmar"). On October 26, 1998, Bowmar merged with Electronic Designs, Inc. ("EDI"). In connection with the merger, Bowmar changed its name to White Electronic Designs Corporation. At the time of the merger, Bowmar was a manufacturer of high reliability electronic components and interface and mechanical devices, mainly for military applications. EDI was a manufacturer of commercial memory products for the telecommunications and data communications markets and also had a small "ruggedized" (manufactured to perform in harsh environments) display business serving the military and industrial market. The merger provided us with a diversified platform to expand our product offerings within both the military and commercial markets. In order to complement our military/industrial display business, we acquired Panelview, Inc. ("Panelview") in January 2001. Panelview was a designer and manufacturer of enhanced commercial flat panel display products. Following the acquisition, we consolidated our display operations into our Panelview subsidiary. In January 2003, we acquired Interface Data Systems, Inc. ("IDS"), a designer and manufacturer of membrane keypads, flexible circuits, sensors, control panels and handheld and desktop electronic devices. This acquisition allowed us to expand our interface device product offerings and enhance our subsystem solutions. In addition, with IDS' design and manufacturing capabilities, we can offer fully integrated system level solutions. In September 2003, we completed our consolidation of manufacturing operations for our commercial memory microelectronic products by moving operations from our former facility in Marlborough, Massachusetts to our IDS facility in Phoenix, Arizona. In October 2004, we made the decision to consolidate our two Phoenix locations and sell the IDS facility and land, which is actively being marketed for sale. We completed the consolidation in the second quarter of fiscal 2006.

We are headquartered in Phoenix, Arizona. Our mailing address is 3601 E. University Drive, Phoenix, Arizona, 85034, and our telephone number at that location is (602) 437-1520. Our website, which contains links to our financial information and our filings with the SEC, is www.wedc.com. Unless otherwise indicated in this Form 10-K, "White Electronic Designs," "us," "we," "our," "the Company" and similar terms refer to White Electronic Designs Corporation and its subsidiaries as a whole.

BUSINESS SEGMENTS

We have two business segments, each of which requires different design and manufacturing resources and generally serves customers in different markets. The microelectronic segment accounted for approximately 55% of our total sales in fiscal 2006, while the display segment accounted for approximately 45% of our total sales in fiscal 2006. Financial information for our business segments is disclosed in Note 17 of the Notes to the Consolidated Financial Statements.

MICROELECTRONIC SEGMENT

Our microelectronic segment manufactures semiconductor multi-chip packaged products primarily for memory storage. Our products in the microelectronic segment are generally sold to military prime contractors and commercial OEMs in the aerospace, defense, military equipment, computer networking and telecommunication/ datacommunication industries. Certain industries require these semiconductor parts to pass specific qualifications due to the application requirements for those products. A commercial grade product generally meets the standard of industries such as the consumer electronic, computer networking and telecommunication/data-communication industries. Higher performing products, also known as high-reliability products, are needed in certain industries, such as aerospace, defense, and military equipment and systems, and are often referred to as "military" products. Military products are designed to meet more stringent standards and are resistant to adverse conditions, such as high and low temperature extremes. High-reliability products can also be used in commercial and industrial applications where products are exposed to harsh conditions.

We address both military and commercial market opportunities with advanced semiconductor packaging and microelectronic modules and assemblies. We believe our microelectronic products generally provide our customers with the following advantages over standard technology:

- significant space savings and size advantages;
- improved power and electrical performance; and
- improved component compatibility.

In addition, our microelectronic segment includes our anti-tamper security processing for mission critical semiconductor components in military applications. We are one of a limited number of licensees for anti-tamper technology for microelectronic products and have developed a proprietary process for applying anti-tamper protection for such applications. We believe our process offers greater scalability and higher yields than those of our competitors.

The following table describes the key products that we sell in the microelectronic segment and some of their applications:

Product	Sample Application
Military/Industrial:	
• System on a substrate	• Counter-measure suite of the F-16 Fighting Falcon
• Microprocessor modules	• Air-to-air missiles, such as the Sidewinder AIM-9X and AIM-120 AMRAAM
	• Embedded computers used in the Apache Helicopter, Advanced Amphibious Assault Vehicle and the Abrams M1A2 Tank
• Memory modules	• Air-to-air missiles, such as the Sidewinder AIM-9X and AIM-120 AMRAAM
	• Embedded computers used in the F-22 Raptor and Patriot PAC-3 Missile System
	• Radar used in the F/A-18 Hornet
	• Joint Strike Fighter, F-35
	• European Typhoon Fighter Aircraft (EFA)
• Anti-tamper technology	• Various military programs
Commercial:	
• Multi-chip package	• Telephone, data, and video communications
• SDRAM/DDR II memory modules	• High-end servers for networking and ERP systems
	• Wireless CDMA base stations
• Flash/SRAM memory PC card	• Linear Flash PCMCIA Cards
• Microelectronic system boards	• Home entertainment consoles
	• Hotel entertainment systems
• Compact Flash	• Medical, embedded computing

Backlog

The backlog for microelectronic products, represented by firm customer purchase orders, was approximately $33.4 million and $33.1 million at the end of fiscal years 2006 and 2005, respectively. While overall backlog has not changed significantly, we had higher military orders as we have seen a return to more traditional levels of military spending since the second half of fiscal 2005, which offset a decrease in commercial orders. Approximately 66% of the segment's fiscal year-end 2005 backlog was shipped during fiscal 2006 with the remaining backlog scheduled for shipment in fiscal 2007 or beyond. Approximately 69% of the fiscal 2006 year-end backlog is planned for shipment during fiscal 2007 with the remaining backlog scheduled for shipment in fiscal 2008 and beyond. The backlog after fiscal 2007 is a result of customer scheduling requirements for high-reliability products and not constraints on our capacity.

Competition

In the microelectronic product markets, we compete primarily based on performance, quality, durability and price. We have a number of present and potential competitors, including customers, many of which have greater financial, technical, marketing, distribution and other resources than we do.

Our principal competitors in the military microelectronic product markets are divisions of Aeroflex Corporation, Austin Semiconductor and Teledyne Microelectronics Group. Our principal competitors in the commercial microelectronic product markets are Simple Technology, Smart Module Technology, Crucial Technology, a division of Micron Semiconductor and Samsung Memory Modules, a division of Samsung. We also compete with manufacturers that provide single chip microelectronic products.

DISPLAY SEGMENT

The display segment serves a number of markets with products and solutions that are incorporated into tablet PCs, global positioning systems, automated teller machines, point-of-service ("POS") order confirmation displays, home appliances, consumer electronics, medical devices, outdoor displays, military and commercial avionics and various other military applications. Our products in the display segment are generally sold to the high-end industrial markets, including commercial avionics. Our display solutions include enhanced viewing liquid crystal flat panel display products, interface devices and electromechanical assemblies. Enhanced viewing liquid crystal displays and sunlight readable displays can be used in either ruggedized or commercial applications. Ruggedized displays are manufactured to perform in harsh environmental conditions, while commercial display products offer greater viewing performance than off-the-shelf displays but are not designed for harsh environmental conditions. Interface devices include electromechanical components and instrument packages that can consist of ruggedized keyboards, aircraft trim panels, rotating devices, mechanical packages, membrane keypads, silver flexible circuits, graphic overlays, control panels and keypad/controller assemblies.

We enhance standard flat panel displays using patented, proprietary and commercially available technology. We believe our enhanced display products offer several benefits, including:

- Increased viewability (anywhere viewable); increased visibility in bright light conditions (Max-Vu™);
- Increased visibility in bright light conditions; super bright low reflectance (SBLR™);
- Ability to withstand heavy vibration and extreme temperatures; and
- Wider viewing angles.

Additionally, we combine various display, keyboard, and other components and their supporting electronics into fully integrated solutions for our customers.

The following table describes key products that we sell in the display segment and some of their applications:

Product	Sample Application
Military/Industrial:	
• Mechanical components	• Impulse counters, altitude counters, rounds counters, logicator F-16 trim panel
• Super bright low reflectance technology (SBLR) & Max-Vu™ technology	• Ground based vehicles, such as the Abrams M1A2 Tank • Aircraft displays, such as the Apache Helicopter and the F-16 Fighting Falcon • Cockpit instrumentation; marine navigation • Global positioning systems (GPS)
Commercial:	
• Max-Vu™ process technology	• Mobile Personal Computers ("PC"), Tablet PCs
• Display module assembly	• Patient monitors
• Optically enhanced displays	• Drive-thru kiosks; medical instruments; Point-of-Service (POS) terminals; notebook PCs; automotive test equipment
• Membrane keypads	• Home appliances
• Keypad modules	• Hand-held barcode applications

Backlog

The display segment backlog, represented by firm customer purchase orders, was approximately $19.2 million and $20.2 million at the end of fiscal years 2006 and 2005, respectively. The decrease from the previous year is attributable to the timing of orders and shipments as we shipped $2.9 million more in the fourth quarter of fiscal 2006 as compared to the fourth quarter of fiscal 2005. Approximately 78% of this segment's fiscal 2005 year-end backlog was shipped during fiscal 2006 while the remaining backlog is scheduled for shipment in fiscal 2007 and beyond. Approximately 91% of the fiscal 2006 year-end backlog is expected to be shipped during fiscal 2007, with the remaining backlog scheduled for shipment in fiscal 2008 and beyond. The backlog after fiscal 2007 is a result of customer scheduling requirements for display and military mechanical products and not constraints on our capacity.

Competition

The principal elements of competition among display product suppliers are display performance (e.g., brightness, color capabilities, contrast and viewing angle), size and weight, design flexibility, power usage, durability, ruggedness and cost. While the primary competition for the active matrix liquid crystal display ("AMLCD") is currently cathode ray tube displays, our products compete with other flat panel displays including gas plasma and electro-luminescent displays. We believe that price, product reliability and the ability to meet delivery schedules are key competitive factors. In all phases of our operations, we compete primarily based on performance, quality, durability and price. We have a number of present and potential competitors, including customers, many of which have greater financial, technical, marketing, distribution and other resources than we do.

In both the military and commercial markets for the display segment, we compete with numerous companies, such as Global Display Solutions, Planar Systems, and Polarvision, a division of E. I. Du Pont De Nemours & Co. We also experience significant competition from the internal capabilities of our current and potential customers. Commercial customers may also choose to use standard commercially available display products rather than our enhanced display products. The marketplace for commercial interface components is highly fragmented with numerous companies offering similar products, such as Molex and Durell, as well as competition from companies in Asia.

SALES, MARKETING AND DISTRIBUTION

We use an integrated sales approach to closely manage relationships at multiple levels of the customer's organization, including management, engineering and purchasing personnel. This approach involves a team consisting of a senior executive, a business development specialist, and members of our engineering department. Our sales team consists of approximately 35 people, including 7 sales managers. Our use of experienced engineering personnel as part of the sales effort enables close technical collaboration with our customers during the design and qualification phase of new equipment. We believe that this is critical to the incorporation of our products into our customers' equipment. Some of our executive officers are actively involved in key aspects of our relationships with our major customers and work closely with our customers' senior management. We also use manufacturers' representatives, independent sales representatives and distributors as needed.

The military sales cycle, and certain commercial product sales, tends to be long in nature with a protracted design phase. Once a product is designed into a military system, it is typically sole-sourced to a particular supplier. Due to the extensive qualification process and potential redesign required for using an alternative source, customers are reluctant to change the incumbent supplier. Our business is affected by certain seasonality factors. Our membrane keypad business is subject to seasonal fluctuations relating to home appliance sales. Additionally, our military orders tend to follow the government's fiscal year, which is consistent with ours, with lower orders in the first half of the fiscal year and higher orders in the second half of the fiscal year.

Our products are sold with a warranty which differs in terms and conditions depending on the product and customer. Our products may be subject to repair or replacement during the warranty period.

PRINCIPAL CUSTOMERS

Our customers consist mainly of military prime contractors and commercial OEMs, and the contract manufacturers who work for them, in the United States, Europe and Asia. Our segments have common customers, mainly in the aerospace defense industry. Sales to military customers accounted for approximately $52.3 million, or 48%, of our net sales in fiscal 2006 as compared to approximately $49.3 million, or 42%, in fiscal 2005. Sales to our commercial customers accounted for approximately $56.6 million, or 52%, of our net sales in fiscal 2006, as compared to approximately $67.7 million, or 58%, in fiscal 2005.

In fiscal 2006, 2005 and 2004, no customer accounted for more than 10% of our total net sales. In fiscal 2006, Hewlett Packard Company accounted for 18% of display segment net sales, while On Command Corporation accounted for 12% of microelectronic segment net sales. In fiscal 2005, NCR Corporation accounted for 18% of display segment net sales, while On Command Corporation accounted for 15% of microelectronic net sales. In fiscal 2004, Whirlpool Corporation accounted for 12% of display segment net sales. No one customer accounted for more than 10% of microelectronic net sales in fiscal 2004.

Total foreign sales for fiscal 2006, 2005 and 2004 were approximately $31.1 million, $20.7 million and $18.4 million, respectively. Additional information concerning sales by geographic area can be found in Note 17 of the Notes to the Consolidated Financial Statements.

RESEARCH, ENGINEERING AND PRODUCT DEVELOPMENT

Our research and development efforts primarily involve engineering and design relating to:

- developing new products;
- improving existing products;
- adapting existing products to new applications; and
- developing prototype components for specific programs.

Some of our product development costs are recoverable under contractual arrangements; however, the majority of these costs are self-funded. Our research and development expenditures approximated $6.6 million, $5.6 million and $6.0 million in fiscal 2006, 2005 and 2004, respectively. We believe that strategic investment in process technology and product development is essential for us to remain competitive in the markets we serve. We are committed to maintaining appropriate levels of expenditures for product development.

REGULATORY MATTERS

Government Contracting Regulations

A significant portion of our business is derived from subcontracts with prime contractors of the United States government. As a United States government subcontractor, we are subject to federal contracting regulations. Our extensive experience in the defense industry enables us to handle the strict requirements that accompany these contracts.

Under federal contracting regulations, the United States government is entitled to examine all of our cost records with respect to certain negotiated contracts or contract modifications for three years after final payment on such contracts to determine whether we furnished complete, accurate, and current cost or pricing data in connection with the negotiation of the price of the contract or modification. The United States government also has the right after final payment to seek a downward adjustment to the price of a contract or modification if it determines that the contractor failed to disclose complete, accurate and current data. Historically, we have not experienced any such downward adjustments.

In addition, the Federal Acquisition Regulations govern the allowability of costs incurred by us in the performance of United States government contracts to the extent that such costs are included in its proposals or are allocated to United States government contracts during performance of those contracts.

Our subcontracts provide that they may be terminated at the convenience of the United States government. Upon such termination, the contractor is normally entitled to receive the purchase price for delivered items, reimbursement for allowable costs incurred and allocable to the contract, and an allowance for profit on the allowable costs incurred or adjustment for loss if completion of performance would have resulted in a loss. In addition, our subcontracts provide for termination for default if we fail to perform or breach a material obligation of a subcontract. In the event of a termination for default, the customer may have the unilateral right at any time to require us to return unliquidated progress payments pending final resolution of the propriety of the termination for default. We may also have to pay the excess, if any, of the cost of purchasing a substitute item from a third party. If the customer has suffered other ascertainable damages as a result of a sustained default, the customer could demand payment from us of such damages. Historically, we have not experienced any such terminations.

In connection with our United States government business, we are also subject to government investigations of our policies, procedures, and internal controls for compliance with procurement regulations and applicable laws. We may be subject to downward contract price adjustments, refund obligations or civil and criminal penalties. In certain circumstances in which a contractor has not complied with the terms of a contract or with regulations or statutes, the contractor might be debarred or suspended from obtaining future contracts for a specified period of time. Any such suspension or debarment would have a material adverse effect on our business.

It is our policy to cooperate with the government in any investigations of which we have knowledge, but the outcome of any such government investigations cannot be predicted with certainty. We believe we have complied in all material respects with applicable government requirements.

Environmental Protection

Our compliance with federal, state and local laws or regulations, which govern the discharge of materials into the environment, has not had a material adverse effect upon our capital expenditures, earnings or competitive position within our markets.

International Trade Regulations

We must comply with laws concerning the export of material used exclusively for military purposes. The export of these types of materials is covered under International Traffic in Arms Regulations ("ITAR") laws. We applied for and received a four year license in December 2003 that allows us to export materials covered under these regulations.

RAW MATERIALS

The most significant raw materials that we purchase for our operations are memory devices in wafer, die and component forms for our microelectronic segment and AMLCDs for our display segment. We are highly dependent on one static random access memory ("SRAM") and one dynamic random access memory ("DRAM") semiconductor manufacturer for memory devices and one package manufacturer of ceramic packages for military components. We are also highly dependent on certain suppliers for our AMLCDs and DRAM for particular customers due to their product specifications. Despite the risks associated with purchasing from single sources, or from a limited number of sources, we have made the strategic decision to select single source or limited source suppliers in order to obtain lower pricing, receive more timely delivery and maintain quality control. We buy the same types of material components typically used in the commercial commodity markets which we enhance through packaging, testing, and other processes. As a result, we have to monitor the supply and demand and proactively plan our purchases. We have long-standing strategic relationships with world class semiconductor and display suppliers. Because of these capabilities and relationships, we believe we can continue to meet our customers' requirements. In cases where unanticipated customer demand or supply shortages occur, we attempt to arrange, through strategic relationships with our semiconductor suppliers, for alternative sources of supply, where available, or defer planned production to meet anticipated availability of critical components or materials. We do not have specific long-term contractual arrangements with our vendors but believe we have good relationships with them.

INTELLECTUAL PROPERTY

We rely upon trade secrets, technical know-how and continuing technological innovation to develop and maintain our competitive position. The products we sell from both our microelectronic segment and our display segment require a large amount of engineering design and manufacturing expertise. The majority of these technological capabilities, however, are not protected by patents and licenses. We rely on the expertise of our employees and our learned experiences in both the design and manufacture of our products. It is possible, and it has occurred in the past, that a competitor may also learn to design and produce products with similar performance abilities as our products. As competitors do so, it may result in increased competition and a reduction of sales for our products.

Our trade secret protection for our technology, including our process for applying anti-tamper protection to microelectronic products, is based in part on confidentiality agreements that we enter into with our employees, consultants and other third parties. However, these parties may breach these agreements, and since many agreements are made with companies much larger than us, we may not have adequate financial resources to adequately enforce our rights. Others may also come to know about or determine our trade secrets. In addition, the laws of certain territories in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent as the laws of the United States.

We were issued one new patent (patent #7,087,847) from the United States Patent and Trademark Office during fiscal 2006 for our Elastomer Keypad and Bezel technology. This patent expires in November 2023. We have applied for six other patents, three of which relate to our anti-tamper manufacturing process, which are currently under review.

EMPLOYEES

As of November 30, 2006, we had approximately 424 employees, including 35 in sales, 12 in marketing, 56 in research, development and engineering, 268 in manufacturing and quality assurance, and 53 in general and administrative. Approximately 32 of our employees in the display segment are employed pursuant to a three year collective bargaining agreement covering workers at our Fort Wayne, Indiana facility that was ratified on November 24, 2004. We believe our relationship with our employees is good.

FINANCIAL INFORMATION BY GEOGRAPHIC SEGMENT

See Note 17 of the Notes to the Consolidated Financial Statements for information relating to foreign sales by geographic segment.

ITEM 1A *RISK FACTORS*

We are dependent on sales to defense-related companies for a large portion of our net sales and profits, and changes in military spending levels and patterns could negatively affect us.

Our current orders from defense-related companies account for a material portion of our overall net sales and military spending levels depend on factors that are outside of our control. Reductions or changes in military spending could have a material adverse effect on our sales and profits.

For instance, government contracts are conditioned upon the continuing availability of Congressional appropriations. Congress typically appropriates funds for a given program on a fiscal-year basis even though contract performance may take more than one year. As a result, at the beginning of a major program, a contract is typically only partially funded, and additional monies are normally committed to the contract by the procuring agency only as Congress makes appropriations available for future fiscal years.

While we had consistent bookings in fiscal 2006, no assurances can be given that this trend will continue going forward. We believe that because of the unexpected length and cost of the war in Iraq and as part of a broad overhaul of U.S. priorities, funds for weapons and equipment have been reallocated away from high technology programs to areas that we do not supply, such as personnel and infrastructure in support of the war's operations. In addition, the United States defense industry is moving toward the purchase of commercial off-the-shelf products rather than those designed and manufactured to higher military specifications. To the extent that our products are substituted with commercial off-the-shelf products, our operations would suffer. Even if military spending continues to increase, these shifts in military spending would also negatively affect our sales and profits. In addition, we obtain many U.S. government contracts and subcontracts through the process of competitive bidding. We may not be successful in having our bids accepted. Ultimately, our sales and profit connected to military spending and defense-related companies are subject to many factors that are beyond our control and trends and events that are difficult to predict.

Our goodwill has been impaired, and may become impaired in the future.

We have goodwill resulting from our acquisitions, specifically Panelview and IDS. At least annually, we evaluate this goodwill for impairment based on the fair value of the related reporting units. This estimated fair value could change if there were future changes in our capital structure, cost of debt, interest rates, capital expenditure levels, ability to perform at levels that were forecasted or a permanent change to the market capitalization of our company. These changes have in the past, and may in the future, result in an impairment that would require a material non-cash charge to our results of operations. In the third quarter of fiscal 2006, we recorded an impairment of goodwill to our interface electronics reporting unit in Columbus, Ohio. Our annual review of goodwill in the fourth quarter of fiscal 2005 resulted in the impairment of goodwill to our commercial microelectronic reporting unit in Phoenix and our display reporting unit in Oregon. See Notes 2 and 7 of the Notes to the Consolidated Financial Statements for additional information.

We have made and may make other acquisitions and cannot assure you that any potential acquisition will be successful.

We are looking for strategic opportunities to grow and diversify our product offerings through acquisitions. There can be no assurance that we will be successful in identifying appropriate acquisition candidates or integrating products and operations with any such candidates that we may acquire. Any such acquisitions could involve the dilutive issuance of equity securities and/or the incurrence of debt. In addition, acquisitions may involve numerous additional risks, including:

- exposure to unanticipated liabilities of an acquired company;
- the potential loss of key customers or key personnel of an acquired company;
- the recording of goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges;
- the diversion of the attention of our management team from other business concerns;

- the risk of entering into markets or producing products where we have limited or no experience, including the integration of the purchased technologies and products with our technologies and products; and
- our ability to assess, integrate and implement internal controls of an acquired company in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.

Even when an acquired company has already developed and marketed products, there can be no assurance that the products will continue to be successful, that product enhancements will be made in a timely fashion or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to the acquired company or its products.

Our customers may cancel their orders, change production quantities or delay production at any time, which could materially reduce our net sales and operating results.

We generally do not receive firm, long-term purchase commitments from our OEM customers. Customers may cancel their orders, change production quantities or delay production for a number of reasons. At times, our customers' industries experience significant decreases in demand for their products and services. The generally uncertain economic condition of several of the industries of our customers has resulted, and may continue to result, in some of our customers delaying the delivery of some of the products we manufacture for them, and placing purchase orders for lower volumes of products than originally anticipated. Cancellations, reductions or delays by a significant customer or by a group of customers would seriously harm our results of operations for a period by reducing our net sales in that period. In addition, because many of our costs and operating expenses are fixed, a reduction in customer demand could harm our gross profit and operating income.

We have a concentrated customer base and, as a result, our net sales could decline significantly if we lose a major customer.

A large portion of our net sales has been derived from sales to a small number of our customers. Our five largest customers accounted for approximately 28% of our net sales in fiscal 2006 and fiscal 2005. Our customers are not subject to any minimum purchase requirements and can discontinue the purchase of our products at any time. In the event one or more of our major customers reduces, delays or cancels orders with us, and we are not able to sell our services and products to new customers at comparable levels, our net sales could decline significantly. In addition, any difficulty in collecting amounts due from one or more key customers would negatively impact our results of operations.

We depend on military prime contractors and commercial OEM customers for the sale of our products and the failure of these customers to achieve significant sales of products incorporating our components would reduce our net sales and operating results.

We sell substantially all of our products to military prime contractors and commercial OEMs. The timing and amount of sales to these customers ultimately depend on sales levels and shipping schedules for the products into which our components are incorporated. We have no control over the volume of products shipped by our military prime contractors and commercial OEM customers or shipping dates, and we cannot be certain that our military prime contractors and OEM customers will continue to ship products that incorporate our components at current levels or at all. Our business will be harmed if our military prime contractors and OEM customers fail to achieve significant sales of products incorporating our components or if fluctuations in the timing and volume of such sales occur. Failure of these customers to inform us of changes in their production needs in a timely manner could also hinder our ability to effectively manage our business.

We depend on the continuing trend of outsourcing by commercial OEMs and prime military contractors, which is subject to factors beyond our control.

Our net sales and future growth in our net sales depend in part on outsourcing, in which we assume additional manufacturing and supply chain management responsibilities from commercial OEMs and military prime contractors. To the extent that these opportunities are not available, either because commercial OEMs or military prime contractors decide to perform these functions internally, or because they use other providers of these services, our results of operations may be adversely affected.

Our failure to comply with United States government laws and regulations would reduce our ability to be awarded future military business.

We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts as passed down to us by our customers in their purchase orders, which affects our military business and may impose added cost on our business. We are subject to government investigations (including private party "whistleblower" lawsuits) of our policies, procedures, and internal controls for compliance with procurement regulations and applicable laws. If a government investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including the termination of our contracts, the forfeiture of profits, the suspension of payments owed to us, fines, and our suspension or debarment from doing business with federal government agencies. In addition, we could expend substantial amounts defending against such charges and in damages, fines and penalties if such charges are proven or result in negotiated settlements. Since military sales account for a significant portion of our business, any debarment or suspension of our ability to obtain military sales would greatly reduce our overall net sales and profits, and would likely affect our ability to continue as a going concern.

We may have an adverse resolution of litigation which may harm our operating results or financial condition.

We are a party to lawsuits in the normal course of our business. In addition, we are defendants in several shareholder class action lawsuits. Litigation can be expensive, lengthy, and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition. For additional information regarding certain of the lawsuits in which we are involved, see Item 3, "Legal Proceedings," contained in Part I of this report.

We may fail to meet expectations because our net sales, gross profits and net income will fluctuate from period to period.

Our operating results have varied in the past and will likely continue to fluctuate. In connection with our business, a wide array of factors could cause our net sales, gross profits and net income to fluctuate in the future from period to period. In addition to other factors mentioned in this report, primary factors that might affect our results of operations in this regard include:

- our inability to adjust expenses for any particular quarter in response to net sales shortfalls because a substantial component of our operating expenses are fixed costs;
- the cyclical nature of the markets in which we serve, in particular with respect to our membrane keypad business;
- any adverse changes in the mix of products and types of manufacturing services that we provide (e.g., high volume and low complexity commercial keypads have lower gross margins than high complexity microelectronic devices for defense contractors);
- the complexity of our manufacturing processes and the sensitivity of our production costs to declines in manufacturing yields, which make yield problems both possible and costly when they occur;
- expenses associated with acquisitions; and
- general economic conditions.

As a result of any of these or other factors, we could fail to achieve our expectations as to future net sales, gross profits and net income. Any downward fluctuation or failure to meet expectations will likely adversely affect the value of an investment in our securities. Due to the foregoing factors, it is likely that in some future periods our operating results will be below the expectations of public market analysts and investors and, as a result, the market price of our common stock may decline.

We have a lengthy sales cycle, which increases the likelihood that our quarterly net sales will fluctuate and which may, in turn, adversely affect the market price of our common stock.

Due to the complexity of our technology, our customers perform, and require us to perform, extensive process and product evaluation and testing, which results in a lengthy sales cycle. Our sales cycles often last for several months, and may last for up to a year or more. As a result of this lengthy sales cycle, our net sales and operating results may vary unpredictably from period to period. This fact makes it more difficult to forecast our quarterly results and can cause substantial variations in operating results from quarter to quarter that are unrelated to the long-term trends in our business. This lack of predictability and variability in our results could adversely affect the market price of our common stock in particular periods.

Our failure to detect unknown defects in our products could materially harm our relationship with customers, our reputation and our business.

Notwithstanding the testing that we perform on our products, defects could be found in our existing or new products. These defects could result in product liability or warranty claims. In addition, any defects found in our products could result in a loss of net sales or market share, failure to achieve market acceptance, injury to our reputation, indemnification claims, litigation, increased insurance costs and increased service costs, any of which could discourage customers from purchasing our products. Although we maintain a warranty reserve, we cannot be certain that this reserve will be sufficient to cover our warranty or other expenses that could arise in the future as a result of defects found in our products.

Our operating results could be seriously harmed if the markets in which we sell our products do not grow.

Our continued success depends in large part on the continued growth of various market sectors that use our products, including the following:

- defense and aerospace equipment;
- computers and computer related peripherals;
- medical electronics and equipment;
- home appliances and consumer electronics;
- industrial controls; and
- telecommunication/datacommunication equipment.

Slow growth in these markets in which we sell our products could reduce our sales, adversely affecting our business, financial condition and results of operations. For example, decreases in demand in the consumer electronics and home appliance markets, could negatively impact our sales and profits for our subsidiary, IDS.

Further downturns in the industries in which we operate could reduce the value of our inventories and cause a reduction in our profits.

In the past, we have experienced reductions in the value of our inventories due to unexpected demand declines, resulting from a softening of the semiconductor and telecommunications industries. Such declines have caused us to write down several million dollars worth of inventory, which greatly reduced our profits for the given period. If any of the markets in which our customers operate suffers a decline, we may be forced to write down existing inventory, which could adversely affect our results of operations.

We use manufacturing resources in Asia and Mexico, which limits our control of the manufacturing process.

As part of our strategy to decrease manufacturing costs, we outsource some of our manufacturing requirements to strategic partners in Taiwan, China, the Philippines and Mexico. Outsourcing, particularly with international manufacturers, carries certain risks, including:

- the outsourcing contractors' ability to manufacture products that meet our technical specifications and that have minimal defects;
- the outsourcing contractors' ability to honor their product warranties;
- the financial solvency, labor concerns and general business condition of our outsourcing contractors;
- unexpected changes in and the burdens and costs of compliance with a variety of foreign laws and regulatory requirements;
- increased chances of our intellectual property being infringed as a result of the failure of foreign governments to enforce the protection of intellectual property rights;
- political and economic instability in overseas locations; and
- global health related matters, such as SARS, Avian Flu and other health concerns.

We are dependent on international markets for a large portion of our purchases and sales.

Foreign suppliers of semiconductor and display related materials are regularly threatened with, or involved in, pending trade disputes and sanctions. If trade disputes or sanctions arise that affect our suppliers, we may be unable to obtain access to critical sources of raw materials that we need to produce our products, in which event our business could be adversely affected.

We anticipate that our foreign sales will continue to account for a significant portion of our net sales. If the United States government placed restrictions on exporting military technology using our products in countries where we have customers, or vendors, it could cause a significant reduction in our sales. Our foreign sales are subject to the following risks:

- fluctuations in foreign currencies, which may adversely affect the prices of our products and the prices of raw materials used in our products;
- trade disputes;
- changes in regulatory requirements, license requirements, tariffs and other trade barriers;
- the possibility of quotas, duties, taxes or other changes or restrictions upon the importation or exportation of our products implemented by the United States government or foreign governments;
- the timing and availability of export or other licenses;
- general political and economic conditions in the countries in which we sell our products;
- language and other cultural differences which may inhibit our sales and marketing efforts;
- costs of complying with a variety of foreign laws;
- difficulty of accounts receivable collections;
- increased chances of our intellectual property being infringed as a result of the failure of foreign governments to enforce the protection of intellectual property rights; and
- public health issues that could disrupt local economies.

If we are unable to retain employees with key technical expertise or we are otherwise unable to protect our intellectual property, or if we are found to have infringed third party intellectual property rights, our financial condition and future prospects could be materially harmed.

The products that we sell from both our microelectronic segment and our display segment require a large amount of engineering design and manufacturing expertise. However, the majority of our technological capabilities are not protected by patents and licenses. We rely on the expertise of our employees, and our learned experiences in both the design and manufacture of our products. If we were to lose one or more of our key employees, then we would likely lose some portion of our institutional knowledge and technical know-how. It is possible, and it has occurred in the past, that a competitor may also learn to design and produce products with similar performance abilities as our products. If a competitor were to do so, it may result in increased competition, and a reduction of sales for our products.

We rely on trade secret protection for most of our proprietary technology, in part through confidentiality agreements with our employees, consultants and third parties. If any of these agreements are found to be unenforceable, we may be unable to adequately protect our technology. If any of these agreements are breached, especially by companies much larger than us, we may not have adequate financial resources to adequately enforce our rights. Also, others may come to know about or determine our trade secrets. In addition, the laws of certain territories in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent as the laws of the United States.

While we are currently not aware of any claims against us for the infringement of intellectual property rights, any such claim could divert the efforts of our technical and management personnel and require us to spend significant resources to develop or otherwise obtain non-infringing technology. Any successful claim against us would likely require us to pay substantial damages or cease the use and sale of infringing products, or both.

Our business is dependent upon retaining key personnel and attracting new employees.

Our success depends to a significant degree upon the continued contributions of our senior management and other key personnel. The loss of the services of any of our senior management or other key personnel could adversely affect our business. We may not be able to retain these employees and searching for their replacements could divert the attention of other senior management and increase our operating expenses. Of our current executive officers, only Hamid Shokrgozar, our Chief Executive Officer, has an employment contract with us. We currently do not maintain any key person life insurance. To manage our operations effectively, we may need to hire and retain additional qualified employees including in the areas of product design, engineering, operations management, manufacturing production, sales, accounting and finance. We may have difficulty recruiting these employees or integrating them into our business.

Our failure to comply with environmental regulations could subject us to costs and production delays.

We currently use limited quantities of hazardous materials common to our industry in connection with the production of our products. We must follow federal, state and local environmental laws and regulations regarding the handling, storage and disposal of these materials. To our knowledge, we are currently in material compliance with all federal, state and local environmental laws and regulations regarding the handling, use, storage and disposal of these materials. We could be subject to fines, suspensions of production, alteration of our manufacturing processes or interruption or cessation of our operations if we fail to comply with present or future laws or regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing processes. These regulations could require us to acquire expensive remediation equipment or to incur other expenses to comply with environmental regulations. Our failure to control the handling, use, storage or disposal of, or adequately restrict the discharge of, hazardous substances could subject us to liabilities and production delays, which could cause us to miss our customer's delivery schedules, thereby reducing our sales for a given period. We may also have to pay regulatory fines, penalties or other costs (including remediation costs), which could materially reduce our profits.

If our selling prices decline and we fail to reduce our costs, our sales and operating results will decline.

Even in the absence of cyclical conditions, the average selling prices of our products have historically decreased during the products' lives, and we expect this trend to continue, especially with respect to sales in the commercial markets. In order to offset these average selling price decreases, we attempt to decrease manufacturing costs, and introduce new, higher priced products that incorporate advanced features. If these efforts are not successful, we will not be competitive because we will not be able to remain profitable at decreased selling prices, possibly leading to our exit from certain market sectors.

In addition to following the general pattern of decreasing average selling prices, the selling prices for certain products, particularly DRAM, Double Data Rate II ("DDR II") products and liquid crystal displays ("LCDs"), fluctuate significantly with real and perceived changes in the balance of supply and demand for these products. If we are unable to decrease per unit manufacturing costs faster than the rate at which average selling prices continue to decline, our business, financial condition and results of operations will be seriously harmed. In addition, we expect our competitors to invest in new manufacturing capacity and achieve significant manufacturing yield improvements in the future. These developments could result in a dramatic increase in worldwide supply and result in associated downward pressure on prices.

If we fail to develop, introduce and sell new products or fail to develop and implement new manufacturing technologies, our operating results could be adversely affected.

We operate in a highly competitive, quickly changing environment marked by rapid obsolescence of existing products. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities, make required capital investments, design, develop, manufacture, market and sell services and products that meet our customers' changing needs, and successfully anticipate or respond to technological changes on a cost effective and timely basis. Our sales will be reduced, either through loss of business to our competitors or discontinuance of our products in the market, if any of the following occur:

- we fail to complete and introduce new product designs in a timely manner;
- we are unable to design and manufacture products according to the requirements of our customers;
- our customers do not successfully introduce new systems or products incorporating our products;
- market demand for our new products does not develop as anticipated;
- we are unable to obtain raw materials in a timely manner or at favorable prices; or we are unable to maintain pricing to sustain or grow our gross margins.

In particular, many of our display products have been developed based on products procured from Sharp Electronics Corporation. Our competitors in the enhanced display products market are investing substantial resources to develop flat panel displays using alternative technologies. If our competitors are successful in developing new products that offer significant advantages over our products, and we are unable to improve our technology or develop or acquire alternative technology that is more competitive, we will lose business to our competitors and our sales and profits from the display segment will be greatly reduced. Increasing complexity in our microelectronic segment generally requires the use of smaller geometries in semiconductor chips. This makes manufacturing new generations of products substantially more difficult and costly than prior products. Ultimately, whether we can successfully introduce these and other new products depends on our ability to develop and implement new ways of manufacturing our products. If we are unable to design, develop, manufacture, market and sell new products successfully, we will lose business and possibly be forced to exit from the particular market or sector.

We depend on limited suppliers for certain critical raw materials. Our inability to obtain sufficient raw materials at favorable prices could increase our prices or otherwise harm our business.

Our manufacturing operations require raw materials that must meet exacting standards. Additionally, certain customers require us to buy from particular vendors due to their product specifications. The most significant raw materials that we purchase are memory devices in wafer, die, and component forms and AMLCD panels. Shortages of wafers and other raw materials may occur when there is a strong demand for memory integrated circuits and other related products. AMLCD panels may also be in short supply at times. A major decline in a supplier's financial condition could also cause a production slowdown or stoppage, which could affect our ability to obtain raw materials. We rely heavily on our ability to maintain access to steady sources of these raw materials at favorable prices. We are highly dependent on one or two semiconductor manufacturers for memory devices, such as SRAM, DRAM, DDR II, flash, etc. and one package manufacturer of ceramic packages for military components. We do not have specific long-term contractual arrangements, but we believe we are on good terms with our suppliers. We cannot be certain that we will continue to have access to our current sources of supply or that we will not encounter supply problems in the future. Any interruption in our supply of raw materials could reduce our sales in a given period, and possibly cause a loss of business to a competitor, if we could not reschedule the deliveries of our product to our customers. In addition, our gross profits could suffer if the prices for raw materials increase, especially with respect to sales associated with military contracts where prices are typically fixed.

The United States and global responses to terrorism, the unsettled world political situations and perceived nuclear threats increase uncertainties with respect to many of our businesses and may adversely affect our business and results of operations.

The United States and global responses to terrorism, the unsettled world political situations and perceived nuclear threats increase uncertainties with respect to U.S. and other business and financial markets. Several factors associated, directly or indirectly, with terrorism, the Iraq situation and perceived nuclear threats and responses may adversely affect us. Futhermore, we will predominately be uninsured for losses and interruptions caused by terrorist acts or acts of war.

Various United States government responses to these factors could realign government programs and affect the composition, funding or timing of the government programs in which we participate. Government spending could shift to programs in which we may not participate or may not have current capabilities. The influence of any of these factors, which are largely beyond our control, could adversely affect our business.

While we believe our control systems are effective, there are inherent limitations in all control systems, and misstatements due to error or fraud may occur and not be detected.

We continue to take action to assure compliance with the internal controls, disclosure controls and other requirements of the Sarbanes-Oxley Act of 2002. Our management, including our Chief Executive Officer and Chief Financial Officer, cannot guarantee that our internal controls and disclosure controls will prevent all possible errors or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no system of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Our Board of Directors is authorized to issue shares of preferred stock that could have rights superior to our outstanding shares of common stock, and, if issued, could adversely impact the value of our common stock.

Our amended and restated articles of incorporation permit our Board of Directors, in its sole discretion, to issue up to 1,000,000 shares of authorized but unissued preferred stock. These shares may be issued by our Board of

Directors, without further action by our shareholders, and may include any of the following rights, among others, which may be superior to the rights of our outstanding common stock:

- voting rights, including the right to vote as a class on particular matters;
- preferences as to dividends and liquidation rights;
- conversion rights and anti-dilution protections; and
- redemption rights.

Since our Board of Directors has the authority to determine, from time to time, the terms of our authorized preferred stock, there is no limit on the amount of common stock that could be issuable upon conversion of any future series of preferred stock that may be issued. The rights of holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any series of preferred stock that may be issued in the future. In addition, the market price of our common stock may be adversely affected by the issuance of any series of preferred stock with voting or other rights superior to those of our common stock. The issuance of any series of preferred stock could also have the effect of making it more difficult for a third party to acquire a majority of our outstanding common stock.

Our shareholders' rights plan may make it more difficult for others to obtain control of us.

Pursuant to the terms of our shareholders rights plan, as amended, commonly referred to as a poison pill, we have distributed a dividend of one right for each outstanding share of common stock. These rights will cause substantial dilution to the ownership of a person or group that attempts to acquire us on terms not approved by our Board of Directors, and may have the effect of deterring hostile takeover attempts. The practical effect of these provisions is to require a party seeking control of us to negotiate with our Board of Directors, which could delay or prevent a change in control. These provisions could discourage a future takeover attempt which individual shareholders might deem to be in their best interests or in which shareholders would receive a premium for their shares over current prices.

Our stock price has been volatile.

The price of our common stock fluctuates significantly. The trading price of our common stock could be subject to wide fluctuations in response to:

- future announcements concerning our company, our competitors or our principal customers, such as quarterly operating results, adjustments to previously reported results, changes in earnings estimates by analysts, technological innovations, new product introductions, governmental regulations, or litigation;
- the liquidity within the market of our common stock;
- sales of common stock by our officers, directors and other insiders;
- investor perceptions concerning the prospects of our business;
- market conditions and investor sentiment affecting market prices of equity securities of high technology companies in the microelectronic or display industries;
- general economic, political and market conditions, such as recessions or international currency fluctuations;
- market reaction to acquisitions, joint ventures or strategic investments announced by us or our competitors;
- lawsuits filed against the Company; and
- compliance with the Sarbanes-Oxley Act.

ITEM 1B *UNRESOLVED STAFF COMMENTS*

To our knowledge, we have no written unresolved comments regarding our periodic or current reports from the staff of the SEC.

ITEM 2 *PROPERTIES*

The following table sets forth the locations and general characteristics of the physical properties that we own or lease in connection with the conduct of our business:

Location	Square Footage	Primary Segment	Own/Lease
Phoenix, Arizona (Headquarters)	74,000	Microelectronic	Lease
Phoenix, Arizona (Flower Street)	43,000	Microelectronic	Own
Hillsboro, Oregon	58,000	Display	Lease
Fort Wayne, Indiana	75,000	Display	Own
Columbus, Ohio	41,000	Display	Own

In addition to the above properties, we own 10 acres of vacant land adjacent to the Fort Wayne, Indiana facility. In October 2004, we announced that we would be closing our Phoenix location on Flower Street (acquired as part of the IDS acquisition) and relocating employees and the machinery and equipment to our leased facility at our headquarters building. In November 2004, we entered into an amendment of our headquarters lease to add another 31,000 square feet of space in our headquarters facility which has been improved to accommodate the additional manufacturing relocated. Our amended headquarters lease covers up to approximately 74,000 square feet. The lease term will expire in July 2015 and is subject to two five-year renewal options. We completed the consolidation in the second quarter of fiscal 2006 and incurred approximately $4.1 million in capital improvements. We have placed the Flower Street land and building on the market. We expect net proceeds from the sale to exceed the net book value of our land and building related to the Flower Street location of approximately $1.9 million. However, we do not expect any ultimate gain or loss to have a material impact on our consolidated results of operations. Our Panelview subsidiary leases approximately 58,000 square feet of office and manufacturing space in Hillsboro, Oregon for manufacturing ruggedized and industrial display products.

We consider all of our facilities to be well maintained and adequate for current operations. All facilities have additional capacity, which could be utilized in the event of increased production requirements. Our manufacturing facilities that serve the military market must comply with stringent military specifications. Our microelectronic module manufacturing facility in Phoenix, Arizona is certified ISO-9001 and Class B status. Class B status means that we are qualified to manufacture compliant military products. Substantially all of our owned real property has been pledged as security for our line of credit with JPMorgan Chase Bank, N.A.

ITEM 3 *LEGAL PROCEEDINGS*

On July 22, 2004, July 29, 2004, August 6, 2004 and August 20, 2004, shareholder class action lawsuits entitled *McJimsey v. White Electronic Designs Corporation, et al.* (Case No. CV04-1499-PHX-SRB), *Afework v. White Electronic Designs Corporation, et al* (Case No. CV04-1558-PHX-JWS), *Anders v. White Electronic Designs Corporation, et al.* (Case No. CV04-1632-PHX-JAT), and *Sammarco v. White Electronic Designs Corporation, et al.* (Case No. CV04-1744-PHX-EHC), respectively, were filed in the United States District Court for the District of Arizona against the Company and certain of its current and former officers and directors (the "Defendants"). The actions were consolidated and the Wayne County Employees' Retirement System was appointed as lead plaintiff. A consolidated complaint was filed on or about February 14, 2005. The Defendants' motions to dismiss the consolidated complaint were granted on February 14, 2006. The plaintiffs filed an amended complaint on April 17, 2006 (the "Complaint"). Like the dismissed complaint, the new Complaint alleges, among other things, that between January 23, 2003 and June 9, 2004, the Company made false and misleading statements concerning its financial results and business, and issued a misleading registration statement and prospectus in connection with the Company's July 2003 secondary offering. The Complaint seeks unspecified monetary damages. Defendants filed a motion to dismiss the new Complaint in June 2006. While Defendants' motions were pending, the parties reached an agreement to settle the lawsuit. Pursuant to the terms of the agreement, our insurance carrier will pay the entire $5.7 million settlement amount (of which at least $0.7 million will come from the derivative settlement agreement described below). The agreement, which must be approved by the Court, has been submitted to the Court for preliminary approval. The Court has not set a hearing date on the request for preliminary approval. If preliminary approval is granted, then the members of the class will be notified and allowed an opportunity to object before the Court grants final approval of the agreement. We have recorded a liability in our financial statements for the proposed amount of the settlement. In addition, because the insurance carrier has agreed to pay the entire $5.7 million settlement and recovery from the insurance carrier is probable, a receivable has also been recorded for the same amount. Accordingly, there is no impact to the statements of operations or cash flows because the amounts of the settlement and the insurance recovery fully offset each other.

On August 12, 2004 and August 19, 2004, purported derivative actions entitled *Dodt v. Shokrgozar, et al.* (Case No. CV04-1674-PHX-NVW) and *Christ v. Shokrgozar, et al.* (Case No. CV04-1722-PHX-MHM), respectively, were filed in the United States District Court for the District of Arizona against current and former directors and officers of the Company. The Company was also named as a nominal defendant in both actions. The complaints alleged that between January 2003 and the date the complaints were filed, defendants breached their fiduciary duties to the Company by causing the Company to misrepresent its financial results and prospects. The complaints alleged claims for breach of fiduciary duty, gross mismanagement, abuse of control, waste of corporate assets, insider selling, and unjust enrichment, and sought unspecified damages, equitable relief, and restitution against the individual defendants. On June 7, 2005, the District Court dismissed the Dodt action and on June 15, 2005, the District Court dismissed the Christ action. Mr. Dodt has appealed the dismissal of his complaint. Mr. Dodt filed an appellate brief in June 2006. The Company's response to Mr. Dodt's brief was filed on July 28, 2006. While plaintiff's appeal was pending, the parties reached an agreement to settle the lawsuit. Pursuant to the terms of the agreement, our insurance carrier would pay the entire $300,000 settlement amount (total amount of the settlement is $1.0 million; $0.7 million of which will be used to fund a portion of the $5.7 million class action settlement described above). The agreement, which must be approved by the Court, will be submitted to the Court for preliminary approval. If preliminary approval is granted, then shareholders will be notified and allowed an opportunity to object before the Court grants final approval of the agreement. We have recorded a liability in our financial statements for the amount of the settlement. In addition, because the insurance carrier has agreed to pay the entire $300,000 settlement and recovery from the insurance carrier is probable, a receivable has also been recorded for the same amount. Accordingly, there is no impact to the statements of operations or cash flows because the amounts of the settlement and the insurance recovery fully offset each other.

In addition, from time to time, we are subject to claims and litigation incident to our business. There are currently no such pending proceedings to which we are a party that we believe will have a material adverse effect on our consolidated results of operations, liquidity, or financial condition.

ITEM 4 *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

No matter was submitted to a vote of our security holders during the fourth quarter of fiscal 2006, through the solicitation of proxies or otherwise.

OUR EXECUTIVE OFFICERS

The names, ages, positions and business experience of all of our executive officers are listed below. There are no family relationships between any of our directors and executive officers or any arrangement or understanding between any of our executive officers and any other person pursuant to which any executive officer was appointed to his office.

Hamid R. Shokrgozar, 46, President, Chief Executive Officer and Chairman of the Board

Hamid R. Shokrgozar has been our President and Chief Executive Officer since October 1998 and the Chairman of the Board since August 2000. Mr. Shokrgozar served as a director and as President and Chief Executive Officer of Bowmar from January 1998 until the merger of Bowmar and EDI in October 1998. Mr. Shokrgozar served as President of White Microelectronics, the largest division of Bowmar, from June 1993 to December 1997 and as its Vice President of Engineering and Technology from July 1988 to June 1993. Mr. Shokrgozar also served as Chairman of American Electronic Association (AEA), Arizona Council, during fiscal years 1999 and 2000. In addition, Mr. Shokrgozar holds a United States Patent for the invention of "Stacked Die Carrier Assembly." Mr. Shokrgozar holds a Bachelor of Science in Electrical Engineering from California State University, Fullerton.

Roger A. Derse, 56, Vice President, Chief Financial Officer

Roger A. Derse has been our Vice President and Chief Financial Officer since March 2004. Mr. Derse has over 25 years experience in finance and accounting. He previously served as Consultant/Acting CFO for Vitron Manufacturing from 2002 through February 2004 and was Executive Vice President and Chief Operating and Financial Officer for Nanonics Corporation from 1998 to 2001. He was Chief Financial Officer for the White Microelectronics Division of Bowmar Instrument Corporation from 1993 to 1997. Mr. Derse holds a Bachelor of Science in Industrial Engineering from the University of Michigan, a Master in Accounting from the University of Arizona, and is a Certified Public Accountant.

Dante V. Tarantine, 53, Executive Vice President, Sales & Marketing

Dante V. Tarantine has been our Executive Vice President, Sales and Marketing since January 2003. Mr. Tarantine served as our Senior Vice President of Sales from August 1998 to January 2003. He previously served as our Senior Vice President Sales and Marketing from September 1991 to August 1998 and as Vice President of Marketing for White Microelectronics from February 1987 to September 1991. Mr. Tarantine holds a Bachelor of Science in Electrical Engineering from California State University, Northridge.

PART II

ITEM 5 *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.*

Our common stock is currently traded on the NASDAQ Global Market under the symbol "WEDC". The following table sets forth the high and low sales prices for the common stock by quarter during the fiscal years ended September 30, 2006 and October 1, 2005.

	2006			
Common Stock Market Price	**Q1**	**Q2**	**Q3**	**Q4**
High	$5.55	$6.08	$6.00	$5.30
Low	$4.96	$5.07	$4.70	$4.50

	2005			
Common Stock Market Price	**Q1**	**Q2**	**Q3**	**Q4**
High	$6.80	$6.40	$5.65	$6.27
Low	$5.38	$4.71	$4.40	$4.85

As of December 12, 2006, our stock price was $5.50, and there were approximately 10,000 holders of record of our common stock. We have not paid cash dividends on our common stock and do not expect to do so in the foreseeable future. We intend to retain all earnings to provide funds for the operation and expansion of our business. In addition, our credit agreement precludes the payment of cash dividends on our common stock.

Issuer Purchases of Equity Securities

On June 19, 2006, our Board of Directors authorized a stock repurchase program pursuant to which up to 5%, or 1,231,108 shares, of our outstanding common stock may be repurchased from time to time. The duration of the repurchase program is open-ended and is being implemented through a Rule 10b5-1 Stock Purchase Plan. Under the program, we can purchase shares of common stock through the open market on a daily basis at prices equal to or less than $5.50 per share without further approval by the Board. The timing and amount of repurchase transactions under this program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available cash balances. Purchases during the fourth quarter of fiscal 2006 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan
July 2, 2006 — July 29, 2006	144,113	$5.12	144,113	1,068,497
July 30, 2006 — August 26, 2006	—	$ —	—	1,068,497
August 27, 2006 — September 30, 2006	78,534	$4.66	78,534	989,963
Total	222,647	$4.96	222,647	

ITEM 6 *SELECTED CONSOLIDATED FINANCIAL DATA*

	2006	2005	2004	2003	2002
	(In thousands of dollars, except per share data)				
Statement of Operations Data:					
Net sales (Note 1)	$108,928	$117,031	$108,962	$113,534	$90,458
Net income (loss) (Notes 2 and 3)	$ 6,013	$ (3,535)	$ 4,807	$ 10,150	$ 8,740
Earnings (loss) per share:					
Basic	$ 0.25	$ (0.14)	$ 0.20	$ 0.48	$ 0.44
Diluted	$ 0.24	$ (0.14)	$ 0.19	$ 0.44	$ 0.42
Balance Sheet Data (at year end):					
Total assets (Note 1)	$130,508	$121,268	$124,900	$119,806	$68,366
Long-term debt	$ —	$ —	$ —	$ —	$ —
Shareholders' equity (Note 1)	$110,180	$104,220	$107,215	$101,028	$54,770

This table should be read in conjunction with the Consolidated Financial Statements provided elsewhere herein.

Notes to Selected Financial Data

(1) In January 2003, the Company acquired IDS for a purchase price of approximately $18.6 million. The effect of this transaction increased our total assets by approximately $18.0 million and our shareholders' equity by approximately $9.0 million. Net sales for IDS in fiscal 2006, fiscal 2005, fiscal 2004 and fiscal 2003 totaled approximately $23.5 million, $28.8 million, $23.4 million and $16.1 million, respectively.

(2) In fiscal 2003, the Company discontinued the amortization of its goodwill with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"). Goodwill amortization expense, net of tax, was approximately $0.9 million in fiscal 2002.

(3) In fiscal 2006, the Company recorded a non-cash goodwill impairment charge of approximately $0.4 million in connection with its review of goodwill for impairment. In fiscal 2005, the Company recorded a non-cash goodwill impairment charge of approximately $11.4 million in connection with its review of goodwill for impairment and favorable income tax adjustments of approximately $1.0 million. The goodwill impairments had no corresponding income tax benefit.

ITEM 7 *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

In addition to historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to risks described under "Risk Factors," and the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

Overview

We design, develop and manufacture innovative microelectronic and display components and systems for inclusion in high technology products used in the military, industrial, and commercial markets. Our microelectronic solutions include advanced semiconductor and state of the art multi-chip packaging, as well as our proprietary process for applying anti-tamper protection to mission critical semiconductor components in military applications. Our display solutions include enhanced flat panel display products, interface devices and electromechanical assemblies. Our customers, which include military prime contractors in the United States and Europe as well as commercial OEMs, outsource many of their microelectronic and display components and systems to us as a result of the combination of our design, development and manufacturing expertise.

We were formed as a result of the merger between Bowmar and EDI in October 1998. At the time of the merger, Bowmar was a manufacturer of high reliability electronic components and interface and mechanical devices, mainly for military applications. EDI was a manufacturer of commercial memory products for the telecommunications and networking markets and also had a small ruggedized display business serving the military and industrial markets. This merger provided us with a diversified platform to expand our product offerings within both the military and commercial markets. In order to complement our military/industrial display business, we acquired Panelview, a designer and manufacturer of enhanced commercial flat panel display products, in January 2001. Following the acquisition, we consolidated our display operations into our Panelview subsidiary. In January 2003, we acquired IDS, a designer and manufacturer of membrane keypads, flexible circuits, sensors, control panels, and handheld and desktop electronic devices. This acquisition allowed us to expand our interface device product offerings and enhance our subsystem solutions. In addition, with IDS' design and manufacturing capabilities, we can now offer fully integrated system level solutions.

Executive Summary

Net sales for the fiscal year ended September 30, 2006 were approximately $108.9 million, compared to net sales of $117.0 million for fiscal 2005. The decrease was due to declines in both the microelectronic and the display segments. Microelectronic segment net sales to the military/industrial customers continue to be strong and annual net sales increased $2.7 million, or 7%, over fiscal 2005. However, commercial net sales in the microelectronic segment decreased by $6.6 million, or 25%, from fiscal 2005 due to lower average selling prices reflecting decreased material costs passed onto our customers and lower demand for our product resulting from decreased business for some of our customers. The decrease in commercial display segment net sales of $4.6 million, or 11%, was attributable in part to our strategic business decision in our display segment in fiscal 2005 not to pursue future business in low margin products. In connection with this decision, our contract with NCR Corporation ended in our fourth quarter of fiscal 2005. Although we have expanded our customer base, we were not able to recoup all of the revenues in fiscal 2006. Additionally, we experienced a decrease in orders from our appliance customers.

A key indicator of our future sales is the amount of new orders received compared to current net sales, known as the book-to-bill ratio. For the year, we had new orders of approximately $108.0 million, which equates to a book-to-bill ratio of 0.99 for the year. Microelectronic segment orders for the year were approximately $60.2 million, which equates to a book-to-bill ratio of 1.00 for the year. Military/industrial bookings were strong throughout the year. However, we do not have a level of visibility that indicates this trend will continue in the coming quarters. Commercial bookings declined in fiscal 2006 as some key customers faced a decline in business which impacted their orders from us. New orders for our microelectronic segment's anti-tamper process technology were approximately $3.9 million for the year and we had sales of approximately $4.8 million. We currently expect to see growth for anti-tamper technology products over the next several years. Display segment orders for the year were approximately $47.8 million, which equates to a book-to-bill ratio of 0.98 for the year. As we continue to build business after the completion of the NCR contract, we expect display segment bookings to increase in fiscal 2007.

Our gross margins increased year over year to approximately 31% for fiscal 2006 from approximately 30% for fiscal 2005. The primary reason for this increase was higher margins in our display segment, which increased to 21% in fiscal 2006 from 19% in fiscal 2005. This is the result of focusing on higher margin business in fiscal 2006. However, gross margins for our display segment products continue to come under pressure from both domestic and Asian competition, and while we are implementing business and manufacturing strategies to improve our competitive position, it may be difficult to continue to maintain current gross margins in the future. Gross margins in our microelectronic segment remained steady at 38% in fiscal 2006 when compared to fiscal 2005.

Our overall production has, at times, been affected by longer lead times for certain components, which may affect the timing and cost of sales during the year. The availability and price of memory and display components, based on supply and demand, will fluctuate on a monthly or quarterly basis. When demand exceeds supply, prices will generally increase and lead times will lengthen. When supply exceeds demand, prices will generally decrease and lead times will shorten. The DRAM and DDR market has been in short supply in the second half of fiscal 2006 with many densities allocated and prices fluctuating. However, recently the supply has increased and prices appear to be stabilizing. The DDR II market, which had ample supply over the past six months, is starting to tighten up as more companies have started the transition from DDR to DDR II. We expect prices to increase during fiscal 2007. The Flash memory supply has been stable. We expect prices to remain flat or trend down slightly in fiscal 2007. The availability of liquid crystal displays ("LCDs") has stabilized with prices up slightly over the last few quarters of fiscal 2006. Management expects LCD prices to remain stable for the first half of the fiscal year, but potential shortages may increase prices in the second half of the fiscal year for the industrial market (non PC and notebook), based in part on analyst's expectations.

We expect that sales of our enhanced Max-Vu™ screens for specialized anywhere-viewable tablet PCs will be negatively impacted in the first half of fiscal year 2007 due to capacity constraint issues at a leading glass provider, but expect sales to begin to accelerate in the second half of the fiscal year.

We have purchased and placed duplicate equipment for our Max-Vu™ process technology in a manufacturing company located in China in order to be more competitive in the commercial display market for our tablet PC products. We began production using this equipment in the second quarter of fiscal 2006 and will continue to migrate other related business to China.

We continue to invest in the anti-tamper process technology as we expect to secure additional opportunities in the years to come.

On October 2, 2005, we adopted SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), which requires the measurement and recognition of compensation expense in the financial statements for all share-based awards made to employees and directors based on estimated fair values. For the year ended September 30, 2006, we recorded $0.4 million of compensation expense which is reflected in our selling, general and administrative expenses.

In the third quarter of fiscal 2006, as a result of the less than expected financial performance of our interface electronics product line in Columbus, Ohio, we performed a goodwill impairment test on this reporting unit in accordance with SFAS 142. Based on our testing, we found indicators of impairment in the reporting unit. Based on the current and forecasted competitive market conditions, we have lowered earnings and cash flow projections for this reporting unit and expect it to grow more slowly than had been previously projected. The revenue and profitability of this reporting unit has not met management's expectations in fiscal 2006 primarily due to reduced demand in this market. Accordingly, we wrote down all of the $0.4 million of the unamortized IDS acquisition goodwill related to the reporting unit.

In June 2006, we announced that our Board of Directors authorized the repurchase of up to 5%, or approximately 1.2 million shares, of our outstanding common stock. The duration of the repurchase program is open-ended and is being implemented through a Rule 10b5-1 Stock Purchase Plan. Through September 30, 2006, we have purchased 241,145 shares of our common stock for $1.2 million.

Net income for fiscal year 2006 was approximately $6.0 million compared to a net loss of approximately $3.5 million for fiscal 2005. The net loss in fiscal 2005 was due to the non-cash impairment of goodwill of $11.4 million, offset slightly by a $0.8 million favorable adjustment of our tax reserves.

As part of our fiscal 2007 planning process, we are presently focused on and are pursuing the following strategic initiatives:

- Pursue the MIL-PRF-38534 Class K certification. This will allow the Company to offer the highest reliability level military products intended for space applications;
- Pursue Circuit Card Assembly ("CCA") for military customers, to offer system integration capabilities allowing the Company to combine its manufactured components and multi-chip modules into a fully integrated product;
- Pursue the next generation anti-tamper technology for military and commercial applications;
- Pursue applications for industrial grade Compact Flash in ruggedized embedded computing systems including medical, flight systems, factory automation, test and measurement and instrumentation;
- Pursue the next generation display enhancement technology, Max-Vu II™ technology;
- Pursue fully integrated display products with complete Touch Panel offering;
- Continue the stock repurchase program to enhance shareholder value; and
- Continue to pursue other external strategic alternative plans to further position the Company for growth.

Segments

Our product and market diversification as well as our broad customer base have allowed us to maintain relative sales stability and profitability. The following table shows our historical net sales and the percent of total net sales by our two business segments and the markets they serve (dollars in thousands):

	2006	2005	2004
Microelectronic Segment			
Military/Industrial Market	$ 40,446	$ 37,765	$ 36,294
Commercial Market	19,751	26,318	24,397
	60,197	64,083	60,691
Display Segment			
Military/Industrial Market	11,851	11,515	11,764
Commercial Market	36,880	41,433	36,507
	48,731	52,948	48,271
Total	$108,928	$117,031	$108,962
Microelectronic Segment			
Military/Industrial Market	37%	33%	33%
Commercial Market	18%	22%	23%
	55%	55%	56%
Display Segment			
Military/Industrial Market	11%	10%	11%
Commercial Market	34%	35%	33%
	45%	45%	44%
Total	100%	100%	100%

During fiscal 2006, $31.1 million, or 29%, of our goods were shipped to foreign customers, compared to $20.7 million, or 18%, and $18.5 million, or 17%, in fiscal years 2005 and 2004, respectively. This increase is primarily due to higher Asia Pacific sales as we sell more of our commercial display products to that market.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant accounting estimates inherent in the preparation of our consolidated financial statements include the following items:

- We sell microelectronic and display products primarily to military prime contractors and commercial OEMs. A small portion of our products are also sold through distributors or resellers. We recognize revenue on product sales when persuasive evidence of an arrangement with the customer exists, title to the product has passed to the customer, which usually occurs at time of shipment, the sales price is fixed or determinable, and collectibility of the related billing is reasonably assured. Advance payments from customers are deferred and recognized when the related products are shipped. Revenue relating to products sold to distributors or resellers who either have return rights or where the Company has a history of accepting product returns are deferred and recognized when the distributor or reseller sells the product to the end customer. We also provide limited design services pursuant to related customer purchase orders and generally recognize the associated revenue as such services are performed. However, it may be deferred until certain elements are completed. We may from time to time enter into certain arrangements that contain multiple elements such as performing limited design services accompanied with follow-on manufacturing of related products. We allocate revenue to the elements based on relative fair value, and recognize revenue for each element when there is evidence of an arrangement, delivery has occurred or services have been rendered, the price is fixed or determinable and collectibility is reasonably assured. Arrangements with multiple elements that are not considered separate units of accounting require deferral of revenue until certain other elements have been delivered or the services have been performed. The amount of the revenue recognized is impacted by our judgment as to whether an arrangement includes multiple elements, and whether the elements are considered separate units of accounting.

- Historically, we have experienced fluctuations in the demand for our products based on cyclical fluctuations in the microelectronic and display markets. These fluctuations may cause inventory on hand to lose value or become obsolete. In order to present the appropriate inventory value on our financial statements, we identify slow moving or obsolete inventories and record provisions to write down such inventories to net realizable value. These provisions are based on management's comparison of the value of inventory on hand against expected future sales. If future sales are less favorable than those projected by management, additional inventory provisions may be required.

- We record trade accounts receivable at the invoiced amount and they do not bear interest. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We make these estimates based on an analysis of accounts receivable using available information on our customers' financial status and payment histories. Historically, bad debt losses have not differed materially from our estimates. Write-offs against the allowance totaled approximately $32,000 in fiscal 2006, $274,000 in fiscal 2005 and $170,000 in fiscal 2004.

- We maintain a pension plan for eligible union employees at our Fort Wayne, Indiana facility. To account for the cost of this plan, we make estimates concerning the expected long-term rate of return on plan assets, and discount rates to be used to calculate future benefit obligations. Changes in the expected long-term rate of return on plan assets affect the amount of investment income expected to be earned in the future. We base our related estimates using historical data on the rate of return from equities and fixed income investments, as well as projections for future returns on such investments. If the actual returns on plan assets do not equal the estimated amounts, we may have to fund future benefit obligations with additional contributions to the plan. Changes in the discount rate affect the value of the plan's future benefit obligations. A lower discount rate increases the liabilities of the plan because it raises the value of future benefit obligations. This will also cause an increase in pension expense recognized. We use published bond yields to estimate the discount rate used for calculating the value of future benefit obligations.

- We account for goodwill and intangible assets in accordance with SFAS No. 142 which requires goodwill to be tested for impairment on an annual basis (and more frequently in certain circumstances) and written down when impaired. We completed our transitional testing for goodwill impairment upon adoption of SFAS 142, and our annual testing for fiscal 2004 determined that our recorded goodwill was not impaired. However, in fiscal 2005 it was determined that the goodwill in our commercial microelectronic reporting unit in Phoenix and our display reporting unit in Oregon were impaired. Accordingly, we wrote down the related goodwill by approximately $11.4 million. In fiscal 2006, it was determined that our interface electronics reporting unit in the display segment was impaired. Accordingly, we wrote down all $0.4 million of the unamortized IDS acquisition goodwill related to this reporting unit. Goodwill recorded was $5.3 million and $5.7 million at September 30, 2006 and October 1, 2005, respectively. See Notes 2 and 7 of the Notes to the Consolidated Financial Statements for information relating to the goodwill impairment. Furthermore, SFAS 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. Purchased intangible assets are carried at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally two to fifteen years. We also regularly evaluate intangible assets for impairment pursuant to SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and evaluate the continued appropriateness of estimated future lives assigned to these assets.

- With the adoption of SFAS 123(R) on October 2, 2005, we are required to record the fair value of stock-based compensation awards as an expense. In order to determine the fair value of stock options on the date of grant, the Company applies the Black-Scholes option-pricing model. Inherent in this model are assumptions related to expected price volatility, option life, risk-free interest rate and dividend yield. While the risk-free interest rate and dividend yield are less subjective assumptions, typically based on factual data derived from public sources, the expected stock price volatility and option life assumptions require a greater level of judgment which makes them critical accounting estimates.
- We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109") which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are recognized, net of any valuation allowance, for deductible temporary differences and net operating loss and tax credit carry forwards. We regularly review our deferred tax assets for recoverability and, if necessary, establish a valuation allowance. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax related uncertainties based on estimates of whether, and the extent to which, additional taxes and interest will be due. These reserves are established when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and may not be sustained on review by tax authorities. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

Results of Operations

The following table sets forth, for the periods indicated, certain operating data expressed as a percentage of net sales:

	2006	2005	2004
Net sales	100.0%	100.0%	100.0%
Cost of sales	69.5%	70.3%	70.9%
Gross profit	30.5%	29.7%	29.1%
Operating expenses:			
Selling, general and administrative	17.4%	16.8%	17.0%
Research and development	6.1%	4.8%	5.5%
Amortization of intangible assets	0.4%	0.5%	0.6%
Goodwill impairment	0.3%	9.8%	0.0%
Total operating expenses	24.2%	31.9%	23.1%
Operating income (loss)	6.3%	(2.2)%	6.0%
Interest (income)	(2.0)%	(0.9)%	(0.4)%
Income (loss) before income taxes	8.3%	(1.3)%	6.4%
Provision for income taxes	2.7%	1.7%	2.0%
Net income (loss)	5.5%	(3.0)%	4.4%

Fiscal Year ended September 30, 2006 compared to Fiscal Year ended October 1, 2005

Net Sales

Net sales were $108.9 million for the year ended September 30, 2006, a decrease of $8.1 million, or approximately 7%, from $117.0 million for the year ended October 1, 2005.

- Military/industrial sales in the microelectronic segment were $40.4 million for the year ended September 30, 2006, an increase of $2.6 million, or approximately 7%, from $37.8 million for the year ended October 1,

2005. We expect sales to military/industrial customers to remain consistent in fiscal 2007 as compared to fiscal 2006.

- Commercial sales in the microelectronic segment were $19.8 million for the year ended September 30, 2006, a decrease of $6.5 million, or approximately 25%, from $26.3 million for the year ended October 1, 2005. The decline was primarily attributable to lower average selling prices reflecting decreased material costs and lower demand of our product due to decreased business for some our customers which in turn decreased their orders from us. However, we anticipate commercial sales in the microelectronic segment to grow slightly in fiscal 2007.

- Military/industrial sales in the display segment were $11.8 million for the year ended September 30, 2006, an increase of $0.3 million, or approximately 3%, from $11.5 million for the year ended October 1, 2005. The slight increase was due to increased requirements for products used in the commercial aviation industry. We expect military/industrial sales in the display segment in fiscal 2007 to be consistent with sales in fiscal 2006.

- Commercial sales in the display segment were $36.9 million for the year ended September 30, 2006, a decrease of $4.5 million, or approximately 11%, from $41.4 million for the year ended October 1, 2005. The decrease from the prior year is attributable to decreased sales to NCR of $8.7 million and to Whirlpool of $1.1 million compared to the prior year, as well as decreased orders from our other appliance customers, partially offset by increased sales to Hewlett Packard Company of $8.6 million during the period. We expect commercial sales in the display segment to increase in fiscal 2007.

In fiscal 2006, On Command Corporation accounted for approximately $7.4 million, or 12%, of our microelectronic segment net sales as compared to $9.3 million, or 15%, and $3.7 million, or 6%, of our 2005 and 2004 microelectronic segment net sales, respectively. No other customer accounted for more than 10% of microelectronic segment net sales for these periods.

In fiscal 2006, Hewlett Packard Company accounted for approximately $8.6 million, or 18%, of our display segment net sales. There were no sales to Hewlett Packard in fiscal 2005 or 2004. In 2006, NCR accounted for approximately $0.6 million, or 1%, of our display segment net sales as compared to $9.3 million, or 18%, and $0.5 million, or 2%, of our 2005 and 2004 display segment net sales, respectively. In 2006, Whirlpool accounted for approximately $3.8 million, or 8%, of our display segment net sales as compared to $4.9 million, or 9%, and $5.8 million, or 12%, of our 2005 and 2004 display segment net sales, respectively.

The majority of our commercial sales are not subject to seasonal fluctuations over the course of a year. Sales of our membrane keypad products, which totaled approximately $9.9 million in fiscal 2006 and $12.3 million in fiscal 2005, are subject to seasonal fluctuations relating to home appliance sales in the spring and fall. Our military sales tend to follow the government's fiscal year, which ends in September, and are typically less in the first quarter of our fiscal year and more in the fourth quarter of our fiscal year.

Gross Profit

Gross profit was $33.2 million for the year ended September 30, 2006, a decrease of $1.5 million or approximately 4% from $34.7 million for the year ended October 1, 2005. Gross margin as a percentage of net sales was approximately 31% for the year ended September 30, 2006, compared to approximately 30% for the year ended October 1, 2005.

Gross profit for the microelectronic segment was $23.1 million for the year ended September 30, 2006, a decrease of $1.5 million, or approximately 6%, from $24.6 million for the year ended October 1, 2005. The majority of the decrease in gross profit came from a decrease in commercial gross profit in the microelectronic segment as a result of lower sales volume which resulted in a lower absorption of overhead. Gross margin as a percentage of microelectronic segment net sales was approximately 38% for the year ended September 30, 2006, consistent with the year ended October 1, 2005. The higher percentage of military/industrial sales, which historically have a higher selling price and higher gross margin than commercial products, helped to maintain the overall gross margin percentage in fiscal 2006.

Gross profit for the display segment was $10.1 million for the year ended September 30, 2006, consistent with the year ended October 1, 2005. Gross margin as a percentage of display segment net sales was approximately 21% for the year ended September 30, 2006, compared to approximately 19% for the year ended October 1, 2005. The increase in the gross margin was primarily the result of our decision in fiscal 2005 not to pursue future business in low margin products as we continue to come under pressure from both domestic and Asian competition. While we continue to implement business and manufacturing strategies to improve our competitive position, it may be difficult to improve current gross margins in the future.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist mainly of compensation expense, selling expenses, including commissions, information technology expenses and corporate administrative expenses. Selling, general and administrative expenses were $19.0 million for the year ended September 30, 2006, a decrease of $0.7 million, or approximately 4%, from $19.7 million for the year ended October 1, 2005. This decrease was due to a decrease in selling expenses of $1.0 million, offset by a $0.3 million increase in general and administrative expenses over the comparable period. Selling expenses decreased primarily due to lower commissions as a result of lower sales and a change in commission structure. General and administrative expenses increased mainly because of $0.4 million of compensation expense related to share-based awards due to the adoption of SFAS 123(R).

As a percentage of net sales, selling, general and administrative expenses have remained generally consistent with the prior year at approximately 17% of net sales. Due to the continued compliance requirements related to the Sarbanes-Oxley Act and the expense related to the adoption of SFAS 123(R), we expect selling, general and administrative expenses to average between 16% and 18% of net sales.

Research and Development Expenses

Research and development expenses consist primarily of compensation for our engineering personnel, consulting expenses and project materials. Research and development expenses were $6.6 million for the year ended September 30, 2006, an increase of $1.0 million, or 17%, as compared to $5.6 million for the year ended October 1, 2005. The increase was primarily attributable to increased expenditures for our next generation anti-tamper, tablet PC and touch screen tablet PC technologies and expanded technical resources. Research and development expenses as a percentage of net sales have been approximately 5% to 6% of net sales over the past three years. We are committed to the research and development of new and existing products and expect research and development expenses to remain at approximately the same percentage of net sales in the future.

Ongoing product development projects for the microelectronic segment include new packaging designs for various types of memory products including DRAM, DDR II memory modules, flash and microprocessors, along with microprocessor modules and ball grid array packaging products using these semiconductors; continuing development of anti-tamper technology for microelectronic products; next generation memory and power PC products assembled in various multi-chip packages to be used in both commercial and military markets; and qualification of new semiconductor products. Ongoing product development projects for the display segment include glass lamination process technology, high volume glass lamination ("HVGL") for tablet PCs, our new Max-Vu™ process technology for tablet personal computers, next generation touch screen tablet PCs and display systems development.

Amortization of Intangible Assets

Intangible asset amortization for the years ended September 30, 2006 and October 1, 2005 totaled $0.5 million and $0.6 million, respectively, entirely related to intangible assets acquired from IDS.

Goodwill Impairment

Due to the less than expected financial performance in our interface electronics product line in Columbus, Ohio, we tested the goodwill for impairment in the third quarter of fiscal 2006. As a result of this testing, we found indicators of impairment related to this reporting unit. Accordingly, we wrote down all $0.4 million of the unamortized IDS acquisition goodwill related to the interface electronics reporting unit in the display segment.

During our annual testing of goodwill for impairment in the fourth quarter of 2005 in accordance with SFAS 142, we found indicators of impairment for our commercial microelectronics reporting unit in Phoenix, Arizona and our display reporting unit in Hillsboro, Oregon from the former IDS and Panelview acquisitions. Accordingly, we wrote down goodwill by $11.4 million in the fourth quarter of 2005.

See Notes 2 and 7 of the Notes to the Consolidated Financial Statements for information relating to the goodwill impairments.

Interest Income

Interest income consists of interest earned on our cash balances invested primarily in a money market account. Interest income was $2.2 million for the year ended September 30, 2006, an increase of $1.1 million compared to $1.1 million for the year ended October 1, 2005. This increase was attributable to the increase in invested balances between periods, primarily as a result of the reinvestment of cash flows from operations, and increased interest rates.

Income Taxes

Income tax expense consists of current and deferred federal and state income taxes. Income tax expense was $3.0 million for the year ended September 30, 2006, compared to $2.0 million for the year ended October 1, 2005. The effective tax rate was approximately 33% for the year ended September 30, 2006, compared to (134%) for the year ended October 1, 2005. The Company's effective tax rate differs from the federal statutory tax rate of 34% due to the impact of state taxes and the goodwill impairment which has no income tax benefit, and is decreased by reductions for foreign sales exclusions, a new manufacturers' deduction and research and experimentation tax credits. See Note 11 to the Consolidated Financial Statements.

For fiscal 2005, the effective rate of (134%) differed from the statutory tax rate of 34% due to the incremental impact of state taxes and the $11.4 million goodwill impairment which has no income tax benefit, partially offset by reductions for foreign sales exclusions, research and experimentation tax credits, and the adjustment of tax reserves.

During the fourth quarter of fiscal 2005, the Internal Revenue Service completed its examination of our federal income tax returns for the fiscal years ended September 28, 2002 and September 27, 2003. Based on the results of the examination, we decreased previously recorded tax reserves by approximately $0.8 million and decreased income tax expense by a corresponding amount in fiscal 2005.

In October 2004, Congress passed the American Jobs Creation Act of 2004 (the "Act"), which will eliminate the extraterritorial income exclusion, and will provide a deduction from taxable income equal to a stipulated percentage of qualified income from domestic production activities, referred to as the manufacturer deduction. The extraterritorial income exclusion will be phased out through 2006, and the manufacturer deduction will be phased in through 2010. Additionally, the federal research and experimentation credit expired on December 31, 2005. However, on December 9, 2006, Congress extended the research and experimentation credit through December 31, 2007 and made it retroactive to January 1, 2006, subject to the expected signing by the President of the United States. Due to the provisions of SFAS 109, we will record the benefit of the retroactive portion in the fiscal quarter that the bill is enacted.

Fiscal Year ended October 1, 2005 compared to Fiscal Year ended October 2, 2004

Net Sales

Net sales were $117.0 million for the year ended October 1, 2005, an increase of $8.0 million, or 7%, from $109.0 million for the year ended October 2, 2004.

- Military/industrial sales in the microelectronic segment were $37.8 million for the year ended October 1, 2005, an increase of $1.5 million, or approximately 4%, from $36.3 million for the year ended October 2, 2004.

- Commercial sales in the microelectronic segment were $26.3 million for the year ended October 1, 2005, an increase of $1.9 million, or approximately 8%, from $24.4 million for the year ended October 2, 2004. The growth was primarily attributable to products used in the high-end server applications and product sold to a hotel industry supplier for their entertainment video systems.

- Military/industrial sales in the display segment were $11.5 million for the year ended October 1, 2005, a decrease of $0.2 million, or approximately 2%, from $11.8 million for the year ended October 2, 2004. The slight decrease was due to decreased requirements for products used in the commercial aviation industry.
- Commercial sales in the display segment were $41.4 million for the year ended October 1, 2005, an increase of $4.9 million, or approximately 13%, from $36.5 million for the year ended October 2, 2004. The increase from prior year is attributable to increased sales to NCR of $9.3 million and $2.7 million of our tablet personal computer products over the prior year, partially offset by decreased sales to other customers during the period.

On Command Corporation accounted for approximately $9.3 million, or 15% of our 2005 microelectronic segment sales as compared to $3.7 million, or 6% in 2004 microelectronic segment sales. Northrop Grumman accounted for approximately $1.9 million, or 3% of our 2005 microelectronic segment sales as compared to approximately $2.6 million, or 4%, of our 2004 microelectronic segment sales. No other customer accounted for more than 10% of segment or total net sales for these periods.

In 2005, NCR accounted for approximately $9.3 million, or 18%, of our display segment net sales as compared to $0.5 million or approximately 2% of our display sales in 2004. In 2005, $4.9 million, or 9%, of our display segment net sales came from Whirlpool as compared to approximately $5.8 million, or 12%, in 2004. We had no sales from Garmin in fiscal 2005, and approximately $1.1 million, or 1%, of 2004 net sales for our display segment came from Garmin, while GE Medical accounted for approximately $2.9 million, or 5%, of 2005 display segment net sales compared to $3.0 million, or 6%, of 2004 display segment net sales. Our sales to Garmin and GE Medical declined significantly during fiscal 2004 due to a shift in their manufacturing strategies.

The majority of our commercial sales are not subject to seasonal fluctuations over the course of a year. Sales of our membrane keypad products, which totaled approximately $12.3 million in fiscal 2005 and $12.0 million in fiscal 2004, are subject to seasonal fluctuations relating to home appliance sales in the spring and fall. Our military sales tend to follow the government's fiscal year, which ends in September, and are typically less in the first quarter of our fiscal year and strong in the fourth quarter of our fiscal year.

Gross Profit

Gross profit was $34.7 million for the year ended October 1, 2005, an increase of $3.0 million or approximately 10% from $31.7 million for the year ended October 2, 2004 . Gross margin as a percentage of net sales was approximately 30% for the year ended October 1, 2005, compared to approximately 29% for the year ended October 2, 2004.

Gross profit for the microelectronic segment was $24.6 million for the year ended October 1, 2005, an increase of $3.2 million, or approximately 15%, from $21.4 million for the year ended October 2, 2004. The majority of the increase in gross profit came from an increase in military/industrial sales in the microelectronic segment as a result of changes in product mix, lower manufacturing costs, and higher sales volume. Gross margin as a percentage of microelectronic segment net sales was approximately 38% for the year ended October 1, 2005, compared to approximately 35% for the year ended October 2, 2004. The product mix in the microelectronic segment shifted to a greater number of military products, which historically have a higher selling price and higher gross margin than commercial products.

Gross profit for the display segment was $10.1 million for the year ended October 1, 2005, a decrease of $0.1 million, or approximately 1%, from $10.2 million for the year ended October 2, 2004. Gross margin as a percentage of display segment net sales was approximately 19% for the year ended October 1, 2005, compared to approximately 21% for the year ended October 2, 2004. The decrease in gross margin was the result of the higher costs of acquiring initial inventory in connection with the start-up of new programs. We have seen the inventory costs as a percentage of net sales decrease as sales volumes have increased for such programs and component prices have decreased during the fiscal year. Other product mix also contributed to the decline in display segment gross margins.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist mainly of compensation expense, selling expenses, including commissions, information technology expenses and corporate administrative expenses. Selling, general and administrative expenses were $19.7 million for the year ended October 1, 2005, an increase of $1.2 million, or approximately 7%, from $18.5 million for the year ended October 2, 2004. This increase was due to a $1.5 million increase in general and administrative expenses, offset by a decrease in selling expenses of $0.3 million over the comparable period. General and administrative expenses increased mainly because of higher professional fees of $0.6 million in connection with compliance with the Sarbanes — Oxley Act, $0.8 million for compensation and $0.2 million related to an abandoned acquisition. We incurred approximately $0.9 million in external costs in fiscal 2005 related to compliance with the Sarbanes-Oxley Act. Selling expenses decreased primarily due to lower commissions.

Research and Development Expenses

Research and development expenses consist primarily of compensation for our engineering personnel, consulting expenses and project materials. Research and development expenses were $5.6 million for the year ended October 1, 2005, a decrease of $0.4 million, or 7%, as compared to $6.0 million for the year ended October 2, 2004. The decrease was primarily attributable to a decrease of $0.4 million in our display segment due to completion of product development projects.

Amortization of Intangible Assets

Intangible asset amortization for the years ended October 1, 2005 and October 2, 2004 totaled $0.6 million and $0.7 million, respectively, entirely related to intangible assets acquired from IDS.

Goodwill Impairment

During our annual testing of goodwill for impairment in the fourth quarter of 2005 in accordance with SFAS 142, we found indicators of impairment for our commercial microelectronics reporting unit in Phoenix and our display reporting unit in Oregon from the former IDS and Panelview acquisitions. Accordingly, we wrote down goodwill by $11.4 million in the fourth quarter. See Notes 2 and 7 of the Notes to the Consolidated Financial Statements for information relating to the goodwill impairment.

Interest Income

Interest income consists of interest earned on our cash balances invested primarily in a money market account. Interest income was $1.1 million for the year ended October 1, 2005, an increase of $0.6 million compared to $0.5 million for the year ended October 2, 2004. This increase was attributable to the increase in invested balances between periods, primarily as a result of the reinvestment of cash flows from operations, and increased interest rates.

Income Taxes

Income tax expense consists of current and deferred federal and state income taxes. Income tax expense was $2.0 million for the year ended October 1, 2005, compared to $2.1 million for the year ended October 2, 2004. The effective tax rate was approximately (134%) for the year ended October 1, 2005, compared to approximately 31% for the year ended October 2, 2004. The Company's effective tax rate differs from the federal statutory tax rate of 34% due to state taxes and the impact of the $11.4 million goodwill impairment which has no income tax benefit, partially offset by reductions for foreign sales exclusions, research and experimentation tax credits, and the adjustment of tax reserves. During the fourth quarter of fiscal 2005, the Internal Revenue Service completed its examination of our federal income tax returns for the fiscal years ended September 28, 2002 and September 27, 2003. Based on the results of the examination, we have decreased previously recorded tax reserves by approximately $0.8 million and decreased income tax expense by a corresponding amount.

Liquidity and Capital Resources

Cash on hand as of September 30, 2006 totaled approximately $55.8 million and was primarily invested in a money market account. During fiscal year 2006, cash provided by operating activities was approximately $9.4 million versus $16.1 million in fiscal 2005. The decrease was primarily due to a decrease in net income before the non-cash goodwill impairment charges, as well as decreases in deferred income taxes and accrued expenses and deferred revenue. Depreciation and amortization totaled approximately $4.2 million and $4.1 million for fiscal 2006 and 2005, respectively. We expect depreciation and amortization to increase in fiscal 2007 now that we have completed the leasehold improvements related to the consolidation of our two Phoenix locations.

Accounts receivable decreased approximately $0.4 million from fiscal year 2005, primarily as a result of a corresponding decrease in fourth quarter net sales of $0.3 million from the quarter ended October 1, 2005. Days sales outstanding at September 30, 2006 was 64 days, which was higher than the 61 days at October 1, 2005, primarily as a result of higher international sales which have longer payment cycles. Our days sales outstanding typically approximate 60 days.

Inventories decreased approximately $0.2 million from fiscal year 2005. Inventory of approximately $19.4 million as of September 30, 2006 represents 94 days of inventory on hand, an increase from 87 days on hand at October 1, 2005. The levels of inventory fluctuate based on changes in expected production requirements, the fulfillment of orders and availability of raw materials. Inventory amounts will generally take several quarters to adjust to significant changes in future sales. Also, as lead times for raw materials increase, we are required to purchase larger amounts of inventory per order and hold it for longer periods of time. This would have the effect of increasing our days inventory on hand. We expect to fund any increases in inventory caused by sales growth or manufacturing planning requirements from our cash balances and operating cash flows.

Accrued expenses as of September 30, 2006 decreased approximately $2.2 million from the end of fiscal 2005. Accrued salaries and benefits were approximately $0.3 million lower at September 30, 2006 compared to the end of fiscal 2005 due to lower accrued compensation. Other accrued expenses were approximately $2.1 million lower, primarily due to the timing of income tax payments and lower commissions. Deferred revenue at September 30, 2006 was approximately $2.0 million, and included approximately $1.5 million of advance payments from customers and approximately $0.1 million of revenue relating to inventory held at a reseller.

Purchases of property, plant and equipment during the year ended September 30, 2006 totaled approximately $4.1 million, with less than $0.1 million remaining in accounts payable at year-end. During this period, the purchases included $3.6 million for our microelectronic manufacturing facilities, primarily for production equipment and leasehold improvements, and $0.5 million for our display and interface manufacturing facilities.

In connection with our decision to consolidate our Phoenix locations, we entered into a new ten-year operating lease for the expanded headquarters/microelectronic building in fiscal 2005. The project and the consolidation were completed in the second quarter of fiscal 2006 and we incurred approximately $4.1 million in improvements. We also put the Flower Street land and building in Phoenix on the market. We expect proceeds from the sale of the land and building to exceed our net book value of approximately $1.9 million as of September 30, 2006; however, we do not expect any ultimate gain or loss to have a material impact on our consolidated results of operations.

We maintain a pension plan for eligible union employees at our Fort Wayne, Indiana facility pursuant to a collective bargaining agreement. See Note 12 to the consolidated financial statements for additional information. We expect to fund our pension obligation through returns on plan assets and our contributions to the plan over the next several years. Actual contributions will be dependent on the actual investment returns during that period. There were no contributions to the plan in fiscal 2006. We believe that funding the plan over the next several years will not significantly impact our liquidity.

An additional $0.5 million of cash was received pursuant to common stock options exercised throughout fiscal year 2006.

On June 19, 2006, our Board of Directors authorized a stock repurchase program pursuant to which up to 5%, or 1,231,108 shares, of our outstanding common stock may be repurchased from time to time. The duration of the repurchase program is open-ended and is being implemented through a Rule 10b5-1 Stock Purchase Plan. Under the program, the Company can purchase shares of common stock through the open market on a daily basis at prices equal to or less than $5.50 per share without further approval by the Board. The timing and amount of repurchase transactions under this program will depend on market conditions and corporate and regulatory considerations. Through September 30, 2006, we have purchased 241,145 shares of our common stock for $1.2 million under the program. We expect to fund all stock purchases from our cash balances and operating cash flows.

We have a $12.0 million revolving line of credit with JPMorgan Chase Bank, N.A. Borrowings under the line of credit bear interest at the lower of the London Interbank Offered Rate ("LIBOR") plus 1.5%, or the JPMorgan Chase Bank, N.A. "prime rate". The line of credit expires on March 31, 2007. We are currently negotiating the terms and conditions of a new credit facility with JPMorgan Chase Bank, N.A. We are in compliance with all debt covenant requirements contained in our line of credit agreement. As of September 30, 2006, there were no borrowings against the line of credit, and we have not borrowed against the line of credit since April 2003.

We believe that our existing sources of liquidity, including expected cash flows from operating activities, existing cash balances, existing credit facilities and other financing sources, will satisfy our cash requirements for at least the next twelve months.

Contractual Obligations

We have entered into certain long-term contractual obligations that will require various payments over future periods as follows:

	Payments Due by Period as of September 30, 2006				
	Total	Less Than 1 year	1-3 Years	3-5 Years	After 5 Years
			(In thousands)		
Operating leases	$10,180	$1,540	$3,086	$1,965	$3,589
Pension funding(1)	—	—	—	—	—
Total Contractual Cash Obligations	$10,180	$1,540	$3,086	$1,965	$3,589

(1) We are committed to meeting the annual minimum funding requirements relating to our pension plan, which covers approximately 32 employees at our Ft. Wayne facility. We cannot estimate expected minimum funding requirements at this time. We may also make contributions to the pension fund in excess of the minimum funding requirements during any year. See Note 12 to the Consolidated Financial Statements for additional information regarding the pension fund.

Contingencies

On July 22, 2004, July 29, 2004, August 6, 2004 and August 20, 2004, shareholder class action lawsuits entitled *McJimsey v. White Electronic Designs Corporation, et al.* (Case No. CV04-1499-PHX-SRB), *Afework v. White Electronic Designs Corporation, et al* (Case No. CV04-1558-PHX-JWS), *Anders v. White Electronic Designs Corporation, et al.* (Case No. CV04-1632-PHX-JAT), and *Sammarco v. White Electronic Designs Corporation, et al.* (Case No. CV04-1744-PHX-EHC), respectively, were filed in the United States District Court for the District of Arizona against the Company and certain of its current and former officers and directors (the "Defendants"). The actions were consolidated and the Wayne County Employees' Retirement System was appointed as lead plaintiff. A consolidated complaint was filed on or about February 14, 2005. The Defendants' motions to dismiss the consolidated complaint was granted on February 14, 2006. The plaintiffs filed an amended complaint on April 17, 2006 (the "Complaint"). Like the dismissed complaint, the new Complaint alleges, among other things, that between January 23, 2003 and June 9, 2004, the Company made false and misleading statements concerning its financial results and business, and issued a misleading registration statement and prospectus in connection with the Company's July 2003 secondary offering. The Complaint seeks unspecified monetary damages. Defendants filed a motion to dismiss the new Complaint in June 2006. While Defendants' motions were pending, the parties reached an agreement to settle the lawsuit. Pursuant to the terms of the agreement, the Company's insurance carrier will pay the entire $5.7 million settlement amount (of which at least $0.7 million will come from the derivative settlement agreement described below). The agreement, which must be approved by the Court, has been submitted to the Court for preliminary approval. The Court has not set a hearing date on the request for preliminary approval. If preliminary approval is granted, then the members of the class will be notified and allowed an opportunity to object before the Court grants final approval of the agreement. The Company has recorded a liability in our financial statements for the proposed amount of the settlement. In addition, because the insurance carrier has agreed to pay the entire $5.7 million settlement and recovery from the insurance carrier is probable, a receivable has also been recorded for the same amount. Accordingly, there is no impact to the statements of operations or cash flows because the amounts of the settlement and the insurance recovery fully offset each other.

On August 12, 2004 and August 19, 2004, purported derivative actions entitled *Dodt v. Shokrgozar, et al.* (Case No. CV04-1674-PHX-NVW) and *Christ v. Shokrgozar, et al.* (Case No. CV04-1722-PHX-MHM), respectively, were filed in the United States District Court for the District of Arizona against current and former directors and officers of the Company. The Company was also named as a nominal defendant in both actions. The complaints alleged that between January 2003 and the date the complaints were filed, defendants breached their fiduciary duties to the Company by causing the Company to misrepresent its financial results and prospects. The complaints alleged claims for breach of fiduciary duty, gross mismanagement, abuse of control, waste of corporate assets, insider selling, and unjust enrichment, and sought unspecified damages, equitable relief, and restitution against the individual defendants. On June 7, 2005, the Court dismissed the Dodt action and on June 15, 2005, the Court dismissed the Christ action. Mr. Dodt has appealed the dismissal of his complaint. Mr. Dodt filed an appellate brief in June 2006. The Company's response to Mr. Dodt's brief was filed on July 28, 2006. While plaintiff's appeal was pending, the parties reached an agreement to settle the lawsuit. Pursuant to the terms of the agreement, the Company's insurance carrier would pay the entire $300,000 settlement amount (total amount of the settlement is $1.0 million; $0.7 million of which will be used to fund a portion of the $5.7 million class action settlement described above). The agreement, which must be approved by the Court will be submitted to the Court for preliminary approval. If preliminary approval is granted, then shareholders will be notified and allowed an opportunity to object before the Court grants final approval of the agreement. The Company has recorded a liability in our financial statements for the amount of the settlement. In addition, because the insurance carrier has agreed to pay the entire $300,000 settlement and recovery from the insurance carrier is probable, a receivable has also been recorded for the same amount. Accordingly, there is no impact to the statements of operations or cash flows because the amounts of the settlement and the insurance recovery fully offset each other.

In addition, from time to time, the Company is subject to claims and litigation incident to its business. There are currently no such pending proceedings to which the Company is a party that the Company believes will have a material adverse effect on the Company's consolidated results of operations, liquidity, or financial condition.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 151, "Inventory Costs — an amendment of ARB No. 43, Chapter 4." This Statement amends the guidance in Accounting Research Bulletin ("ARB") No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This Statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of abnormal. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement are now in effect for inventory costs incurred in fiscal 2006. The implementation of this Statement has not had a material impact on the Company's consolidated financial condition or results of operations.

In March 2005, the FASB issued Financial Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations." This interpretation clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The Company implemented FIN No. 47 effective September 30, 2006. The implementation of this Statement has not had a material impact on the Company's consolidated financial condition or results of operations.

In July 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes." The interpretation applies to all tax positions related to income taxes subject to FASB Statement No. 109, "Accounting for Income Taxes." FIN No. 48 clarifies the accounting for uncertainty in income taxes by prescribing a minimum recognition threshold in determining if a tax position should be reflected in the financial statements. Only tax positions that meet the "more likely than not" recognition threshold may be recognized. The interpretation also provides guidance on classification, interest and penalties, accounting in interim periods, disclosure, and transition requirements for uncertain tax positions. FIN No. 48 will be effective for the Company's fiscal year ending September 29, 2007. The Company is currently evaluating the impact FIN No. 48 will have on its financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 will be effective for the Company's fiscal year beginning September 28, 2008. SFAS No. 157 is currently being evaluated by the Company and is not expected to have a material impact on the Company's financial condition or results of operations; however, additional disclosures may be required regarding the inputs used to develop the measurements and the effect of certain of the measurements on changes in net assets from period to period.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This pronouncement requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability. SFAS No. 158 also requires an employer to recognize changes in that funded status in the year in which the changes occur through comprehensive income. In addition, this statement requires an employer to measure the funded status of a plan as of the date of its year-end, with limited exceptions. SFAS No. 158 will be effective for the Company's fiscal year ending September 29, 2007. The Company is currently evaluating the impact SFAS No. 158 will have on the Company's financial condition and results of operations.

ITEM 7A *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

As of September 30, 2006, we had no borrowings on our revolving line of credit with JPMorgan Chase Bank, N.A. Should we borrow against the line, interest charged on these borrowings would be at the lower of the JPMorgan Chase Bank, N.A. "prime rate" or the London Interbank Offered Rate ("LIBOR") plus 1.5%. During fiscal 2006, the bank's prime rate averaged 7.68% and was 8.25% as of September 30, 2006.

We are subject to changes in the prime rate based on Federal Reserve actions and general market interest fluctuations. We are also subject to fluctuations in the LIBOR. As of September 30, 2006, the LIBOR was approximately 5.30%. Should we begin borrowing against the credit line, annual interest expense (at 6.80%) would be approximately $68,000 for every $1.0 million borrowed. A hypothetical 1% increase in the interest rate would increase interest expense by approximately $10,000 per $1.0 million borrowed on an annual basis. We believe that moderate interest rate increases will not have a material adverse impact on our consolidated results of operations, liquidity or financial position.

We believe that we are not subject in any material way to other forms of market risk, such as foreign currency exchange risk on foreign customer purchase orders (we accept payment in U.S. dollars only) or commodity price risk.

ITEM 8 *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

The financial statements and supplementary data required by Regulation S-X are included under Part IV, Item 15 of this Annual Report on Form 10-K.

ITEM 9 *CHANGES IN AND DISAGREEMENTS WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON ACCOUNTING AND FINANCIAL DISCLOSURE*

Not applicable.

ITEM 9A *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures. We have evaluated, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as that term is defined under Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934), as amended (the "Exchange Act"). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the fiscal year ended September 30, 2006, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded accurately, processed, summarized and reported within the time periods specified in the SEC rules and forms.

Changes in Internal Control over Financial Reporting. There were no significant changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting. Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or the degree of compliance with internal control policies or procedures may deteriorate.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has undertaken an evaluation of the effectiveness of the Company's internal control over financial reporting as of September 30, 2006 based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation under the COSO framework, management has concluded that the Company's internal control over financial reporting was effective as of September 30, 2006.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, has also audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2006 and the effectiveness of the Company's internal control over financial reporting as of September 30, 2006, as stated in their report which appears in the "Report of Independent Registered Public Accounting Firm" on page 49 of this Form 10-K.

ITEM 9B *OTHER INFORMATION*

Annual Salary Increases

On December 13, 2006, the Compensation Committee of our Board of Directors increased the annual salary of our named executive officers as follows:

Name	Title	Salary
Roger A. Derse	Vice President, Chief Financial Officer, Secretary, Treasurer	$220,500

Cash Bonuses

Also, the Compensation Committee approved fiscal year 2006 discretionary cash bonus payments to executive officers in the following amounts set forth below opposite the name of such officer:

Name	Title	Bonus
Hamid R. Shokrgozar	President, Chief Executive Officer, Chairman of the Board	$25,000
Roger A. Derse	Vice President, Chief Financial Officer, Secretary, Treasurer	$10,000
Dante V. Tarantine	Executive Vice President, Sales & Marketing	$ 7,500

Bonuses were awarded in accordance with the policy established by the Board of Directors and the Compensation Committee. Base salaries and participation in cash bonus plans may be adjusted from time to time as determined by the Compensation Committee of the Board of Directors.

Change in Control Agreements

On December 13, 2006, the Company entered into change in control agreements (the "Change in Control Agreements") with Dan Tarantine, our Vice-President, Sales & Marketing, and Roger A. Derse, our Chief Financial Officer (each an "Executive"). The Change in Control Agreements were designed to diminish the distractions that could result from uncertainties associated with a change in control of the Company by providing the Executives with certain assurances.

The Change in Control Agreements are effective as of December 13, 2006 and will continue in effect as long as the Executive is actively employed by the Company, unless otherwise agreed in writing by each party. The Change in Control Agreements provide that, in the event there is a "change in control" of the Company (as defined in the Change in Control Agreements) and the Executive's employment with the Company is terminated without "cause" (as defined in the Change in Control Agreements) at any time within twelve months following the change if control, the Executive shall receive a severance payment equal to the greater of the Executive's highest annual base salary and bonus of the two years immediately prior to the change in control. The severance payments are generally subject to the employee signing a general release and will be paid without regard to the Executive seeking or obtaining alternative employment. The Change in Control Agreements also provide that any stock options of the Company granted to the Executive shall accelerate and become vested upon a "change in control" of the Company. In addition, the Change in Control Agreements provide that the Executive is entitled to certain health benefits for twelve months following the Executive's termination. In order to avoid any excise tax imposed by Section 4999 of the Internal Revenue Code, the parties have agreed to a ceiling on benefits to be received pursuant to the Change in Control Agreements, to the extent required by the regulations of such section.

Extension of Credit Facility

We have a $12.0 million revolving line of credit with JPMorgan Chase Bank, N.A. Borrowings under the line of credit bear interest at the lower of the London Interbank Offered Rate ("LIBOR") plus 1.5%, or the JPMorgan Chase Bank, N.A. "prime rate." An Amendment effective December 11, 2006 to the JPMorgan Chase Bank, N.A. Loan and Security Agreement dated January 7, 2000 extended the termination date and maturity date on the line of credit to March 31, 2007. We are currently negotiating the terms and conditions of a new credit facility with JPMorgan Chase Bank, N.A. A commitment fee of 0.25% is charged on the unused portion of the line. The Company is in compliance with all debt covenant requirements contained in its line of credit agreement. As of September 30, 2006, there were no borrowings against the line of credit, and we have not borrowed against the line of credit since April 2003.

PART III

ITEM 10 *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

The information required by this Item for our directors is set forth in our 2007 Proxy Statement (which will be filed with the Securities Exchange Commission no later than 120 days following our 2006 fiscal year-end or will be filed in an amendment to this Annual Report on Form 10-K) relating to our annual meeting of shareholders to be held on March 7, 2007 (the "2007 Proxy Statement"), and is incorporated herein by this reference as if set forth in full.

The information required by this Item for our executive officers is set forth under Part I, Item 4, of this Annual Report on Form 10-K, under the subheading "Our Executive Officers".

We have adopted a Code of Ethics and Business Conduct that applies to all of our executive officers, corporate controller and division controllers. A copy of the Code of Ethics and Business Conduct is posted on our internet web site at www.wedc.com. If we make any amendment to, or grant any waivers of, a provision of the Code of Ethics and Business Conduct that applies to our principal executive officer, principal financial officer, director of financial reporting and compliance, corporate controller or division controllers where such amendment or waiver is required to be disclosed under applicable SEC rules, we intend to disclose such amendment or waiver and the reasons therefore on our internet web site. In addition, any waiver of a provision of the Code of Ethics and Business Conduct applicable to any of our directors or executive officers will be disclosed on Form 8-K as required by the NASDAQ Marketplace Rules.

ITEM 11 *EXECUTIVE COMPENSATION*

The information required by this Item is set forth in the 2007 Proxy Statement and is incorporated herein by this reference as if set forth in full.

ITEM 12 *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

The information required by Item 403 of Regulation S-K under this Item is set forth in the 2007 Proxy Statement and is incorporated herein by reference as if set forth in full.

Equity Compensation Plan Information

The following table provides information as of September 30, 2006, with respect to the shares of the Company's common stock that may be issued under the Company's existing equity compensation plans:

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Restricted Stock	Weighted Average Exercise Price of Outstanding Options, Warrants, and Restricted Stock	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders(1)	1,367,502	$4.39	1,056,662
Equity compensation plans not approved by security holders(2)	1,024,294	$4.96	4,827
Total	2,391,796	$4.63	1,061,489

(1) Equity compensation plans approved by security holders include the 1994 Flexible Stock Plan, as amended, the 2001 Director Stock Plan, the Amendment to Company's Stock Plan for Non-Employee Directors and the 2006 Director Restricted Stock Plan.

(2) Equity Compensation Plans not approved by security holders include the following plans:

Shokrgozar Plan — During fiscal 2000, the Company's Board of Directors approved an independent grant to Mr. Shokrgozar for a nonqualified stock option to purchase up to 125,000 shares of common stock at an exercise price of $2.75 per share, vesting over four years. At September 30, 2006, 125,000 shares from this independent option right were still under option.

2000 Broad Based Non-qualified Stock Plan — During fiscal 2001, the Company's Board of Directors approved the 2000 Broad Based Non-qualified Stock Plan, which provides for the issuance of options to purchase shares of Common Stock at an exercise price equal to the fair market value at the date of grant. As of September 30, 2006, 4,827 shares were available for grant and 733,475 granted options were unexercised.

IDS Plan — The Company assumed the IDS Stock Option Plan and 169,000 warrants with the acquisition of IDS in January, 2003. As of September 30, 2006, 46,969 granted options were unexercised and no shares were available for grant, and 118,850 warrants were unexercised.

ITEM 13 *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

The information required by this Item is set forth in the 2007 Proxy Statement and is incorporated herein by this reference as if set forth in full.

ITEM 14 *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

The information required by this Item is set forth in the 2007 Proxy Statement and is incorporated herein by this reference as if set forth in full.

PART IV

ITEM 15 *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

(a)(1) Financial Statements

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

(a)(2) Financial Statement Schedules

INDEX TO FINANCIAL STATEMENT SCHEDULES

(a)(3) Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated May 3, 1998 by and among Bowmar Instrument Corporation and Electronic Designs, Inc. and Bravo Acquisition Subsidiary, Inc. (incorporated herein by reference to Exhibit 2 to the current Report on Form 8-K filed on May 6, 1998.)
2.2	Amendment to Agreement and Plan of Merger dated June 9, 1998 (incorporated herein by reference to Exhibit 2.1A to the Registration Statement on Form S-4 filed on June 11, 1998, Registration No. 333-56565).
2.3	Amendment to Agreement and Plan of Merger dated August 24, 1998 (incorporated herein by reference to Exhibit 2.1B to the Registration Statement on Form S-4, filed on September 2, 1998, Registration No. 333-56565).
2.4	Agreement and Plan of Reorganization dated as of January 22, 2003 by and among White Electronic Designs Corporation, IDS Reorganization Corp., and Interface Data Systems, Inc. (incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K filed January 24, 2003).
2.5	Agreement and Plan of Reorganization dated January 29, 2001, by and among White Electronic Designs Corporation, PV Acquisition Corporation, Panelview, Inc. and Panelview Partners L.P. (incorporated herein by reference to Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q, filed on February 13, 2001).
2.6	Agreement and Plan of Merger dated September 26, 2006, by and between Interface Data Systems, Inc. and White Electronic Designs Corporation.
3.1	Amended and Restated Articles of Incorporation of White Electronic Designs Corporation (incorporated herein by reference to Exhibit 3.1 on Form 10-K filed December 24, 1998).
3.2	Amended and Restated Code of By-Laws of White Electronic Designs Corporation (incorporated herein by reference to Exhibit 3.1 on Form S-3 filed June 2, 2003).
4.1	Shareholder Rights Agreement, effective December 6, 1996, (incorporated herein by reference to Exhibit 5 on Form 8-K, filed on December 19, 1996).

Exhibit Number	Description
4.2	Amendment No. 1 to Rights Agreement, effective as of May 3, 1998 (incorporated herein by reference to Exhibit 4.3 to the Registration Statement on Form S-4, filed on June 11, 1998, Registration No. 333-56565).
4.3*	Amendment No. 2 to Rights Agreement, effective December 5, 2006.
10.1	Agreement to be Bound by Registration Rights Agreements, dated as of May 3, 1998, by and between Bowmar Instrument Corporation and Electronic Designs, Inc. (incorporated herein by reference to Exhibit 10.1 to the Registration Statement on Form S-4, filed on Jun 11, 1998, Registration No. 333-56565).
10.2**	Agreement to be Bound by Severance Agreements and Employment Agreement, dated as of May 3, 1998, by and between Bowmar Instrument Corporation and Electronic Designs, Inc. (incorporated herein by reference to Exhibit 10.2 to the Registration Statement on Form S-4, filed on June 11, 1998, Registration No. 333-56565).
10.3**	1994 Flexible Stock Plan (incorporated herein by reference to Exhibit A to the Company's definitive Proxy Statement prepared in connection with the 1994 Annual Meeting of Shareholders).
10.4**	Amendment to Company's 1994 Flexible Stock Plan, effective May 7, 2001 (incorporated herein by reference to Exhibit 99 to the Registration Statement on Form S-8, filed on May 9, 2001, Registration No. 333-60544).
10.5	Revolving Credit and Term Loan Agreement by and between Bank One, Texas and White Electronic Designs Corporation, an Indiana Corporation, dated January 7, 2000. (Incorporated herein by reference to Exhibit 10.27 to the Company's 10-Q for the quarter ended January 1, 2000).
10.6	First Amendment to Revolving Credit Agreement by and between Bank One effective as of June 3, 2000; Promissory Note effective June 3, 2000, Notice of Final Agreement effective June 3, 2000 (incorporated herein by reference to Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2000).
10.7	Third Modification agreement between Bank One N.A. and White Electronic Designs Corporation, effective March 28, 2002 (incorporated herein by reference to Exhibit 10.38 to the Company's Quarterly Report on Form 10-Q filed on May 13, 2002).
10.8	Fourth Modification agreement between Bank One N.A. and White Electronic Designs Corporation, effective January 13, 2003 (incorporated herein by reference to Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q filed on February 11, 2003).
10.9	Fifth Modification agreement between Bank One N.A. and White Electronic Designs Corporation, effective March 13, 2003 (incorporated herein by reference to Exhibit 10.42 to the Company's Quarterly Report on Form 10-Q filed on May 13, 2003).
10.10	Amendment effective March 28, 2006 to JPMorgan Chase Bank, N.A. Loan and Security Agreement, dated January 7, 2000 (incorporated herein by reference to Exhibit 10.2 on Form 10-Q, filed May 11, 2006).
10.11	Amendment effective June 28, 2006 to JPMorgan Chase Bank, N.A. Loan and Security Agreement, dated January 7, 2000 (incorporated herein by reference to Exhibit 10.2 on Form 10-Q, filed August 10, 2006).
10.12	Rule 10b5-1 Stock Purchase Plan, dated June 21, 2006 (incorporated by reference to Exhibit 10.3 on Form 10-Q, filed August 10, 2006).
10.13*	Amendment effective September 28, 2006 to JPMorgan Chase Bank, N.A. Loan and Security Agreement, dated January 7, 2000.
10.14*	Amendment effective December 11, 2006 to JPMorgan Chase Bank, N.A. Loan and Security Agreement, dated January 7, 2000.
10.15**	White Electronic Designs Corporation 2001 Director Stock Plan (incorporated herein by reference to Exhibit 99 to the Registration Statement on Form S-8, filed on May 9, 2001, Registration No. 333-60536).
10.16**	Amendment to Company's Stock Option Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 99 to the Registration Statement on Form S-8, filed on May 9, 2001, Registration No. 333-60548).

Exhibit Number	Description
10.17**	White Electronic Designs Corporation 2000 Broad Based Employee Stock Option Plan (incorporated herein by reference to Exhibit 99 to the Registration Statement on Form S-8, filed on May 9, 2001, Registration No. 333-60542).
10.18**	Executive Employment Agreement made as of December 14, 2004 between White Electronic Designs Corporation and Hamid R. Shokrgozar (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed on December 16, 2004).
10.19**	Non-Qualified Stock Option Agreement between White Electronic Designs Corporation and Hamid Shokrgozar dated November 10, 1999 (incorporated herein by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K filed on December 23, 2002).
10.20	Industrial Real Estate Lease dated February 4, 1997 between Bowmar Instrument Corp., as tenant, and Allred Phoenix Properties, L.L.C., as landlord (incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended September 27, 1997).
10.21	Sixth Modification Agreement between Bank One N.A. and White Electronic Designs Corporation, effective March 19, 2004 (incorporated here in by reference to Exhibit 10.1 on Form 10-Q, filed on May 14, 2004).
10.22	First Amendment to certain Industrial Real Estate Lease dated February 4, 1997 between White Electronic Designs Corporation (as successor — in — interest of Bowmar Instrument Corp.) and Gus Enterprises — XII, L.L.C. (as successor — in — interest of Allred Phoenix Properties, L.L.C.) dated November 5, 2004 (incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed on December 16, 2004).
10.23**	2006 Director Restricted Stock Plan, effective March 24, 2006 (incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-8, filed on March 24, 2006, Registration No. 333-132688).
10.24**	First Amendment to 2006 Director Restricted Stock Plan, effective August 24, 2006 (incorporated by reference to the Form 8-K filed on August 30, 2006).
10.25**	Form of Restricted Stock Agreement to 2006 Director Restricted Stock Plan, effective August 24, 2006 (incorporated by reference to the Form 8-K filed on August 30, 2006).
10.26***	Change of Control Agreement between Dante V. Tarantine and White Electronic Designs Corporation, effective December 13, 2006.
10.27***	Change of Control Agreement between Roger A. Derse and White Electronic Designs Corporation, effective December 13, 2006.
21.1*	Subsidiaries of White Electronic Designs Corporation.
23.1*	Consent of PricewaterhouseCoopers LLP.
31.1*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1##	Certification Pursuant to 18 U.S. C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002.
32.2##	Certification Pursuant to 18 U.S. C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

** Management compensatory contract, plan or arrangement.

Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WHITE ELECTRONIC DESIGNS CORPORATION

/s/ Roger A. Derse

Roger A. Derse
Chief Financial Officer, Secretary and Treasurer

Date: December 14, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the date indicated:

/s/ Hamid R. Shokrgozar

Hamid R. Shokrgozar
President, Chief Executive Officer and
Chairman of the Board of Directors

Date: December 14, 2006

/s/ Edward A. White

Edward A. White
Vice Chairman of the Board of Directors

Date: December 14, 2006

/s/ Thomas M. Reahard

Thomas M. Reahard
Lead Director

Date: December 14, 2006

/s/ Thomas J. Toy

Thomas J. Toy
Director

Date: December 14, 2006

/s/ Jack A. Henry

Jack A. Henry
Director

Date: December 14, 2006

/s/ Roger A. Derse

Roger A. Derse
Chief Financial Officer, Secretary and Treasurer

Date: December 14, 2006

/s/ Paul D. Quadros

Paul D. Quadros
Director

Date: December 14, 2006

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
White Electronic Designs Corporation:

We have completed integrated audits of White Electronic Designs Corporation's September 30, 2006 and October 1, 2005 consolidated financial statements and of its internal control over financial reporting as of September 30, 2006, and an audit of its October 2, 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of White Electronic Designs Corporation and its subsidiaries at September 30, 2006 and October 1, 2005, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 of the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, effective October 2, 2005.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of September 30, 2006 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Phoenix, Arizona
December 14, 2006

WHITE ELECTRONIC DESIGNS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	September 30, 2006	October 1, 2005
	(In thousands, except per share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 55,829	$ 51,008
Accounts receivable, less allowance for doubtful accounts of $256 and $250	19,020	19,457
Inventories, net	19,401	19,609
Assets held for sale	1,924	—
Prepaid expenses and other current assets	6,512	825
Deferred income taxes	4,323	4,508
Total Current Assets	107,009	95,407
Property, plant and equipment, net	13,367	14,952
Goodwill	5,306	5,670
Intangible assets, net	4,609	5,121
Other assets	217	118
Total Assets	$130,508	$121,268
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 5,794	$ 5,712
Accrued salaries and benefits	2,043	2,356
Other accrued expenses	7,635	3,701
Deferred revenue	1,961	1,797
Total Current Liabilities	17,433	13,566
Accrued long-term pension liability	303	547
Deferred income taxes	1,197	1,725
Other long-term liabilities	1,395	1,210
Total Liabilities	20,328	17,048
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, 1,000,000 shares authorized, no shares issued	—	—
Common stock, $0.10 stated value, 60,000,000 shares authorized, 24,666,390 and 24,479,276 shares issued	2,467	2,448
Treasury stock, 285,587 and 44,442 shares, at par	(29)	(4)
Additional paid-in capital	90,637	90,829
Retained earnings	17,142	11,129
Accumulated other comprehensive loss	(37)	(182)
Total Shareholders' Equity	110,180	104,220
Total Liabilities and Shareholders' Equity	$130,508	$121,268

The accompanying notes are an integral part of these consolidated financial statements.

WHITE ELECTRONIC DESIGNS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended		
	September 30, 2006	October 1, 2005	October 2, 2004
	(In thousands, except share data and per share data)		
Net sales	$ 108,928	$ 117,031	$ 108,962
Cost of sales	75,713	82,298	77,297
Gross profit	33,215	34,733	31,665
Operating expenses:			
Selling, general and administrative	18,970	19,704	18,498
Research and development	6,592	5,634	6,036
Amortization of intangible assets	473	606	641
Goodwill impairment	364	11,435	—
Total operating expenses	26,399	37,379	25,175
Operating income (loss)	6,816	(2,646)	6,490
Interest expense	—	—	2
Interest (income)	(2,180)	(1,138)	(454)
Income (loss) before income taxes	8,996	(1,508)	6,942
Provision for income taxes	2,983	2,027	2,135
Net income (loss)	$ 6,013	$ (3,535)	$ 4,807
Earnings (loss) per share — basic	$ 0.25	$ (0.14)	$ 0.20
Earnings (loss) per share — diluted	$ 0.24	$ (0.14)	$ 0.19
Weighted average number of common shares and equivalents:			
Basic	24,488,041	24,437,672	24,201,436
Diluted	24,930,566	24,437,672	25,001,906

The accompanying notes are an integral part of these consolidated financial statements.

WHITE ELECTRONIC DESIGNS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Shares	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
			(In thousands of dollars, except share data)					
Balance, September 27, 2003	24,067,184	$2,406	$ (4)	$89,129	$(34)	$ 9,857	$(326)	$101,028
Net income						4,807		4,807
Minimum pension liability							109	109
Comprehensive income								4,916
Stock options exercised	220,956	22		575				597
Common stock issued through employee stock purchase plan	47,170	5		264				269
Stock compensation earned during the year					26			26
Tax benefits related to exercise of stock options				379				379
Balance, October 2, 2004	24,335,310	2,433	(4)	90,347	(8)	14,664	(217)	107,215
Net loss						(3,535)		(3,535)
Minimum pension liability							35	35
Comprehensive loss								(3,500)
Stock options exercised	119,752	12		288				300
Common stock issued through employee stock purchase plan	24,214	3		104				107
Stock compensation earned during the year					8			8
Tax benefits related to exercise of stock options				90				90
Balance, October 1, 2005	24,479,276	2,448	(4)	90,829	—	11,129	(182)	104,220
Net income						6,013		6,013
Minimum pension liability							145	145
Comprehensive income								6,158
Stock options and warrants exercised	187,114	19		443				462
Stock-based compensation expense				373				373
Common stock repurchased through common stock purchase plan			(25)	(1,174)				(1,199)
Tax benefits related to exercise of stock options				166				166
Balance, September 30, 2006	24,666,390	$2,467	$(29)	$90,637	$ —	$17,142	$ (37)	$110,180

The accompanying notes are an integral part of these consolidated financial statements.

WHITE ELECTRONIC DESIGNS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended		
	September 30, 2006	October 1, 2005	October 2, 2004
		(In thousands)	
OPERATING ACTIVITIES:			
Net income (loss)	$ 6,013	$ (3,535)	$ 4,807
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,160	4,067	4,416
Amortization of premium on marketable securities	—	—	80
Goodwill impairment	364	11,435	—
Premium on marketable securities	—	—	(120)
Deferred income tax	(404)	670	1,188
(Gain)/loss on disposition of property, plant and equipment	26	(41)	264
Stock-based compensation expense related to employee stock awards	373	—	—
Tax benefit related to exercise of stock options	166	90	379
Excess tax benefits from stock-based compensation	(84)	—	—
Net changes in balance sheet accounts:			
Accounts receivable	437	(418)	650
Inventories	208	5,135	(6,026)
Prepaid expenses and other current assets	313	759	143
Other assets	(99)	10	(40)
Accounts payable	37	(4,239)	996
Accrued expenses and deferred revenue	(2,214)	2,554	(3,494)
Other long-term liabilities	184	(407)	924
Net cash provided by operating activities	9,480	16,080	4,167
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment	(4,060)	(3,509)	(2,299)
Proceeds from disposition of property, plant, and equipment	54	—	—
Proceeds from maturity of marketable security	—	—	5,120
Net cash provided by (used for) investing activities	(4,006)	(3,509)	2,821
FINANCING ACTIVITIES:			
Common stock issued for exercise of options	462	300	598
Common stock issued through employee purchase plan	—	107	268
Repurchase of common stock	(1,199)	—	—
Excess tax benefits from stock-based compensation	84	—	—
Net cash provided by (used for) financing activities	(653)	407	866
Net change in cash	4,821	12,978	7,854
Cash at beginning of year	51,008	38,030	30,176
Cash at end of year	$55,829	$51,008	$38,030
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ —	$ —	$ 2
Cash paid for income taxes	$ 4,649	$ 1,653	$ 167
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Acquisition of property, plant and equipment in accounts payable	$ 45	$ 881	$ —

The accompanying notes are an integral part of these financial statements.

WHITE ELECTRONIC DESIGNS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

White Electronic Designs Corporation (the "Company") designs, develops and manufactures innovative microelectronic and display components and systems for high technology products used in the military/industrial and commercial markets. The Company's microelectronic solutions include advanced semiconductor and state of the art multi-chip packaging, as well as a proprietary process for applying anti-tamper protection to mission critical semiconductor components in military applications. The Company's display solutions include enhanced flat panel display products, interface devices and electromechanical assemblies. The Company's customers, which include military prime contractors in the United States and Europe as well as commercial original equipment manufacturers ("OEMs"), outsource many of their microelectronic and display components and systems to us as a result of the combination of our design, development and manufacturing expertise. The Company's operations include two reportable segments: microelectronic and display, with the majority of sales and operating income generated by the microelectronic segment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly-owed subsidiaries. All significant inter-company accounts and transactions have been eliminated. The Company does not have any investments in less than wholly-owned subsidiaries or any interests in variable interest entities in which the Company is the primary beneficiary.

b. Fiscal Year-End

The Company's fiscal year ends on the Saturday nearest September 30.

c. Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and money market funds purchased with an initial maturity of three months or less to be cash equivalents.

d. Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts to cover potential credit losses relating to its trade accounts receivable. The allowance is based on the Company's historical collection experience as well as an analysis of specific past due accounts. Write-offs against the allowance totaled approximately $32,000 in fiscal 2006, $274,000 in fiscal 2005 and $170,000 in fiscal 2004.

e. Inventories

Inventories are valued at the lower of cost or market with cost determined using the average or standard cost methods, with standard costs approximating actual costs.

f. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is determined on a straight-line basis over the estimated useful lives ranging from 5 to 20 years for buildings and improvements and 3 to 7 years for machinery and equipment. Leasehold improvements are amortized over the lives of the leases or estimated useful lives of the assets, whichever is shorter. When assets are sold or otherwise retired, the cost and accumulated depreciation are removed from the books and the resulting gain or loss is included in operating results. The Company periodically evaluates the carrying value of its property, plant, and equipment in accordance with Statement of Financial

Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", based upon the estimated cash flows to be generated by the related assets. The Company has never had a write-down of property, plant and equipment.

g. Goodwill and Other Intangible Assets

We account for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"). The provisions of SFAS 142 prohibit the amortization of goodwill and indefinite-lived intangible assets and require that such assets be tested annually for impairment (and in interim periods if events or circumstances indicate that the related carrying amount may be impaired). SFAS 142 also requires that reporting units be identified for purposes of assessing potential impairments and eliminated the forty-year limitation on the amortization period of intangible assets that have finite lives.

SFAS 142 requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, which is used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

As of October 1, 2005, the Company completed the first step impairment tests for the goodwill relating to its acquisition of Panelview, Inc. ("Panelview") and the reporting units resulting from the acquisition of Interface Data Systems, Inc. ("IDS"). The fair value of Panelview and the Phoenix-based IDS reporting units did not exceed the related carrying value. The implied fair value of the goodwill was determined and an impairment charge of $11.4 million was recognized for the excess of the carrying amount over the fair value amount in the fourth quarter of fiscal 2005.

Due to the less than expected financial performance in our Columbus, Ohio-based reporting unit, the Company tested goodwill relating to this reporting unit in the third quarter of fiscal 2006. The Company's annual impairment test is done at the end of the fiscal year. The fair value of the Columbus-based IDS reporting unit did not exceed the related carrying value. The implied fair value of the goodwill was determined and an impairment charge of $0.4 million was recognized to write down all of the IDS acquisition value goodwill associated with this reporting unit in the third quarter of fiscal 2006. See Note 7 of the Notes to the Consolidated Financial Statements for further discussion.

Goodwill recorded was $5.3 million and $5.7 million at September 30, 2006 and October 1, 2005, respectively. Furthermore, SFAS 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. Purchased intangible assets are carried at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally two to fifteen years.

h. Product Warranties

Estimated future warranty obligations related to certain products are provided by charges to operations in the period in which the related revenue is recognized. The Company establishes a reserve for warranty obligations based on its historical warranty experience.

i. Revenue Recognition

The Company sells its microelectronic and display products primarily to military prime contractors and commercial OEMs. A small portion of the Company's products are also sold through distributors or resellers. The Company recognizes revenue on product sales when persuasive evidence of an arrangement with the customer exists, title to the product has passed to the customer which usually occurs at time of shipment, the sales price is fixed or determinable, and collectibility of the related billing is reasonably assured. Advance payments from customers are deferred and recognized when the related products are shipped. Revenue relating to products sold to distributors or resellers who either have return rights or where the Company has a history of accepting product returns are deferred and recognized when the distributor or reseller sells the product to the end customer. The Company also provides limited design services pursuant to related customer purchase orders and recognizes the associated revenue generally as such services are performed, however, it may be deferred until certain elements are completed.

The Company may from time to time enter into certain arrangements that contain multiple elements such as performing limited design services accompanied with follow-on manufacturing of related products. The Company allocates revenue to the elements based on relative fair value and recognizes revenue for each element when there is evidence of an arrangement, delivery has occurred or services have been rendered, the price is fixed or determinable and collectibility is reasonable assured. Arrangements with multiple elements that are not considered separate units of accounting require deferral of revenue until certain other elements have been delivered or the services have been performed. The Company's contracts with military prime contractors provide that they may be terminated at the convenience of the U.S. Government. Upon such termination, the Company is normally entitled to receive the purchase price for delivered items, reimbursement for allowable costs incurred and allocable to the contract and an allowance for profit on the allowable costs incurred or adjustment for loss if completion of performance would have resulted in a loss.

j. Shipping Costs

Shipping costs include charges associated with delivery of goods from the Company's facilities to its customers and are reflected in costs of goods sold. Shipping costs paid to the Company by our customers are classified as revenue.

k. Research and Development

Research and development costs are expensed as incurred.

l. Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are recognized, net of any valuation allowance, for deductible temporary differences and net operating loss and tax credit carry forwards.

m. Fair Value of Financial Instruments

The Company values financial instruments as required by SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the relatively short maturity of these items.

n. Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

o. Earnings (Loss) per Share

Basic earnings (loss) per share are computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share are similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued if the increase results in dilution.

A reconciliation of the numerator and denominator of basic and diluted earnings (loss) per share is as follows:

	2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Earnings per share-basic			
Net Income	$6,013,000	24,488,041	$ 0.25
Income available to common stockholders	6,013,000	24,488,041	0.25
Effects of Dilutive Securities			
Stock options	—	442,898	(0.01)
Earnings per share-diluted			
Income available to common stockholders	$6,013,000	24,930,939	$ 0.24

Options excluded from the calculation of diluted earnings per share were 826,582, as the exercise price of those options was greater than the average share price for the period.

	2005		
	Loss (Numerator)	Shares (Denominator)	Per Share Amount
Loss per share-basic			
Net Loss	$(3,535,000)	24,437,672	$(0.14)
Earnings available to common stockholders	(3,535,000)	24,437,672	(0.14)
Effects of Dilutive Securities			
Stock options	—	—	—
Loss per share-diluted			
Loss available to common stockholders	$(3,535,000)	24,437,672	$(0.14)

The effect of common stock equivalents is not included in the diluted loss per share calculation as their inclusion would be anti-dilutive. Stock option shares of 511,591 would have been included in the diluted earnings per share calculation had the Company reported net income for the period. Options of 856,959 had exercise prices greater than the average share price for the period.

	2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Earnings per share-basic			
Net Income	$4,807,000	24,201,436	$ 0.20
Earnings available to common stockholders	4,807,000	24,201,436	0.20
Effects of Dilutive Securities			
Stock options	—	800,470	(0.01)
Earnings per share-diluted			
Earnings available to common stockholders	$4,807,000	25,001,906	$ 0.19

Options excluded from the calculation of diluted earnings per share were 333,000, as the exercise price of those options was greater than the average share price for the period.

p. Stock-Based Compensation

Stock Options

Effective October 2, 2005, the Company adopted SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), which requires the measurement and recognition of compensation expense in the financial statements for all share-based payment awards made to employees and directors based on estimated fair values. This statement was adopted using the modified prospective method of application, which requires the Company to recognize compensation expense on a prospective basis. Therefore, prior period financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining service period of awards that had been granted in prior periods. SFAS 123(R) also requires that excess tax benefits (i.e., tax benefits resulting from share-based compensation deductions in excess of amounts reported for financial reporting purposes) be reflected as financing cash inflows instead of operating cash inflows on our consolidated statements of cash flows. For the fiscal year ended September 30, 2006, the Company recorded compensation expense of $373,000 and cash flows from financing activities of $84,000 for excess tax benefits, which reduced cash flows from operating activities by the same amount. The compensation cost for share-based payment awards is included in selling, general and administrative expenses on our consolidated statements of operations.

Prior to fiscal 2006, the Company applied the intrinsic value method as outlined in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for stock options granted. In accordance with APB Opinion No. 25, no compensation expense was recognized in the accompanying consolidated statements of operations prior to fiscal year 2006 on stock options granted to employees, since all options granted under the Company's stock option programs had an exercise price equal to the market value of the underlying common stock on the date of grant.

Prior to the Company's adoption of SFAS 123(R), SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") required that the Company provide pro forma information regarding net earnings and net earnings per common share as if compensation cost for the Company's stock-based awards had been determined in accordance with the fair value method prescribed therein. The Company had previously adopted the disclosure portion of SFAS No. 148, "Accounting for Stock Based Compensation — Transition and Disclosure," requiring quarterly SFAS 123 pro forma disclosure. The pro forma charge for compensation cost related to stock-based awards was recognized over the service period.

"Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This Statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of abnormal. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement are now in effect for inventory costs incurred in fiscal 2006. The implementation of this Statement has not had a material impact on the Company's consolidated financial condition or results of operations.

In March 2005, the FASB issued Financial Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations." This interpretation clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The Company implemented FIN No. 47 effective September 30, 2006. The implementation of this Statement has not had a material impact on the Company's financial condition or results of operations.

In July 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes". The interpretation applies to all tax positions related to income taxes subject to FASB Statement No. 109, "Accounting for Income Taxes". FIN No. 48 clarifies the accounting for uncertainty in income taxes by prescribing a minimum recognition threshold in determining if a tax position should be reflected in the financial statements. Only tax positions that meet the "more likely than not" recognition threshold may be recognized. The interpretation also provides guidance on classification, interest and penalties, accounting in interim periods, disclosure, and transition requirements for uncertain tax positions. FIN No. 48 will be effective for the Company's fiscal year ending September 29, 2007. The Company is currently evaluating the impact FIN No. 48 will have on the Company's financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 will be effective for the Company's fiscal year beginning September 28, 2008. SFAS No. 157 is currently being evaluated by the Company and is not expected to have a material impact on the Company's financial condition or results of operations; however, additional disclosures may be required regarding the inputs used to develop the measurements and the effect of certain of the measurements on changes in net assets from period to period.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This pronouncement requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability. SFAS No. 158 also requires an employer to recognize changes in that funded status in the year in which the changes occur through comprehensive income. In addition, this statement requires an employer to measure the funded status of a plan as of the date of its year-end, with limited exceptions. SFAS No. 158 will be effective for the Company's fiscal year ending September 29, 2007. The Company is currently evaluating the impact SFAS No. 158 will have on the Company's financial condition and results of operations.

3. FACILITIES CLOSURE

In October 2004, the Company announced that it would be closing its Flower Street facility in Phoenix, Arizona (acquired as part of the IDS acquisition) and relocating employees and the machinery and equipment to the Company's leased facility in the headquarters building. In November 2004, the Company entered into an amendment of its headquarters lease to add another 31,000 square feet of space in this facility which was improved to accommodate the additional manufacturing relocated in the second quarter of fiscal 2006. The amended headquarters lease covers up to approximately 74,000 square feet. The lease term will expire in July 2015 and is subject to two five-year renewal options. The Company incurred approximately $4.1 million in capital expenditures for the leasehold improvements. The Company has put the Flower Street land and building on the market and expects net proceeds from the sale to exceed the net book value; however, the Company does not expect any ultimate gain or loss to have a material impact on its consolidated results of operations (see Note 5).

4. INVENTORIES, NET

Inventories consist of the following (in thousands of dollars):

	September 30, 2006	October 1, 2005
Gross inventories:		
Raw materials	$13,422	$12,933
Work-in-process	5,420	6,603
Finished goods	3,361	3,354
Total gross inventories	22,203	22,890
Less reserve for excess and obsolete inventories	(2,802)	(3,281)
Total net inventories	$19,401	$19,609

Raw materials include approximately $1.5 million and $1.3 million at year end 2006 and 2005, respectively, for which the Company has received advance payment from the customer. These advance payments are recorded as deferred revenue until the finished goods are delivered. The Company maintains reserves for excess and obsolete inventory. Approximately $1.0 million of inventories were written off against the reserve during the fiscal year ended September 30, 2006.

5. ASSETS HELD FOR SALE

Assets held for sale consisted of the following (in thousands of dollars):

	September 30, 2006	October 1, 2005
Land	$ 300	$—
Building and improvements	1,624	—
	$1,924	$—

The Company has land and a building in Phoenix, Arizona on the market as a result of the consolidation of the microelectronic segment and the relocation of the employees to the headquarters facility. The net book value of the land and building is presented as assets held for sale and depreciation of the building was discontinued in the second quarter of fiscal 2006.

6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following (in thousands of dollars):

	September 30, 2006	October 1, 2005
Litigation insurance receivable (Note 14)	$6,000	$ —
Other	512	825
Total accrued expenses	$6,512	$825

7. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the fiscal years ended September 30, 2006 and October 1, 2005 are as follows (in thousands of dollars):

	Microelectronic Segment	Display Segment	Total
Balance as of October 2, 2004	$ 8,636	$ 8,469	$ 17,105
Goodwill impairment	(7,144)	(4,291)	(11,435)
Balance as of October 1, 2005	1,492	4,178	5,670
Goodwill impairment	—	(364)	(364)
Balance as of September 30, 2006	$ 1,492	$ 3,814	$ 5,306

Due to the less than expected financial performance in the Company's interface electronics product line in Columbus, Ohio, the Company tested the goodwill relating to this reporting unit for impairment in the third quarter of fiscal 2006. As a result of this testing, the Company found indicators of goodwill impairment related to this reporting unit. The reporting unit in Ohio was purchased as part of the IDS acquisition in January 2003. Based on the current and forecasted competitive market conditions, the Company lowered earnings and cash flow projections for this reporting unit and expects it to grow more slowly than had previously been projected. Revenue and profitability have not met management's expectations in fiscal 2006 primarily due to reduced demand for current interface products.

Accordingly, the Company wrote down all $0.4 million of the unamortized IDS acquisition goodwill related to the interface electronics reporting unit in the display segment. The fair value of this reporting unit was estimated using standard valuation techniques weighted 65% to a discounted cash flow method, 25% to a market multiples method and 10% to a transaction cost method.

In performing the annual goodwill impairment test in the fourth quarter of fiscal 2005, the Company found indicators of impairment related to the commercial microelectronic reporting unit in Phoenix and the display reporting unit in Oregon. Most of the commercial microelectronic business in Phoenix was purchased as part of the IDS acquisition in January 2003 and the display business in Oregon was purchased in January 2001. Based on the current and forecasted competitive market conditions, the Company had lowered earnings and cash flow projections for these divisions and expects them to grow more slowly than had previously been projected. In the commercial microelectronics business, revenue and profitability did not meet management's expectations in fiscal 2005 primarily due to (1) the market softness of the raw material associated with Dynamic Random Access Memory components which caused a lower average selling price and margin from sales of related products in fiscal 2005; (2) lower than expected orders from one of the division's key customers that experienced a slower than expected growth and market acceptance of its next generation enterprise server systems in fiscal 2005; and (3) the lower than expected sales to a customer that serves the hotel industry because the 2005 hurricanes delayed shipments of that customer's entertainment video systems which affected the Company's product shipment flow to them. In the display business in Oregon, the Company changed its business strategy to pursue markets such as transportation, mobile PC, medical and industrial markets to focus on higher margin products. Accordingly, the Company had to replace the $9.3 million of fiscal year 2005 revenues from NCR Corporation that generated margins lower than management's expectations, despite higher volume business.

Accordingly, in the fourth quarter of fiscal 2005, the Company wrote down $8.5 million of the $10.2 million of unamortized IDS acquisition goodwill related to the commercial microelectronics reporting units of which $7.1 million of the write-down is in the microelectronics segment and $1.4 million is in the display segment. In addition, the Company wrote down $2.9 million of the $6.5 million of unamortized goodwill related to the Panelview reporting unit in the display segment in the fourth quarter of fiscal 2005. The fair values of these reporting units were estimated using standard valuation techniques weighted 75% to a discounted cash flow method, 20% to a market multiples method and 5% to a transaction or cost method.

The consolidation of the Phoenix manufacturing facilities described in Note 3 enabled the Company to consolidate several functions related to its military and commercial microelectronics operations, including financial reporting. Effective for the fourth quarter of fiscal 2006, the former commercial microelectronic reporting unit no longer exists. The microelectronic segment goodwill was evaluated for impairment at September 30, 2006 using the segment as the reporting unit. The remaining display segment goodwill continues to be evaluated at a reporting unit level which represents the display business the Company acquired in Oregon in January 2001.

The Company's intangible assets consist of the following as of September 30, 2006 and October 1, 2005 (in thousands of dollars):

	Gross Amount	Accumulated Amortization	Net Amount
September 30, 2006			
Customer relationships	$4,100	$(1,002)	$3,098
Existing technology	2,427	(1,160)	1,267
Other	1,244	(1,000)	244
Total intangible assets	$7,771	$(3,162)	$4,609
October 1, 2005			
Customer relationships	$4,100	$ (729)	$3,371
Existing technology	2,427	(960)	1,467
Other	1,283	(1,000)	283
Total intangible assets	$7,810	$(2,689)	$5,121

Changes in the carrying amount of acquired intangible assets during fiscal 2006 and 2005 are as follows (in thousands of dollars):

	September 30, 2006	October 1, 2005
Balance at beginning of year	$5,121	$5,643
Change in intangible pension asset	(39)	84
Amortization	(473)	(606)
Balance at end of year	$4,609	$5,121

Estimated Aggregate Amortization Expense for the Next Five Fiscal Years (in thousands):

2007	$ 473
2008	473
2009	473
2010	473
2011	473
Thereafter	1,999
	$4,364

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following (in thousands of dollars):

	September 30, 2006	October 1, 2005
Land	$ 397	$ 697
Buildings and improvements	1,831	3,738
Machinery and equipment	17,461	16,129
Furniture and fixtures	4,163	3,432
Leasehold improvements	6,392	2,225
Construction in progress	678	3,020
Total, at cost	30,922	29,241
Less accumulated depreciation and amortization	(17,555)	(14,289)
Net property, plant and equipment	$ 13,367	$ 14,952

Depreciation expense was $3.7 million, $3.5 million and $3.7 million for fiscal years 2006, 2005 and 2004, respectively.

9. OTHER ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands of dollars):

	September 30, 2006	October 1, 2005
Accrued litigation settlement (Note 14)	$6,000	$ —
Sales commissions	506	914
Warranty	413	622
Income taxes	—	1,308
Other accruals	716	857
Total accrued expenses	$7,635	$3,701

The following table summarizes activity in the warranty reserve for the fiscal years ended September 30, 2006 and October 1, 2005 (in thousands of dollars):

Warranty reserve, October 2, 2004	$ 640
Provision for warranty claims	914
Warranty claims charged against the reserve	(932)
Warranty reserve, October 1, 2005	622
Provision for warranty claims	121
Warranty claims charged against the reserve	(330)
Warranty reserve, September 30, 2006	$ 413

10. LINE OF CREDIT

We have a $12.0 million revolving line of credit with JPMorgan Chase Bank, N.A. Borrowings under the line of credit bear interest at the lower of the London Interbank Offered Rate ("LIBOR") plus 1.5%, or the JPMorgan Chase Bank, N.A. "prime rate". The line of credit expires on March 31, 2007. We are currently negotiating the terms and conditions of a new credit facility with JPMorgan Chase Bank, N.A. A commitment fee of 0.25% is charged on the unused portion of the line. The Company is in compliance with all debt covenant requirements contained in its line of credit agreement. As of September 30, 2006, there were no borrowings against the line of credit, and we have not borrowed against the line of credit since April 2003.

11. INCOME TAXES

The provision for income taxes consists of the following (in thousands of dollars):

	2006	2005	2004
Current			
Federal	$3,186	$1,066	$ 803
State	201	291	144
Total current	3,387	1,357	947
Deferred			
Federal	(298)	818	1,190
State	(106)	(148)	(2)
Total deferred	(404)	670	1,188
Income tax provision	$2,983	$2,027	$2,135

A reconciliation of the income tax provision calculated at the U.S. federal statutory tax rate of 34% to the actual tax provision is as follows (in thousands of dollars):

	2006	2005	2004
Income tax expense (benefit) provision at statutory rate	$3,059	$ (513)	$2,361
State taxes, net of federal benefit	115	(56)	257
Federal and state credits	(47)	(816)	(415)
Extraterritorial income exclusion	(94)	(139)	(30)
Non-deductible goodwill impairment	124	4,311	—
Manufacturers' deduction	(93)	—	—
Adjustments related to prior year accruals	(119)	(786)	—
Other	38	26	(38)
Income tax provision	$2,983	$2,027	$2,135

The income tax effect of loss carry forwards, tax credit carry forwards and temporary differences between financial and tax reporting give rise to the deferred income tax assets and liabilities. Such deferred income tax assets and liabilities consisted of the following (in thousands of dollars):

	September 30, 2006	October 1, 2005
Deferred tax assets:		
Tax credits	$ 275	$ 200
Allowance for doubtful accounts	101	98
Inventories	2,453	2,902
Deferred revenue	771	703
Accrued expenses and other liabilities	856	550
Pension	21	82
Net operating loss carry forwards	1,104	1,359
Deferred tax assets	5,581	5,894
Deferred tax liabilities:		
Property, plant, and equipment	(552)	(1,029)
Intangible assets	(1,722)	(1,908)
Other	(181)	(174)
Deferred tax liabilities	(2,455)	(3,111)
Net deferred tax assets	$ 3,126	$ 2,783

As of September 30, 2006, the Company had federal net operating loss carry forwards of approximately $3.2 million, which expire at various dates through 2018. There were state tax credit carry forwards of approximately $0.3 million as of September 30, 2006, which expire at various dates through 2021.

Ownership changes, as defined in Internal Revenue Code Section 382, have limited the amount of net operating loss carry forwards that can be utilized by the Company annually to offset future taxable income and liability.

During the fourth quarter of fiscal 2005, the Internal Revenue Service completed its examination of our federal income tax returns for the fiscal years ended September 28, 2002 and September 27, 2003. Based on the results of the examination, we decreased our tax liabilities by approximately $0.8 million and decreased income tax expense by a corresponding amount.

In October 2004, Congress passed the American Jobs Creation Act of 2004 (the "Act"), which eliminated the extraterritorial income exclusion, and provides a deduction from taxable income equal to a stipulated percentage of qualified income from domestic production activities, referred to as the manufacturer deduction. The extraterritorial income exclusion will be phased out through 2006, and the manufacturer deduction will be phased in through 2010. Additionally, the federal research and experimentation credit expired on December 31, 2005, which increased the Company's effective rate in fiscal 2006. However, on December 9, 2006, Congress extended the research and experimentation credit through December 31, 2007 and made it retroactive to January 1, 2006, subject to the expected signing by the President of the United States. Due to the provisions of SFAS 109, the Company will record the benefit of the retroactive portion in the fiscal quarter that the bill is enacted.

12. BENEFIT PLANS

Defined Benefit Plan

The Company has a non-contributory pension plan for eligible union employees at its Fort Wayne, Indiana facility pursuant to a collective bargaining agreement. Benefits are based primarily on a benefits multiplier and years of service. The Company funds an amount equal to the minimum funding required plus additional amounts which may be approved by the Company from time to time. There were no contributions to the plan in 2006 and $80,000 was contributed in 2005.

The expected long-term rate of return on plan assets is updated annually taking into consideration the related asset allocation, historical returns on the types of assets held in the plan, and the current economic environment. Based on these factors, the Company expects its plan assets to earn a long-term rate of return of 7.00%. Actual year-by-year returns can deviate substantially from the long-term expected return assumption. However, over time it is expected that the amount of over performance will equal the amount of under performance. Changes in the mix of plan assets could impact the amount of recorded pension income or expense, the funded status of the plan and the need for future cash contributions. The discount rate used to calculate the expected present value of future benefit obligations as of September 30, 2006 was 5.89%. The Company periodically reviews the plan asset mix, benchmark discount rate, expected rate of return and other actuarial assumptions and adjusts them as deemed necessary.

	September 30, 2006	October 1, 2005
	(In thousands)	
Defined Benefit Plan		
Reconciliation of Projected Benefit Obligation		
Benefit obligation beginning of year	$3,363	$3,085
Service cost	63	61
Interest cost	182	183
Benefits paid	(155)	(154)
Actuarial (gain) loss	(136)	188
Benefit obligation end of year	$3,317	$3,363
Reconciliation of Fair Value of Plan Assets		
Plan assets at fair market value beginning of year	$2,811	$2,610
Actual return on plan assets	238	288
Employer contributions	—	80
Benefits paid	(155)	(154)
Expenses	(6)	(13)
Plan assets at fair market value end of year	$2,888	$2,811
Funded Status	$ (428)	$ (552)
Unrecognized prior service cost	244	283
Unrecognized actuarial loss	58	264
Net amount recognized	$ (126)	$ (5)
Amounts recognized in the consolidated balance sheet		
Accrued benefit liability	$ (428)	$ (552)
Intangible assets	244	283
Accumulated other comprehensive loss	58	264
Net amount recognized	$ (126)	$ (5)

	2006	2005	2004
	(In thousands)		
Components of Net Periodic Benefit Cost			
Service cost	$ 89	$ 87	$ 83
Interest cost	182	183	172
Expected return on market-related plan assets	(189)	(177)	(172)
Amortization of prior service cost	39	39	27
Recognized actuarial loss	—	—	11
Net periodic benefit cost	$ 121	$ 132	$ 121

	2006	2005	2004
	(In thousands)		
Additional Information			
Increase (decrease) in minimum liability included in other comprehensive income	$(145)	$(35)	$(109)

The Company's weighted-average assumptions used to determine net periodic benefit cost for the fiscal years ended September 30, 2006, October 1, 2005 and October 2, 2004 are as follows:

	September 30, 2006	October 1, 2005	October 2, 2004
Weighted-Average Assumptions			
Discount Rate	5.89%	5.65%	5.92%
Expected return on plan assets	7.00%	7.00%	7.00%

The expected long-term rate of return on pension assets is selected by taking into account the expected duration of the Projected Benefit Obligation ("PBO") for the plan, and the asset mix of the plan. SFAS No. 87, "Employers' Accounting for Pensions," calls for the rate of return to be the rate to be earned over the period until the benefits represented by the current PBO are paid. The expected return on plan assets is based on the Company's expectation of historical long-term average rates of return on the different asset classes held in the pension fund. This is reflective of the current and projected asset mix of the funds and considers the historical returns earned on our asset allocation and the duration of the plan liabilities. Thus, the Company has taken a historical approach to the development of the expected return on asset assumption. The Company believes that fundamental changes in the markets cannot be predicted over the long-term. Rather, historical returns, realized across numerous economic cycles, should be representative of the market return expectations applicable to the funding of a long-term benefit obligation.

The Company's pension plan asset allocations at September 30, 2006 and October 1, 2005 are as follows (in thousands):

	2006	2005
Cash and cash equivalents	$ 48	$ 102
Fixed income mutual funds	1,203	1,109
Equity mutual funds	1,631	1,594
Other	6	6
Total	$2,888	$2,811

In determining the asset allocation, our investment manager recognizes the Company's desire for funding and expense stability, the long-term nature of the pension obligation and current and projected cash needs for retiree benefit payments. Based on the Company's criteria, it determined the Company's present target asset allocation to be approximately 40%-60% in equity securities and 40%-60% in debt securities. The pension fund is actively managed within the target asset allocation ranges.

As of September 30, 2006 and October 1, 2005, the Company's pension plan assets did not hold any direct investment in the Company's common stock.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

Period	Pension Benefits
2007	$ 191
2008	201
2009	199
2010	211
2011	242
Years 2012-2016	1,339

Stock Purchase Plans

In February 2001, the Company's Board of Directors adopted the White Electronic Designs Corporation 2000 Employee Stock Purchase Plan. This plan provided for the purchase by employees of up to 300,000 shares of common stock at 85% of the fair market value on the first or last day of the offering period (as defined in the plan), whichever is lower. This plan began July 1, 2001; however, it was terminated effective December 31, 2004. The final offering period was from July 1, 2004 through December 31, 2004. There were 24,214 shares issued under this plan in fiscal year 2005, and 47,170 shares issued under this plan in fiscal year 2004.

14. COMMITMENTS AND CONTINGENCIES

The Company leases certain property and equipment under non-cancelable lease agreements, some of which include renewal options, of up to ten years. Total rent expense for fiscal 2006, 2005, and 2004 was approximately $2.0 million, $1.8 million and $1.3 million, respectively. Future minimum annual fixed rentals required under non-cancelable operating leases having an original term of more than one year are approximately $1.5 million in 2007, $1.6 million in 2008, $1.5 million in 2009, $1.1 million in 2010, and $0.9 million in 2011.

As part of mergers, acquisitions and other transactions entered into during the ordinary course of business (including public offerings of our stock), from time to time, the Company has indemnified certain sellers, buyers or other parties related to the transaction from and against certain liabilities associated with conditions in existence (or claims associated with actions taken) prior to the closing of the transaction. These indemnity provisions generally require the Company to indemnify the party against certain liabilities that may arise in the future from the pre-closing activities of the Company. The indemnity classifications include certain operating liabilities, such as patent infringement, claims existing at closing, or other obligations. Given the nature of these indemnity obligations, it is not possible to estimate the maximum potential exposure. We do not consider any of such obligations as having a probable likelihood of payment that is reasonably estimable, and accordingly, we have not recorded any obligations associated with these indemnities.

On July 22, 2004, July 29, 2004, August 6, 2004 and August 20, 2004, shareholder class action lawsuits entitled *McJimsey v. White Electronic Designs Corporation, et al.* (Case No. CV04-1499-PHX-SRB), *Afework v. White Electronic Designs Corporation, et al* (Case No. CV04-1558-PHX-JWS), *Anders v. White Electronic Designs Corporation, et al.* (Case No. CV04-1632-PHX-JAT), and *Sammarco v. White Electronic Designs Corporation, et al.* (Case No. CV04-1744-PHX-EHC), respectively, were filed in the United States District Court for the District of Arizona against the Company and certain of its current and former officers and directors (the "Defendants"). The actions were consolidated and the Wayne County Employees' Retirement System was appointed as lead plaintiff. A consolidated complaint was filed on or about February 14, 2005. The Defendants' motions to dismiss the consolidated complaint were granted on February 14, 2006. The plaintiffs filed an amended complaint on April 17, 2006 (the "Complaint"). Like the dismissed complaint, the new Complaint alleges, among other things, that between January 23, 2003 and June 9, 2004, the Company made false and misleading statements concerning its financial results and business, and issued a misleading registration statement and prospectus in connection with the Company's July 2003 secondary offering. The Complaint seeks unspecified monetary damages. Defendants filed a motion to dismiss the new Complaint in June 2006. While Defendants' motions were pending, the parties reached an agreement to settle the lawsuit. Pursuant to the terms of the agreement, the Company's insurance carrier will pay the entire $5.7 million settlement amount (of which at least $0.7 million will come from the derivative settlement agreement described below). The agreement, which must be approved by the Court, has been submitted to the Court for preliminary approval. The Court has not set a hearing date on the request for preliminary approval. If preliminary approval is granted, then the members of the class will be notified and allowed an opportunity to object before the Court grants final approval of the agreement. The Company has recorded a liability in its financial statements for the proposed amount of the settlement. In addition, because the insurance carrier has agreed to pay the entire $5.7 million settlement and recovery from the insurance carrier is probable, a receivable has also been recorded for the same amount. Accordingly, there is no impact to the Company's statements of operations or cash flows because the amounts of the settlement and the insurance recovery fully offset each other.

On August 12, 2004 and August 19, 2004, purported derivative actions entitled *Dodt v. Shokrgozar, et al.* (Case No. CV04-1674-PHX-NVW) and *Christ v. Shokrgozar, et al.* (Case No. CV04-1722-PHX-MHM), respectively, were filed in the United States District Court for the District of Arizona against current and former directors and officers of the Company. The Company was also named as a nominal defendant in both actions. The complaints alleged that between January 2003 and the date the complaints were filed, defendants breached their fiduciary duties to the Company by causing the Company to misrepresent its financial results and prospects. The complaints alleged claims for breach of fiduciary duty, gross mismanagement, abuse of control, waste of corporate assets, insider selling, and unjust enrichment, and sought unspecified damages, equitable relief, and restitution against the individual defendants. On June 7, 2005, the Court dismissed the Dodt action and on June 15, 2005, the Court dismissed the Christ action. Mr. Dodt has appealed the dismissal of his complaint. Mr. Dodt filed an appellate brief in June 2006. The Company's response to Mr. Dodt's brief was filed on July 28, 2006. While plaintiff's appeal was pending, the parties reached an agreement to settle the lawsuit. Pursuant to the terms of the agreement, the Company's insurance carrier would pay the entire $300,000 settlement amount (total amount of the settlement is $1.0 million; $0.7 million of which will be used to fund a portion of the $5.7 million class action settlement described above). The agreement, which must be approved by the Court will be submitted to the Court for preliminary approval. If preliminary approval is granted, then shareholders will be notified and allowed an opportunity to object before the Court grants final approval of the agreement. The Company has recorded a liability in its financial statements for the amount of the settlement. In addition, because the insurance carrier has agreed to pay the entire $300,000 settlement and recovery from the insurance carrier is probable, a receivable has also been recorded for the same amount. Accordingly, there is no impact to the Company's statements of operations or cash flows because the amounts of the settlement and the insurance recovery fully offset each other.

In addition, from time to time, the Company is subject to claims and litigation incident to its business. There are currently no such pending proceedings to which the Company is a party that the Company believes will have a material adverse effect on the Company's consolidated results of operations, liquidity, or financial condition.

15. CONCENTRATIONS OF CREDIT RISK

Our customers consist mainly of military prime contractors and commercial OEMs and contract manufacturers who work for them, in the United States, Europe and Asia. We perform ongoing credit evaluations of our customers' financial condition and, generally, require no collateral from our customers. Our write-offs of bad debts totaled approximately $32,000 in fiscal 2006, $274,000 in fiscal 2005, and $170,000 in fiscal 2004. Sales to military customers accounted for approximately $52.3 million, or 48%, of our sales in fiscal 2006, as compared to approximately $49.3 million, or 42%, of our sales in fiscal 2005. Sales to our commercial customers accounted for approximately $56.6 million, or 52%, of our sales in fiscal 2006, as compared to $67.8 million, or 58%, of our sales in fiscal 2005.

In fiscal 2006, On Command Corporation accounted for approximately $7.4 million, or 12%, of microelectronic segment net sales, while Hewlett Packard Company accounted for approximately $8.6 million, or 18%, of display segment net sales. In fiscal 2005, On Command Corporation accounted for approximately $9.3 million, or 15%, of our microelectronic segment sales, while NCR Corporation accounted for approximately $9.3 million, or 18%, of our display segment sales. No one customer accounted for 10% or more of total net sales for fiscal year 2006 or 2005. Foreign sales for fiscal 2006, 2005 and 2004 were approximately $31.1 million, $20.7 million and $18.4 million, respectively. Additional information concerning sales by geographic area can be found in Note 17.

Throughout the year, the Company maintained certain bank account balances in excess of the FDIC insured limits.

16. SHAREHOLDERS RIGHTS PLAN

On December 6, 1996, the Board of Directors adopted a shareholder rights plan to protect shareholders against unsolicited attempts to acquire control of the Company, under certain circumstances, including situations in which the Board believes that an inadequate price is being offered to shareholders. On November 30, 2006, the Board of Directors approved Amendment No. 2 to the rights plan extending the plan until December 5, 2016. Amendment No. 2 also increased the purchase price for each common share pursuant to the exercise of a Right (as defined in the plan) from $20 to $40, subject to adjustment from time to time as provided in the plan.

17. FINANCIAL DATA BY BUSINESS SEGMENT

The Company has two business segments, each of which requires different design and manufacturing resources and generally serves customers in different markets. The microelectronic segment accounted for approximately 55% of total Company net sales in fiscal 2006, while the display segment accounted for approximately 45% of total Company net sales in fiscal 2006.

Our microelectronic segment packages semiconductor products mainly for memory storage. Our products are sold to military prime contractors and commercial OEMs in the aerospace, defense, military equipment, computer networking and telecommunication industries. Certain industries require these semiconductor parts to pass specific qualifications due to the application requirements for those products. A commercial grade product generally meets the standard of industries such as the consumer electronic, computer networking and telecommunication/data-communication industries. Higher performing products, also known as high-reliability products, are needed in certain industries, such as aerospace, defense, and military equipment, and are often referred to as "military" products. Military products are designed to meet more stringent standards and are resistant to adverse conditions, such as high and low extreme temperatures. High-reliability products can also be used in industrial applications where products are exposed to harsh conditions. Our microelectronic segment also includes our anti-tamper security coating for mission critical semiconductor components in military applications.

The display segment serves a number of markets with products and solutions that are incorporated into global positioning systems, home appliances, consumer electronics, medical devices, outdoor displays, military avionics and various military applications. Our display segment manufactures enhanced viewing liquid crystal flat panel display products, interface devices and electromechanical assemblies. Enhanced viewing liquid crystal displays and sunlight readable displays can be used in either ruggedized or commercial applications. Ruggedized displays are manufactured to perform in harsh environmental conditions, while commercial display products offer greater viewing performance than off-the-shelf displays, but are not designed for harsh environmental conditions. Interface devices include electromechanical components and instrument packages that can consist of ruggedized keyboards, aircraft trim panels, rotating devices, mechanical packages, membrane keypads, silver flexible circuits, graphic overlays, control panels, and keypad/controller assemblies.

The Company's segments have common customers, mainly in the aerospace defense industry. Different purchasing groups within the customers' parent company, however, usually purchase the products from each segment. There are no inter-segment sales. Transfers of inventory between segments are made at cost, and are treated as transfers between locations.

The assets identified by segment are those assets used in the Company's operations and do not include general corporate assets such as cash, deferred tax assets, and an insurance receivable related to shareholder litigation. Capital expenditures exclude equipment under operating leases.

In fiscal 2006, Hewlett Packard Company accounted for 18% of display segment net sales, while On Command Corporation accounted for 12% of microelectronic segment net sales.

In fiscal 2005, NCR Corporation accounted for 18% of display segment net sales, while On Command Corporation accounted for 15% of microelectronic segment net sales.

In fiscal 2004, Whirlpool Corporation accounted for 12% of display segment net sales. No one customer accounted for more than 10% of microelectronic net sales in fiscal 2004.

A significant portion of the Company's business activity in each segment is from contractors who have contracts with the United States Department of Defense.

A significant portion of the Company's net sales were shipped to foreign customers. Export sales as a percent of total net sales in fiscal 2006, 2005 and 2004 were 29%, 18% and 17%, respectively. A summary of net sales by geographic region is as follows (in thousands of dollars):

	2006	2005	2004
United States of America	$ 77,814	$ 96,295	$ 90,529
Europe and Middle East	10,761	10,412	11,360
Asia Pacific	16,742	8,076	4,765
Other	3,611	2,250	2,308
Total Sales	$108,928	$117,033	$108,962

OPERATIONS BY BUSINESS SEGMENTS

	2006	2005 (In thousands)	2004
Net sales			
Microelectronics	$ 60,197	$ 64,083	$ 60,691
Display	48,731	52,948	48,271
Total net sales	$108,928	$117,031	$108,962
Income (loss) before tax(1)			
Microelectronics	$ 9,336	$ 3,133	$ 8,477
Display	(340)	(4,641)	(1,535)
Total income (loss) before tax	$ 8,996	$ (1,508)	$ 6,942
Identifiable assets			
Microelectronics	$ 36,518	$ 38,780	$ 44,760
Display	27,622	26,853	37,330
General corporate	66,368	55,635	42,810
Total identifiable assets	$130,508	$121,268	$124,900
Capital expenditures			
Microelectronics	$ 3,607	$ 3,822	$ 1,125
Display	498	568	1,175
Total capital expenditures	$ 4,105	$ 4,390	$ 2,300
Depreciation and amortization expense			
Microelectronics	$ 2,435	$ 2,304	$ 2,467
Display	1,725	1,763	1,949
Total depreciation and amortization expense	$ 4,160	$ 4,067	$ 4,416

(1) Fiscal year 2006 reflects a non-cash goodwill impairment charge of approximately $0.4 million for the display segment in connection with the review of goodwill for impairment in the third quarter. Fiscal year 2005 reflects a non-cash goodwill impairment charge of approximately $7.1 million for the microelectronic segment and $4.3 million for the display segment in connection with the annual review of goodwill for impairment.

18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Fiscal 2006				
	Year	Sep 30	Jul 1	Apr 1	Dec 31
	(In thousand of dollars, except per share data)				
Net sales	$108,928	$29,726	$26,944	$27,380	$24,880
Gross profit	$ 33,215	$ 8,532	$ 8,448	$ 8,968	$ 7,268
Income before income taxes	$ 8,996	$ 2,885	$ 2,284	$ 2,597	$ 1,231
Net income	$ 6,013	$ 2,029	$ 1,459	$ 1,716	$ 810
Earnings per share-basic	$ 0.25	$ 0.08	$ 0.06	$ 0.07	$ 0.03
Earnings per share-diluted	$ 0.24	$ 0.08	$ 0.06	$ 0.07	$ 0.03

	Fiscal 2005				
	Year	Oct 1(1)	Jul 2	Apr 2	Jan 1
	(In thousand of dollars, except per share data)				
Net sales	$117,031	$29,976	$30,329	$27,860	$28,866
Gross profit	$ 34,733	$ 9,373	$ 9,170	$ 8,653	$ 7,537
Income (loss) before income taxes	$ (1,508)	$(8,164)	$ 2,747	$ 2,212	$ 1,697
Net income (loss)	$ (3,535)	$(8,321)	$ 2,070	$ 1,506	$ 1,210
Earnings (loss) per share-basic	$ (0.14)	$ (0.34)	$ 0.08	$ 0.06	$ 0.05
Earnings (loss) per share-diluted	$ (0.14)	$ (0.34)	$ 0.08	$ 0.06	$ 0.05

(1) During the quarter ended October 1, 2005, the Company recorded a non-cash goodwill impairment charge of $11.4 million and a favorable $0.8 million income tax adjustment. The goodwill impairment did not have a corresponding income tax benefit.

Schedule II

White Electronic Designs Corporation and Subsidiaries
Valuation and Qualifying Accounts and Reserves

The following reserves were deducted in the balance sheet from the asset to which applicable (in thousands of dollars):

Fiscal Year Ended	Balance at Beginning of Period	Charged/ (Credited) to Costs and Expenses	Other	Deductions	Balance at End of Period
Accounts Receivable					
September 30, 2006	$ 250	$ 38	$ —	$ (32)	$ 256
October 1, 2005	$ 560	$ (36)	$ —	$ (274)	$ 250
October 2, 2004	$ 397	$ 333	$ —	$ (170)	$ 560
Inventories					
September 30, 2006	$3,282	$ 895	$(399)(1)	$ (976)	$2,802
October 1, 2005	$4,350	$1,455	$(659)(1)	$(1,864)	$3,282
October 2, 2004	$4,858	$1,011	$(643)(2)	$ (876)	$4,350

(1) Relates primarily to sales of parts previously reserved for.

(2) Relates primarily to the closure of the Massachusetts facility and the related disposition/transfer of inventory.

Exhibit Index

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated May 3, 1998 by and among Bowmar Instrument Corporation and Electronic Designs, Inc. and Bravo Acquisition Subsidiary, Inc. (incorporated herein by reference to Exhibit 2 to the current Report on Form 8-K filed on May 6, 1998.)
2.2	Amendment to Agreement and Plan of Merger dated June 9, 1998 (incorporated herein by reference to Exhibit 2.1A to the Registration Statement on Form S-4 filed on June 11, 1998, Registration No. 333-56565).
2.3	Amendment to Agreement and Plan of Merger dated August 24, 1998 (incorporated herein by reference to Exhibit 2.1B to the Registration Statement on Form S-4, filed on September 2, 1998, Registration No. 333-56565).
2.4	Agreement and Plan of Reorganization dated as of January 22, 2003 by and among White Electronic Designs Corporation, IDS Reorganization Corp., and Interface Data Systems, Inc. (incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K filed January 24, 2003).
2.5	Agreement and Plan of Reorganization dated January 29, 2001, by and among White Electronic Designs Corporation, PV Acquisition Corporation, Panelview, Inc. and Panelview Partners L.P. (incorporated herein by reference to Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q, filed on February 13, 2001).
2.6	Agreement and Plan of Merger dated September 26, 2006, by and between Interface Data Systems, Inc. and White Electronic Designs Corporation.
3.1	Amended and Restated Articles of Incorporation of White Electronic Designs Corporation (incorporated herein by reference to Exhibit 3.1 on Form 10-K filed December 24, 1998).
3.2	Amended and Restated Code of By-Laws of White Electronic Designs Corporation (incorporated herein by reference to Exhibit 3.1 on Form S-3 filed June 2, 2003).
4.1	Shareholder Rights Agreement, effective December 6, 1996, (incorporated herein by reference to Exhibit 5 on Form 8-K, filed on December 19, 1996).
4.2	Amendment No. 1 to Rights Agreement, effective as of May 3, 1998 (incorporated herein by reference to Exhibit 4.3 to the Registration Statement on Form S-4, filed on June 11, 1998, Registration No. 333-56565).
4.3*	Amendment No. 2 to Rights Agreement, effective December 5, 2006.
10.1	Agreement to be Bound by Registration Rights Agreements, dated as of May 3, 1998, by and between Bowmar Instrument Corporation and Electronic Designs, Inc. (incorporated herein by reference to Exhibit 10.1 to the Registration Statement on Form S-4, filed on Jun 11, 1998, Registration No. 333-56565).
10.2**	Agreement to be Bound by Severance Agreements and Employment Agreement, dated as of May 3, 1998, by and between Bowmar Instrument Corporation and Electronic Designs, Inc. (incorporated herein by reference to Exhibit 10.2 to the Registration Statement on Form S-4, filed on June 11, 1998, Registration No. 333-56565).
10.3**	1994 Flexible Stock Plan (incorporated herein by reference to Exhibit A to the Company's definitive Proxy Statement prepared in connection with the 1994 Annual Meeting of Shareholders).
10.4**	Amendment to Company's 1994 Flexible Stock Plan, effective May 7, 2001 (incorporated herein by reference to Exhibit 99 to the Registration Statement on Form S-8, filed on May 9, 2001, Registration No. 333-60544).
10.5	Revolving Credit and Term Loan Agreement by and between Bank One, Texas and White Electronic Designs Corporation, an Indiana Corporation, dated January 7, 2000. (Incorporated herein by reference to Exhibit 10.27 to the Company's 10-Q for the quarter ended January 1, 2000).
10.6	First Amendment to Revolving Credit Agreement by and between Bank One effective as of June 3, 2000; Promissory Note effective June 3, 2000, Notice of Final Agreement effective June 3, 2000 (incorporated herein by reference to Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2000).

Exhibit Number	Description
10.7	Third Modification agreement between Bank One N.A. and White Electronic Designs Corporation, effective March 28, 2002 (incorporated herein by reference to Exhibit 10.38 to the Company's Quarterly Report on Form 10-Q filed on May 13, 2002).
10.8	Fourth Modification agreement between Bank One N.A. and White Electronic Designs Corporation, effective January 13, 2003 (incorporated herein by reference to Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q filed on February 11, 2003).
10.9	Fifth Modification agreement between Bank One N.A. and White Electronic Designs Corporation, effective March 13, 2003 (incorporated herein by reference to Exhibit 10.42 to the Company's Quarterly Report on Form 10-Q filed on May 13, 2003).
10.10	Amendment effective March 28, 2006 to JPMorgan Chase Bank, N.A. Loan and Security Agreement, dated January 7, 2000 (incorporated herein by reference to Exhibit 10.2 on Form 10-Q, filed May 11, 2006).
10.11	Amendment effective June 28, 2006 to JPMorgan Chase Bank, N.A. Loan and Security Agreement, dated January 7, 2000 (incorporated herein by reference to Exhibit 10.2 on Form 10-Q, filed August 10, 2006).
10.12	Rule 10b5-1 Stock Purchase Plan, dated June 21, 2006 (incorporated by reference to Exhibit 10.3 on Form 10-Q, filed August 10, 2006).
10.13*	Amendment effective September 28, 2006 to JPMorgan Chase Bank, N.A. Loan and Security Agreement, dated January 7, 2000
10.14*	Amendment effective December 11, 2006 to JPMorgan Chase Bank, N.A. Loan and Security Agreement, dated January 7, 2000.
10.15**	White Electronic Designs Corporation 2001 Director Stock Plan (incorporated herein by reference to Exhibit 99 to the Registration Statement on Form S-8, filed on May 9, 2001, Registration No. 333-60536).
10.16**	Amendment to Company's Stock Option Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 99 to the Registration Statement on Form S-8, filed on May 9, 2001, Registration No. 333-60548).
10.17**	White Electronic Designs Corporation 2000 Broad Based Employee Stock Option Plan (incorporated herein by reference to Exhibit 99 to the Registration Statement on Form S-8, filed on May 9, 2001, Registration No. 333-60542).
10.18**	Executive Employment Agreement made as of December 14, 2004 between White Electronic Designs Corporation and Hamid R. Shokrgozar (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed on December 16, 2004).
10.19**	Non-Qualified Stock Option Agreement between White Electronic Designs Corporation and Hamid Shokrgozar dated November 10, 1999 (incorporated herein by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K filed on December 23, 2002).
10.20	Industrial Real Estate Lease dated February 4, 1997 between Bowmar Instrument Corp., as tenant, and Allred Phoenix Properties, L.L.C., as landlord (incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended September 27, 1997).
10.21	Sixth Modification Agreement between Bank One N.A. and White Electronic Designs Corporation, effective March 19, 2004 (incorporated here in by reference to Exhibit 10.1 on Form 10-Q, filed on May 14, 2004).
10.22	First Amendment to certain Industrial Real Estate Lease dated February 4, 1997 between White Electronic Designs Corporation (as successor — in — interest of Bowmar Instrument Corp.) and Gus Enterprises — XII, L.L.C. (as successor — in — interest of Allred Phoenix Properties, L.L.C.) dated November 5, 2004 (incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed on December 16, 2004).
10.23**	2006 Director Restricted Stock Plan, effective March 24, 2006 (incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-8, filed on March 24, 2006, Registration No. 333-132688).

Exhibit Number	Description
10.24**	First Amendment to 2006 Director Restricted Stock Plan, effective August 24, 2006 (incorporated by reference to the Form 8-K filed on August 30, 3006).
10.25**	Form of Restricted Stock Agreement to 2006 Director Restricted Stock Plan, effective August 24, 2006 (incorporated by reference to the Form 8-K filed on August 30, 2006).
10.26***	Change of Control Agreement between Dante V. Tarantine and White Electronic Designs Corporation, effective December 13, 2006.
10.27***	Change of Control Agreement between Roger A. Derse and White Electronic Designs Corporation, effective December 13, 2006.
21.1*	Subsidiaries of White Electronic Designs Corporation.
23.1*	Consent of PricewaterhouseCoopers LLP.
31.1*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1##	Certification Pursuant to 18 U.S. C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002.
32.2##	Certification Pursuant to 18 U.S. C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

** Management compensatory contract, plan or arrangement.

Furnished herewith.