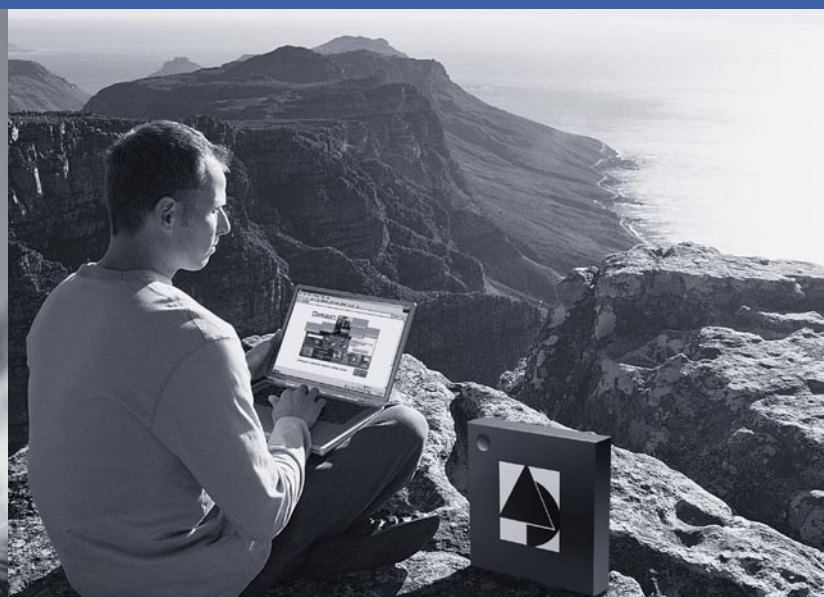


# ANADIGICS



WIRELESS



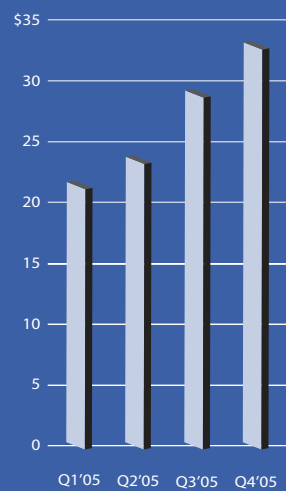
BROADBAND

Dear ANADIGICS Shareholders,

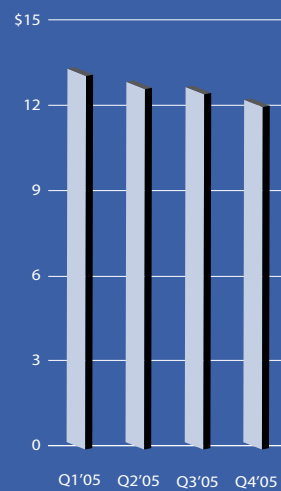


2005 was a successful year for ANADIGICS compared with 2004, as our revenue increased by \$17 million, or 19%, and our net loss was reduced by \$11.8 million, or \$0.41 per share. Our broadband product revenue grew 20% and our wireless product revenue increased 17%.

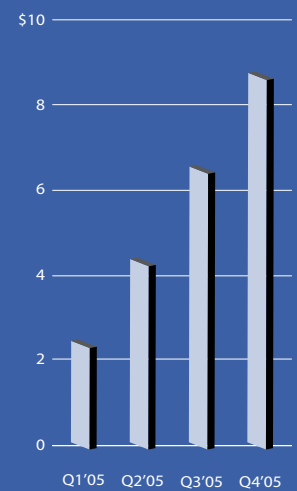
**Revenue**  
(in millions)



**Operating Expenses**  
(in millions)



**Gross Profit**  
(in millions)



In 2005, we continued to pursue our objective to be a leading supplier of radio frequency integrated circuits (RFICs). In particular, we further strengthened our position with tier-one manufacturers and expanded our relationships with leading chipset providers in both the broadband and wireless communication markets. As a result of our focus on developing a leading portfolio of radio frequency (RF) products and recent industry trends resulting in an increase in the number of our components incorporated into certain end-user products, we believe that in 2006 our unit sales growth will begin to outpace the overall unit sales growth in the broadband and wireless end-user product markets.

We expect our growth in dollar content per end-user product in 2006 will be driven by our market positioning and recent industry trends requiring:

- Multiple power amplifiers (PAs) for 3G W-CDMA/EDGE wireless handsets;
- Multiple PAs for WLAN networking products as the standards migrate from the 802.11 b/g standard to the multi-band 802.11 a/b/g standard and the 802.11n standard (MIMO); and
- Multiple semiconductor tuners and active splitter integrated circuits for multifunction DVR and PVR set-top boxes.

We will continue to seek to expand our gross margins by focusing on those products and markets where we currently enjoy a leading market position and have strong technological leadership. We expect that this strategy will allow us to increase the number of relatively higher-margin products that we sell and thereby improve our product mix within both broadband and wireless. In addition, we believe that our gross margins will expand to the extent we achieve increased utilization of our fab.

We remain committed to developing differentiated products that offer our customers superior value. For example, our proprietary InGaP-*plus*<sup>™</sup> technology, which combines the bipolar technology of a PA (HBT PA) with the surface device technology of an RF active switch (pHEMT) on the same die, continues to allow us to take advantage of the integration trends in the end-user product markets we serve. We use InGaP-*plus*<sup>™</sup> technology for many of our advanced products, including wireless handset PAs, WLAN PAs and semiconductor tuners.

## Wireless

The wireless market for our products remains robust as manufacturers increase the multimedia capabilities of wireless handsets,

and operators adopt new 3G standards to support features, such as streaming video. Our comprehensive portfolio of RF products offer distinct performance advantages for the major air interface standards, including CDMA, EV-DO, GSM/GPRS, EDGE, W-CDMA, and WiBro. Our industry-leading PAs are specified on marquee reference designs such as Qualcomm, Texas Instrument, and mediaTek, and are used by top-tier customers that include, LG Electronics, Samsung, RIM, Kyocera, TCL Communication Technology, Huawei, ZTE, Novatel Wireless, and Sierra Wireless. Customer preference for our world-class wireless products continues to fuel growth, which resulted in a 17% increase in wireless product revenue in 2005 as compared to the prior year.

The growing trend toward high-speed mobile internet access is propelled by the deployment of next-generation W-CDMA networks based on the HSDPA standard and compatibility with current GPRS and EDGE networks. The WEDGE market, which is defined by applications that combine W-CDMA and EDGE functionality, represents a significant growth opportunity for our company and is estimated to be the fastest growing air interface standard in the wireless market. The adoption of 3G technologies has led to wireless handset designs that use multiple power amplifiers capable of working with both older frequencies and the newer 3G frequencies. These wireless handsets also require power amplifiers with superior performance specifications and higher levels of integration. Our third generation high-efficiency-at-low-power (HELP3<sup>™</sup>) power amplifiers are transforming the industry by enabling handset manufacturers to offer unprecedented levels of multimedia functionality without compromising talk-time. We have forged strong alliances with reference design companies to help manufacturers overcome the integration and current consumption challenges that result from the increasing level of complexity. QUALCOMM's MSM6275 HSDPA-compliant reference design specifies four of our power amplifiers covering three W-CDMA and four EDGE frequency bands. This trend toward multi-band 3G solutions and the emergence of embedded 3G functionality in notebook computers positions us to significantly increase our unit volume per end-user product, thereby increasing our sales and market share within this attractive market.

Our entrance into the GSM/GPRS PA market represents a true success story for the company. Our execution of a generational compatible design strategy coupled with performance enhancements made possible by our InGaP-*plus*<sup>™</sup> technology enabled us to quickly capture market share and increase our GSM revenue by greater than 270% in 2005 as compared to the prior year. Working closely with leading transceiver manufacturers and reference design companies, we continue to offer world-class

solutions for OEM, ODMs, and contract manufacturers. Our PowerPlexer™ integrated transmit module targets the growing segment of the market that requires smaller RF subsections, high performance, and lower engineering costs. We are making significant inroads into this market.

### **Broadband**

We are a leader in many of the broadband markets that we serve and continue to improve our market position and achieve impressive growth, which was exemplified by the increase in our 2005 broadband product revenues of approximately 20%. Our broadband products include WLAN PAs, semiconductor integrated tuners, active splitters, cable infrastructure integrated circuits and WiMAX PAs. Our customers in our broadband markets are some of the trendsetters in the industry, including Intel, Motorola, and Scientific Atlanta. We believe the markets for our broadband products are characterized by fewer competitors, higher barriers to entry, and longer design cycles. We continue to capitalize on this stable growth platform by expanding our leading market positions in the broadband markets that we serve.

We are a major supplier of InGaP HBT PAs for WLAN applications. Our comprehensive portfolio of WLAN solutions includes PAs and front-end integrated circuits for the major WLAN standards including 802.11 b/g, 802.11 a/b/g, and 802.11n (MIMO). Our high performance 802.11 b/g PAs were shipped as the primary source of PAs in Intel Centrino™ mobile technology products in 2005, and our dual-band 802.11 a/b/g PAs continue to be the primary source of PAs in Intel Duo Centrino™ mobile technology products in 2006. Our WLAN PAs are also featured in certain Atheros, and Broadcom reference designs and power wireless routers. Our new generation of WLAN products are optimized for high-throughput 802.11n, or MIMO, products, as well as ultra-low power and compact embedded WLAN functionality in wireless handsets, PDAs, digital cameras, printers, audio devices, and gaming consoles. We believe that our long-term relationship with industry icons, such as Intel, coupled with world-class products for emerging WLAN markets provide the foundation for our continued success.

Advanced functionality such as DVR, HDTV, wireless Internet access, interactive services, home networking, and gaming are driving demand for both new and replacement set-top boxes. As an established long-term supplier to Motorola and Scientific Atlanta, we are well positioned to benefit from this trend. Complex

DVR set-top boxes offer additional sockets for our high-performance products, requiring not only multiple semiconductor tuner integrated circuits, but also an integrated tuner. As the demand for this type of high-end set-top box continues to grow, we expect the demand for the components we manufacture to increase more rapidly than the end-user product market. Furthermore, DTV, HDTV, PC-TV cards, and the upcoming DOCSIS 3.0 cable modems represent future growth catalysts for our line of semiconductor integrated tuners and active splitters.

We are a leading supplier of line amplifiers, drop amplifiers and photodetector diodes to the cable infrastructure market. This market is experiencing growth as a result of, among other factors, increasing cable television infrastructure bandwidth for 1GHz applications, the increased deployment of cable television fiber nodes, as well as fiber-to-the home. Historically, we have enjoyed long product life cycles in these markets.

### **Fabrication Facility**

Our primary fab is a state-of-the-art six-inch diameter GaAs fab located at our corporate headquarters in Warren, NJ, and has been operational since 1999. Unlike traditional silicon CMOS fabs that have short technology lifecycles and require frequent capital investments, GaAs fabs are more similar to analog fabs that have long lifecycles and do not become quickly outdated. We believe that this facility will enable us to capitalize on market trends of growing demands for RFICs. Our six-inch wafer fab allows us to produce more than twice the RF die per wafer compared with the four-inch wafer fabs still used by some of our leading competitors. We believe our strong fabrication capability and available capacity, combined with integrated product design and logistics expertise, allow us to quickly develop and manufacture products to meet market and consumer requirements.

I would like to thank all of our shareholders, employees, customers, partners, and suppliers for their contributions to ANADIGICS' accomplishments in 2005. I am optimistic about our future growth and look forward to working together to continue our success in 2006.

Sincerely,



Dr. Bami Bastani  
President & Chief Executive Officer

**Selected Financial Data**

The selected financial data set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our financial statements, related notes and other financial information included herein. The selected consolidated financial data set forth below as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004, and 2003 have been derived from our audited financial statements included herein. The selected consolidated financial data set forth below as of December 31, 2003, 2002 and 2001 and for the years ended December 31, 2002 and 2001 have been derived from our audited financial statements that are not included herein or incorporated by reference herein. Our historical results are not necessarily indicative of the results that may be expected for any future period.

	2001	2002	2003	2004	2005
<b>Results of Operations:</b>					
Net sales	\$ 84,765	\$ 82,564	\$ 75,212	\$ 91,350	<b>\$108,281</b>
Gross profit (loss)	(2,932)	7,262	3,285	13,995	<b>22,352</b>
Operating loss	(85,986)	(65,565)	(50,998)	(41,822)	<b>(28,727)</b>
Loss before income taxes	(82,782)	(52,183)	(51,139)	(43,082)	<b>(31,233)</b>
Net loss	(107,120)	(55,886)	(50,757)	(43,082)	<b>(31,233)</b>
Loss per share:					
Basic	\$ (3.54)	\$ (1.83)	\$ (1.65)	\$ (1.33)	<b>\$ (0.92)</b>
Diluted	\$ (3.54)	\$ (1.83)	\$ (1.65)	\$ (1.33)	<b>\$ (0.92)</b>
<b>Balance Sheet Data:</b>					
Total cash and marketable securities	\$200,095	\$155,518	\$121,630	\$104,051	<b>\$ 86,357</b>
Working capital	132,062	110,151	81,100	89,517	<b>52,007</b>
Total assets	346,914	255,671	207,898	185,895	<b>168,273</b>
Total capital lease obligations	94	—	90	18	<b>2,032</b>
Long-term debt, including current portion	100,244	66,700	66,700	84,700	<b>84,700</b>
Total stockholders’ equity	226,636	171,088	121,046	84,615	<b>58,135</b>

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We are a leading provider of radio frequency integrated circuits (RFIC) and radio frequency (RF) front end solutions in the rapidly growing wireless handset and broadband communications markets. Our products include power amplifiers (PAs), tuner integrated circuits, active splitters and other components, which can be sold individually or packaged as integrated RF modules. In the wireless handset market, we focus on RFIC and RF front end solutions for wireless handsets operating over various air interface standards. In the broadband market, our focus is on applications for Wireless Local Area Networking (WLAN) systems, cable set-top boxes, cable television infrastructure systems, worldwide interoperability for microwave access (WiMAX) systems and fiber-to-the-premises (FTTP) communications systems. Our integrated solutions enable our customers to improve RF performance, power efficiency, reliability and time-to-market, while reducing the size, weight and cost of their products. We have longstanding customer relationships with several of the industry leaders in their respective markets, including LG Electronics Inc. (LG Electronics), Samsung Electronics Co., Ltd. (Samsung), KYOCERA Corporation (Kyocera) and Research in Motion Limited (RIM) in the wireless handset market; INTEL Corporation (Intel) in the WLAN market; and Scientific-Atlanta, Inc. (Scientific Atlanta) and Motorola, Inc. (Motorola) in the cable set-top box and cable infrastructure markets. Additionally, in the wireless arena, we have been included in reference designs of industry leaders such as Qualcomm Incorporated (Qualcomm), Texas Instruments Incorporated (Texas Instruments), Broadcom Corporation (Broadcom) and Atheros Communications, Inc. (Atheros).

We continue to focus on leveraging our technological and manufacturing advantages to remain a leading supplier of RFICs and RF front end solutions. We believe our proprietary InGaP-plus™ technology, which combines the bipolar technology of a PA (HBT PA) with the surface device technology of an RF active switch (pHEMT) on the same die, provides us with a competitive advantage in the market place. Our primary fab, a state-of-the-art six-inch diameter GaAs fab located at our corporate headquarters in Warren, New Jersey, has been operational since 1999. Unlike traditional CMOS silicon fabs that have short technology lifecycles and require frequent capital investments, GaAs fabs are more similar to analog fabs that have long lifecycles and do not become quickly outdated. We believe that this facility will enable us to capitalize on the growing demand for RFICs. Our six-inch wafer fab allows us to produce more than twice the RF die per wafer compared with the four-inch wafer fabs still used by some of our competitors. We believe our strong fabrication capability and available capacity, combined with integrated product design and logistics expertise, allow us to quickly develop and manufacture products to meet market and customer requirements.

We have fixed expenses particularly relating to capital equipment and manufacturing overhead. Accordingly, decreases in unit volume throughput result in our fixed production costs increasing as a percentage of revenue, which adversely affects our gross margin and profitability. We will continue to invest in selected strategic research and development programs to maintain our competitive position.

We experienced net sales growth in 2004 primarily due to increased demand for our broadband products, including our WLAN, cable set-top box and cable television infrastructure products. We also experienced increased demand for our wireless products including our RF modules for wireless handsets. In 2004, the growth in our wireless market was less than the growth in our broadband market.

We continued to experience net sales growth in 2005 resulting from the increased demand for our wireless products; particularly our PAs used in wireless handsets and other handheld devices. Broadband product net sales growth continued as demand increased for our WLAN PAs, and tuner integrated circuits and active splitters for our CATV markets.

We believe our markets are, and will continue to remain, competitive, which could result in continued quarterly volatility in our net sales and therefore cause continued fluctuations in our profitability. As a result of the ongoing market shift to newer and smaller RF modules, average selling prices may continue to decrease, which could adversely affect our gross margin and profitability.

We have only one reportable segment. For financial information related to such segment and certain geographic areas, see Note 5 to the accompanying consolidated financial statements.

### Critical Accounting Policies

#### GENERAL

We believe the following accounting policies are critical to our business operations and the understanding of our results of operations. Such accounting policies may require management to exercise a higher degree of judgment and make estimates used in the preparation of our consolidated financial statements.

#### REVENUE RECOGNITION

Revenue from product sales is recognized when the title, risk and rewards of product ownership are transferred to the customer, price and terms are fixed, no significant vendor obligation exists and collection of the resulting receivable is reasonably assured. We sell to certain distributors who are granted rights of return and exchange and certain price protection. Revenue is not recognized for the portion of shipments subject to return, exchange or price protection until such rights expire. We charge customers for the costs of certain contractually-committed inventories that remain at the end of a product's life. Cancellation

revenue is recognized when cash is received. The value of the inventory related to cancellation revenue may, in some instances, have been reserved during prior periods in accordance with our inventory obsolescence policy.

#### WARRANTY COSTS

We provide for potential warranty claims by recording a current charge to income. We estimate potential claims by examining historical returns and other information deemed critical and provide for an amount which we believe will cover future warranty obligations for products sold during the year. The accrued liability for warranty costs is included in accrued liabilities in the consolidated balance sheets.

#### LONG-LIVED ASSETS

Long-lived assets include fixed assets, goodwill and other intangible assets. We regularly review these assets for indicators of impairment and assess the carrying value of the assets against market values. When an impairment exists, we record an expense to the extent that the carrying value exceeds fair market value.

##### *Goodwill and intangibles impairment*

We have intangible assets related to goodwill and other acquired intangibles. Significant judgements are involved in the determination of the estimated useful lives for our other intangibles and whether the goodwill or other intangible assets are impaired. In assessing the recoverability of goodwill and other intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets.

##### *Impairment of long-lived assets*

We record impairment losses on long-lived assets used in operations or expected to be disposed of when events and circumstances indicate that the undiscounted cash flows estimated to be generated by these assets is less than the carrying amounts of those assets. Management considers sensitivities to capacity, utilization and technological developments in making its assumptions.

#### DEFERRED TAXES

We record a valuation allowance to reduce deferred tax assets when it is more likely than not that some portion of the amount may not be realized. During 2001, we determined that it was no longer more likely than not that we would be able to realize all or part of our net deferred tax asset in the future, and an adjustment to provide a valuation allowance against the deferred tax asset was charged to income. We continue to maintain a full valuation allowance on our deferred tax assets.

While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the deferred tax asset would increase income in the period such determination was made.

#### INVENTORY

Inventories are valued at the lower of cost or market ("LCM"), using the first-in, first-out method. In addition to LCM limitations, we reserve against inventory items for estimated obsolescence or unmarketable inventory. Our reserve for excess and obsolete inventory is primarily based upon forecasted short-term demand for the product and any change to the reserve arising from forecast revisions is reflected in cost of sales in the period the revision is made.

#### ALLOWANCE FOR DOUBTFUL ACCOUNTS

We maintain an allowance for doubtful accounts for estimated losses resulting from our customers' failure to make payments. If the financial condition of our customers were to erode, making them unable to make payments, additional allowances may be required.

#### STOCK-BASED COMPENSATION

In certain instances, accounting principles generally accepted in the United States allow for the selection of alternative accounting methods. At December 31, 2005, two alternative methods for accounting for stock options were available; the intrinsic value method and the fair value method. For the years ended December 31, 2003, 2004 and 2005, we used the intrinsic value method of accounting for stock options, and accordingly, no compensation expense was recognized. Under the fair value method, the determination of the pro forma amounts involves several assumptions, including option term until exercise and future stock price volatility. If the fair value method were used, basic and diluted loss per share for fiscal 2003, 2004 and 2005 would have been (\$1.91), (\$1.62) and (\$0.95), as compared to reported basic and diluted loss per share of (\$1.65), (\$1.33) and (\$0.92), respectively. Effective January 1, 2006, we will be required under Statement of Financial Accounting Standards (SFAS) 123 (revised 2004), "Share-Based Payment," which is a revision of SFAS 123, "Accounting for Stock-Based Compensation," to implement the fair value method and recognize compensation expense for stock options granted. See Note 1 to the Consolidated Financial Statements.

## Results of Operations

The following table sets forth statements of operations data as a percentage of net sales for the periods indicated:

	2003	2004	2005
Net sales	100.0%	100.0%	100.0%
Cost of sales	95.6	84.7	79.4
Gross profit	4.4	15.3	20.6
Research and development expense	42.7	36.5	27.6
Selling and administrative expenses	25.8	24.6	19.6
Restructuring and other charges	1.2	—	(0.1)
Purchased in-process R & D	2.5	—	—
Operating loss	(67.8)	(45.8)	(26.5)
Interest income	4.4	2.4	2.3
Interest expense	(5.0)	(4.5)	(4.6)
Gain on repurchase of convertible notes	—	0.4	—
Other income	0.4	0.3	—
Loss before income taxes	(68.0)	(47.2)	(28.8)
Benefit from income taxes	(0.5)	—	—
Net loss	(67.5%)	(47.2%)	(28.8%)

## 2005 Compared to 2004

**NET SALES.** Net sales in 2005 increased 18.5% to \$108.3 million, compared to \$91.3 million for 2004. The increase in net sales of \$17.0 million was primarily due to i) an increase of \$16.4 million in our sales of GSM PA products used in wireless handsets, ii) an increase of \$8.2 million in our sales of WLAN PAs used in the network computer market and iii) an increase of \$2.4 million in our sales of tuner and active splitter products used in the cable set-top box market. Partially offsetting these increases were i) a decrease of \$5.9 million in our sales of CDMA PAs and ii) a decrease of \$2.3 million in our sales of switch products used in wireless handsets. The decline in net sales of CDMA PAs was primarily due to a transition in 2005 to lower-priced next generation PA modules and declines in average selling prices. The decline in net sales of switch products was primarily due to our decision to reduce our research and development expenditures in this product line.

Specifically, net sales in 2005 of our wireless products increased 17.1% to \$53.2 million compared to \$45.4 million for 2004. Net sales in 2005 of our broadband products increased 19.9% to \$55.1 million compared to \$46.0 million in 2004.

**GROSS MARGIN.** Gross margin for 2005 improved to 20.6% of net sales, compared with 15.3% of net sales in the prior year. The increase in gross margin from the prior year is the result of increased sales and production volumes with consequent absorption of fixed costs. The decrease in our depreciation expense of \$4.1 million offset declines in average selling prices.

**RESEARCH & DEVELOPMENT.** Company sponsored research and development expenses decreased 10.2% during 2005 to \$29.9 million from \$33.3 million during 2004 primarily due to decreased headcount and related compensation expense.

**SELLING AND ADMINISTRATIVE.** Selling and administrative expenses decreased 5.4% during 2005 to \$21.3 million from \$22.5 million in 2004. The decrease was primarily due to decreased headcount, compensation expense and related costs within sales and marketing.

**RESTRUCTURING AND OTHER CHARGES.** During 2005, we settled an exit obligation for certain redundant leasehold premises resulting in a savings of \$0.1 million against a previously recorded restructuring charge.

Activity and liability balances related to the restructuring and other charges for the years ended December 31, 2004 and 2005 are as follows (in millions):

	Lease Related
Year ended December 31, 2004:	
Beginning balance	\$ 2.0
Deductions	(1.3)
December 31, 2004 restructuring balance	0.7
Year ended December 31, 2005:	
Deductions	(0.6)
Savings on settlement of obligation	(0.1)
<b>December 31, 2005 restructuring balance</b>	<b>—</b>

**INTEREST INCOME.** Interest income increased 12% to \$2.5 million during 2005 from \$2.2 million in 2004. The increase was due to higher average interest rates.

**INTEREST EXPENSE.** Interest expense increased to \$5.0 million in 2005 from \$4.1 million in 2004. Interest expense arises from obligations under our 5% Convertible Senior Notes due in 2006 ("2006 Notes") and our 5% Convertible Senior Notes due in 2009 ("2009 Notes"). In September 2004, we repurchased \$20.0 million aggregate principal amount of our 2006 Notes and consequently reduced the outstanding principal balance to \$46.7 million, and concurrently issued \$38.0 million aggregate principal amount of our 2009 Notes.

**GAIN ON REPURCHASE OF CONVERTIBLE NOTES.** During 2004, we recognized a gain of \$0.3 million, on the repurchase of \$20.0 million aggregate principal amount of our 2006 Notes, after adjusting for accrued interest and the write-off of a proportionate share of unamortized offering costs.

**BENEFIT FROM INCOME TAXES.** In 2004 and 2005, the Company received no benefit from income taxes and recorded a full valuation allowance for its deferred tax balance.

## 2004 Compared to 2003

**NET SALES.** Net sales during 2004 increased 21.5% to \$91.3 million, compared to \$75.2 million for 2003. The net sales improvement was primarily due to an increase in demand for broadband products, particularly WLAN PAs used in wireless personal computer access and RFICs used in both cable subscriber and infrastructure applications and the remainder to demand for our GSM PAs used in wireless handsets and hand-held devices.

Sales during 2004 of RFICs used for broadband applications increased 36.5% to \$46.0 million from \$33.7 million in 2003. The increase was primarily due to increased volumes of our PAs used for WLAN applications and products used for both cable and subscriber and infrastructure applications.

Specifically, net sales of RFICs used for cellular and PCS applications increased 9.2% during 2004 to \$45.4 million from \$41.5 million in 2003. The increase was due to our expanded product presence and volumes for our GSM PAs.

Generally, selling prices for same product sales were lower during 2004 as compared to 2003.

**GROSS MARGIN.** Gross margin for 2004 improved to 15.3% of net sales, compared with 4.4% of net sales in the prior year. The increase in gross margin from the prior year is the result of the increase in net sales, improved production throughput in our facilities, lower depreciation expense and lower product costs.

**RESEARCH & DEVELOPMENT.** Company sponsored research and development expenses increased 3.8% during 2004 to \$33.3 million from \$32.1 million during 2003 primarily due to the incremental year-over-year operating costs of the Company's acquisitions of RF Solutions (RFS) and Tavanza.

**PURCHASED IN-PROCESS R&D.** In 2003, the Company expensed purchased in-process research and development costs of \$1.9 million resulting from the acquisitions of RFS and Tavanza. The charge represented the fair value of certain acquired research and development projects that were determined to have not reached technological feasibility and did not have alternative future uses. No acquisitions or in-process R&D applied in 2004.

**SELLING AND ADMINISTRATIVE.** Selling and administrative expenses increased 15.9% during 2004 to \$22.5 million from \$19.4 million in 2003. The increase was primarily due to increased headcount and sales-related costs associated with our sales expansion efforts, including application centers in Taiwan and South Korea.

**RESTRUCTURING AND OTHER CHARGES.** During 2003, we recorded charges of \$0.9 million for restructuring and other charges related to severance and related employee benefits in connection with workforce reductions of approximately 19 operations and administrative positions and lease-related costs.

Activity and liability balances related to the restructuring and other charges for the years ended December 31, 2003 and 2004 are as follows (in millions):

	Lease Related	Workforce Reductions	Total
Year ended December 31, 2003			
Beginning balance	\$ 2.8	\$ 0.2	\$ 3.0
Restructuring and other expenses	0.3	0.6	0.9
Deductions	(1.1)	(0.8)	(1.9)
December 31, 2003 restructuring balance	2.0	—	2.0
Year ended December 31, 2004			
Deductions	(1.3)	—	(1.3)
December 31, 2004 restructuring balance	\$ 0.7	\$ —	\$ 0.7

**INTEREST INCOME.** Interest income decreased 34.1% to \$2.2 million during 2004 from \$3.3 million in 2003. The decrease was due to lower average invested funds and was compounded by lower interest rates.

**INTEREST EXPENSE.** Interest expense increased to \$4.1 million in 2004 from \$3.8 million in 2003. Interest expense arises from our 2006 Notes and our 2009 Notes. In September, 2004, we repurchased \$20.0 million aggregate principal amount of our 2006 Notes and consequently reduced the outstanding principal balance to \$46.7 million, and concurrently issued \$38.0 million aggregate principal amount of our 2009 Notes.

**GAIN ON REPURCHASE OF CONVERTIBLE NOTES.** During 2004, we recognized a gain of \$0.3 million, on the repurchase of \$20.0 million aggregate principal amount of our 2006 Notes, after adjusting for accrued interest and the write-off of a proportionate share of unamortized offering costs.

**BENEFIT FROM INCOME TAXES.** In 2004, the Company received no benefit from income taxes and recorded a full valuation allowance for its deferred tax balance.

## Liquidity and Sources of Capital

At December 31, 2005 we had \$11.9 million of cash and cash equivalents on hand and \$74.5 million in marketable securities. We had \$38.0 million aggregate principal amount of our 2009 Notes and \$46.7 million aggregate principal amount of our 2006 Notes outstanding as of December 31, 2005.

Operations required the use of \$16.4 million in cash during 2005. Investing activities provided \$15.3 million of cash during 2005, consisting principally of net sales of marketable securities of \$17.5 million, partially offset by purchases of equipment of \$2.3 million. Financing activities provided \$1.9 million of cash in 2005, primarily consisting of proceeds received from employee stock option exercises and the Employee Stock Purchase Plan ("ESP Plan") of \$1.2 million and \$1.0 million, respectively, partially offset by our repurchase of shares of common stock for \$0.3 million.

We believe that our existing sources of capital, including our existing cash and marketable securities, will be adequate to satisfy operational needs and anticipated capital needs for the next twelve months including the repayment of our debt principal obligation due in November of 2006. Our anticipated capital needs may include acquisitions of complementary businesses or technologies, investments in other companies or repurchases of our outstanding debt or equity. We may elect to finance all or part of our future capital requirements through additional equity or debt financing. There can be no assurance that such additional financing would be available on satisfactory terms. Our ability to pay principal and interest on our \$84.7 million in outstanding convertible senior unsecured notes, \$46.7 million of which are due in November of 2006 and the remainder of which are due in October of 2009, and our other debt and to fund our planned capital expenditures depends on our future operating performance.

The table below summarizes required cash payments as of December 31, 2005:

Contractual Obligations	Payments Due By Period (In Thousands)				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt, including short term portion plus the interest payable with respect thereto	\$ 93,947	\$50,643	\$3,800	\$39,504	\$ —
Operating leases	21,317	1,943	3,482	3,635	12,257
Capital leases	2,525	427	854	854	390
Unconditional purchase obligations	4,820	4,820	—	—	—
<b>Total contractual cash obligations</b>	<b>\$122,609</b>	<b>\$57,833</b>	<b>\$8,136</b>	<b>\$43,993</b>	<b>\$12,647</b>

#### Impact of Recently Issued Accounting Standards

In November 2004, the Financial Accounting Standards Board issued Statement No. 151 (FAS 151), Inventory Costs, an amendment of ARB No. 43, Chapter 4. FAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be recognized as current period charges. In addition, FAS 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. FAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company currently believes that the adoption of FAS 151 will not have a material impact on its consolidated financial statements.

In December 2004, the Financial Accounting Standards Board issued Statement No. 123(R) (FAS 123R), Share-Based Payment, amending FAS 123 and requiring that all share-based payments to employees be recognized in the financial statements. Generally, the approach to accounting for share-based payments in FAS 123R is similar to the approach described in FAS 123, however, pro forma footnote disclosure will no longer be an alternative to financial statement recognition. In April 2005, the SEC deferred the implementation date of FAS 123R. As a result, the Company will adopt FAS 123R effective January 1, 2006 rather than the initial implementation date of July 1, 2005, using the modified-prospective transition method described in FAS 123R. Under this method, the Company is required to recognize compensation expense over the remaining vesting period for all awards that remain unvested as of January 1, 2006. As permitted by FAS 123, prior to January 1, 2006, the Company accounted for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options or its ESP Plan. The Company believes based on the level of share-based payments previously granted and unvested and ESP Plan participation, that the adoption of FAS 123R will not have a material effect on its consolidated financial position, results of operations or cash flows. However, the level of future equity based compensation grants and ESP Plan participation could have a material effect on amounts recorded in our consolidated statement of operations. On December 22, 2004, the Company authorized an immediate vesting of eligible employees' unvested share options with an exercise price greater than \$5.00 per share. Directors were not eligible. In total, 1.8 million options with an average exercise price of \$7.26 immediately vested and have an average

remaining contractual life of 9.1 years. The unamortized fair value associated with these accelerated-vest shares of approximately \$2.65 million amortized immediately. In addition to its employee-retention value, the Company's decision to accelerate the vesting of these "out-of-the-money" options was based upon the accounting of such costs moving from disclosure-only in 2004 to being included in the Company's statement of operations in 2005 based upon the Company's expected adoption of FAS 123R prior to its required adoption date being deferred.

**Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to changes in interest rates primarily from our investments in certain available-for-sale securities. Our available-for-sale securities consist primarily of fixed income investments, including corporate bonds, commercial paper and Federal, state, municipal, and agency securities. We continually monitor our exposure to changes in interest rates and the credit ratings of issuers with respect to our available-for-sale securities. Accordingly, we believe that the effects of changes in interest rates and the credit ratings of these issuers are limited and would not have a material impact on our financial condition or results of operations. However, it is possible that we would be at risk if interest rates or the credit ratings of these issuers were to change in an unfavorable direction. The magnitude of any gain or loss would be a function of the difference between the fixed rate of the financial instrument and the market rate and our financial condition and results of operations could be materially affected.

At December 31, 2005, we held marketable securities with an estimated fair value of \$74.5 million. Our primary interest rate exposure results from changes in short-term interest rates. We do not purchase financial instruments for trading or speculative purposes. All of our marketable securities are classified as available-for-sale securities. The following table provides information about our marketable securities at December 31, 2005:

(\$'s 000)	Estimated Principal Amount and Weighted Average Stated Rate by Expected Maturity Value				Fair Value
	2006	2007	2008	Total	(\$'s 000)
Principal	\$69,504	\$4,100	\$—	\$73,604	\$74,466
Weighted Average Stated Rates	4.47%	5.07%	—	4.51%	—

The stated rates of interest expressed in the above table may not approximate the actual yield of the securities which we currently hold since we have purchased some of our marketable securities at other than face value. Additionally, some of the securities represented in the above table may be called or redeemed, at the option of the issuer, prior to their expected due dates. If such early redemptions occur, we may reinvest the proceeds realized on such calls or redemptions in marketable securities with stated rates of interest or yields that are lower than those of our current holdings, which would affect both future cash interest streams and future earnings. In addition to investments in marketable securities, we invest some of our cash in money market funds in order to keep cash available to fund operations and to hold cash pending investments in marketable securities. Fluctuations in short term interest rates will affect the yield on monies invested in such money market funds. Such fluctuations can have an impact on our future cash interest streams and future earnings, but the impact of such fluctuations are not expected to be material.

Each of our 2006 Notes and 2009 Notes are convertible notes that bear a fixed rate of interest of 5%. A change in interest rates on long-term debt is assumed to impact fair value but not earnings or cash flow because the interest rate is fixed. At December 31, 2005, the fair value of our outstanding convertible notes, estimated based upon dealer quotes, was approximately \$93.7 million.

## Consolidated Balance Sheets

	December 31,	
(Amounts in thousands, except per share amounts)	2004	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,171	\$ 11,891
Marketable securities	63,615	70,364
Accounts receivable, net of allowance for doubtful accounts of \$988 and \$1,060 in 2004 and 2005, respectively	10,770	18,755
Inventories	14,436	16,009
Prepaid expenses and other current assets	3,073	2,188
Total current assets	103,065	119,207
Marketable securities	29,265	4,102
Plant and equipment		
Equipment and furniture	132,864	133,262
Leasehold improvements	38,774	38,748
Projects in process	1,341	1,617
	172,979	173,627
Less accumulated depreciation and amortization	129,941	137,320
	43,038	36,307
Goodwill and other intangibles, less accumulated amortization of \$258 and \$498 in 2004 and 2005, respectively	6,297	6,044
Other assets	4,230	2,613
	\$ 185,895	\$ 168,273
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 8,021	\$ 15,519
Accrued liabilities	4,783	4,672
Accrued restructuring costs	726	40
Current maturities of long-term debt	—	46,700
Current maturities of capital lease obligations	18	269
Total current liabilities	13,548	67,200
Other long-term liabilities	3,032	3,175
Long-term debt, less current portion	84,700	38,000
Capital lease obligations, less current portion	—	1,763
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value, 5,000 shares authorized, none issued or outstanding		
Common stock, convertible, non-voting, \$0.01 par value, 1,000 shares authorized, none issued or outstanding		
Common stock, \$0.01 par value, 144,000 shares authorized at December 31, 2004 and 2005, and 33,072 and 35,007 issued at December 31, 2004 and 2005, respectively	331	350
Additional paid-in capital	343,594	348,992
Deferred compensation	(861)	(1,437)
Accumulated deficit	(257,963)	(289,196)
Accumulated other comprehensive loss	(486)	(316)
Treasury stock at cost: 114 shares	—	(258)
Total stockholders' equity	84,615	58,135
	\$ 185,895	\$ 168,273

See accompanying notes.

**Consolidated Statements of Operations**

(Amounts in thousands, except per share amounts)	Year Ended December 31,		
	2003	2004	2005
Net sales	\$ 75,212	\$ 91,350	<b>\$108,281</b>
Cost of sales	71,927	77,355	<b>85,929</b>
Gross profit	3,285	13,995	<b>22,352</b>
Research and development expenses	32,075	33,306	<b>29,906</b>
Selling and administrative expenses	19,420	22,511	<b>21,293</b>
Restructuring and other charges	925	—	<b>(120)</b>
Purchased in-process R&D	1,863	—	<b>—</b>
	54,283	55,817	<b>51,079</b>
Operating loss	(50,998)	(41,822)	<b>(28,727)</b>
Interest income	3,344	2,203	<b>2,473</b>
Interest expense	(3,761)	(4,085)	<b>(4,997)</b>
Gain on repurchase of convertible notes	—	327	<b>—</b>
Other income	276	295	<b>18</b>
Loss before income taxes	(51,139)	(43,082)	<b>(31,233)</b>
Benefit from income taxes	(382)	—	<b>—</b>
Net loss	<b>\$(50,757)</b>	<b>\$(43,082)</b>	<b>\$ (31,233)</b>
Basic and diluted loss per share	\$ (1.65)	\$ (1.33)	<b>\$ (0.92)</b>
Weighted average basic and diluted common shares outstanding	30,717	32,413	<b>34,012</b>

**Consolidated Statements of Comprehensive Loss**

(Amounts in thousands)	Year Ended December 31,		
	2003	2004	2005
Net loss	<b>\$(50,757)</b>	<b>\$(43,082)</b>	<b>\$ (31,233)</b>
Other comprehensive income (loss)			
Unrealized (loss) gain on marketable securities	(666)	(617)	<b>242</b>
Foreign currency translation adjustment	46	12	<b>(72)</b>
Reclassification adjustment:			
Net realized loss (gain) previously included in other comprehensive income	15	(19)	<b>—</b>
Comprehensive loss	<b>\$(51,362)</b>	<b>\$(43,706)</b>	<b>\$ (31,063)</b>

See accompanying notes.

## Consolidated Statements of Stockholders' Equity

(Amounts in thousands)	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
Balance, December 31, 2002	30,674	\$307	—	\$ —	\$334,162	\$ —	\$(164,124)	\$ 743	\$171,088
Stock options exercised	23	—			67				67
Shares issued under employee stock purchase plan	529	5			1,222				1,227
Unrealized loss on marketable securities								(666)	(666)
Foreign currency translation adjustment								46	46
Net realized loss, previously included in other comprehensive income								15	15
Stock-based compensation					26				26
Net loss							(50,757)		(50,757)
Balance, December 31, 2003	31,226	312	—	—	335,477	—	(214,881)	138	121,046
Stock options exercised	536	5			1,355				1,360
Shares issued under employee stock purchase plan	182	2			561				563
Shares issued as contingent acquisition consideration	747	8			4,640				4,648
Restricted stock grant	403	4			1,613	(1,617)			—
Restricted stock forfeitures	(22)	—			(87)	87			—
Amortization of restricted stock						669			669
Unrealized loss on marketable securities								(617)	(617)
Foreign currency translation adjustment								12	12
Net realized gain, previously included in other comprehensive income								(19)	(19)
Stock-based compensation					35				35
Net loss							(43,082)		(43,082)
Balance, December 31, 2004	33,072	331	—	—	343,594	(861)	(257,963)	(486)	84,615
Stock options exercised	417	4			1,160				1,164
Shares issued under employee stock purchase plan	328	3			1,025				1,028
Restricted stock grant	1,304	13			3,547	(3,560)			—
Restricted stock forfeitures	(114)	(1)			(334)	335			—
Amortization of restricted stock						2,649			2,649
Unrealized gain on marketable securities								242	242
Foreign currency translation adjustment								(72)	(72)
Net loss							(31,233)		(31,233)
Treasury share purchase			(114)	(258)					(258)
<b>Balance, December 31, 2005</b>	<b>35,007</b>	<b>\$350</b>	<b>(114)</b>	<b>\$(258)</b>	<b>\$348,992</b>	<b>\$(1,437)</b>	<b>\$(289,196)</b>	<b>\$(316)</b>	<b>\$ 58,135</b>

See accompanying notes.

**Consolidated Statements of Cash Flows**

	Year Ended December 31,		
(Amounts in thousands)	2003	2004	2005
<b>Cash Flows from Operating Activities</b>			
Net loss	\$ (50,757)	\$ (43,082)	<b>\$(31,233)</b>
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on repurchase of convertible notes	—	(327)	—
Depreciation	18,481	15,282	<b>10,921</b>
Amortization	1,173	1,483	<b>1,703</b>
Stock based compensation	26	704	<b>2,649</b>
Amortization of premium on marketable securities	2,432	2,090	<b>1,189</b>
Purchased in-process R&D	1,863	—	—
Loss (gain) on sale of equipment	20	15	<b>(1)</b>
Changes in operating assets and liabilities:			
Accounts receivable	(2,906)	1,304	<b>(7,985)</b>
Inventory	2,957	(4,115)	<b>(1,573)</b>
Prepaid expenses and other assets	1,234	361	<b>1,101</b>
Accounts payable	1,730	(1,476)	<b>7,498</b>
Accrued and other liabilities	146	(1,892)	<b>(701)</b>
Net cash used in operating activities	(23,601)	(29,653)	<b>(16,432)</b>
<b>Cash Flows from Investing Activities</b>			
Purchases of plant and equipment	(4,178)	(3,427)	<b>(2,262)</b>
Purchases of marketable securities	(97,605)	(51,128)	<b>(64,098)</b>
Proceeds from sales of marketable securities	122,577	58,627	<b>81,565</b>
Business acquisitions	(4,217)	(55)	—
Proceeds from sale of equipment	—	130	<b>53</b>
Net cash provided by investing activities	16,577	4,147	<b>15,258</b>
<b>Cash Flows from Financing Activities</b>			
Payment of obligations under capital leases	(88)	(66)	<b>(40)</b>
Proceeds from issuance of long-term debt net of offering costs	—	35,695	—
Repurchase of convertible notes	—	(19,400)	—
Issuances of common stock, net of related expenses	1,294	1,923	<b>2,192</b>
Repurchase of common stock into treasury	—	—	<b>(258)</b>
Net cash provided by financing activities	1,206	18,152	<b>1,894</b>
Net (decrease) increase in cash and cash equivalents	(5,818)	(7,354)	<b>720</b>
Cash and cash equivalents at beginning of period	24,343	18,525	<b>11,171</b>
Cash and cash equivalents at end of period	\$ 18,525	\$ 11,171	<b>\$ 11,891</b>
Supplemental disclosures of cash flow information:			
Interest paid	\$ 3,335	\$ 3,193	<b>\$ 4,346</b>
Taxes paid	—	117	<b>82</b>
Acquisition of equipment under capital leases	—	—	<b>2,055</b>

See accompanying notes.

## Notes to Consolidated Financial Statements

(Amounts in thousands, except per share amounts)

### 1. Summary of Significant Accounting Policies

#### NATURE OF OPERATIONS AND BASIS OF PRESENTATION

We are a leading provider of radio frequency integrated circuits (RFIC) and radio frequency (RF) front end solutions in the rapidly growing wireless handset and broadband communications markets. Our products include power amplifiers (PAs), tuner integrated circuits, active splitters and other components, which can be sold individually or packaged as integrated RF modules. In the wireless handset market, we focus on RFIC and RF front end solutions for wireless handsets operating over various air interface standards. In the broadband market, our focus is on applications for Wireless Local Area Networking (WLAN) systems, cable set-top boxes, cable television infrastructure systems, worldwide interoperability for microwave access (WiMAX) systems and fiber-to-the-premises (FTTP) communications systems. Our integrated solutions enable our customers to improve RF performance, power efficiency, reliability and time-to-market, while reducing the size, weight and cost of their products.

We design, develop and manufacture RFICs primarily using GaAs compound semiconductor substrates with various process technologies, Metal Semiconductor Field Effect Transistors (MESFET), Pseudomorphic High Electron Mobility Transistors (pHEMT), and Heterojunction Bipolar Transistors (HBT). Our proprietary technology, which utilizes InGap-plus™, combines InGAP HBT and pHEMT processes on a single substrate, enabling us to integrate the PA function and the RF active switch function on the same die. We fabricate substantially all of our ICs in our six-inch diameter GaAs wafer fabrication facility. We believe our strong fabrication capability combined with integrated product design and logistics expertise, allow quick development and manufacture of products to meet market and customer requirements.

The consolidated financial statements include the accounts of ANADIGICS, Inc. and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates. Significant estimates that affect the financial statements include, but are not limited to: recoverability of inventories, useful lives and amortization periods and recoverability of long-lived assets.

#### CONCENTRATION OF CREDIT RISK

The Company grants trade credit to its customers, who are primarily foreign manufacturers of wireless communication devices, cable and broadcast television receivers and fiber optic communication devices. The Company performs periodic credit evaluations of its customers and generally does not require collateral. Sales and accounts receivable from customers are denominated in U.S. dollars. The Company has not experienced significant losses related to receivables from these individual customers.

Net sales to individual customers who accounted for 10% or more of the Company's total net sales and corresponding end application information are as follows:

Customer (application)	Year Ended December 31					
	2003		2004		2005	
	\$	%	\$	%	\$	%
World Peace Group (Wireless & Broadband)	<10%	<10%	<10%	<10%	<b>17,275</b>	<b>16%</b>
Intel (Broadband)	<10%	<10%	<10%	<10%	<b>15,678</b>	<b>14%</b>
LG Electronics (Wireless)	10,346	14%	13,628	15%	<b>12,321</b>	<b>11%</b>
Kyocera (Wireless)	21,263	28%	9,751	11%	<b>&lt;10%</b>	<b>&lt;10%</b>
Motorola (Broadband)	10,422	14%	9,184	10%	<b>&lt;10%</b>	<b>&lt;10%</b>
Scientific Atlanta (Broadband)	<10%	<10%	9,218	10%	<b>&lt;10%</b>	<b>&lt;10%</b>

Accounts receivable at December 31, 2004 and 2005 from the greater than 10% customers accounted for 51% and 29% of total accounts receivable, respectively.

#### REVENUE RECOGNITION

Revenue from product sales is recognized when the title, risk and rewards of product ownership are transferred to the customer, price and terms are fixed, no significant vendor obligation exists and collection of the resulting receivable is reasonably assured. The Company sells to certain distributors who are granted rights of return and exchange and certain price protection. Revenue is not recognized for the portion of shipments subject to return, exchange or price protection until such rights expire. The Company charges customers for the costs of certain contractually-committed inventories that remain at the end of a product's life. Cancellation revenue is recognized when cash is received. The value of the inventory related to cancellation revenue may, in some instances, have been reserved during prior periods in accordance with the Company's inventory obsolescence policy. The Company maintains an allowance for doubtful accounts for estimated losses resulting from customers' failure to make payments.

#### WARRANTY COSTS

The Company provides, by a current charge to income, an amount it estimates, by examining historical returns and other information it deems critical, will be needed to cover future warranty obligations for products sold during the year. The accrued liability for warranty costs is included in accrued liabilities in the consolidated balance sheets.

#### PLANT AND EQUIPMENT

Plant and equipment are stated at cost. Depreciation of plant, furniture and equipment has been provided on the straight-line method over 3-5 years. Leasehold improvements are amortized and included in depreciation over the useful life of the leasehold or the life of the lease, whichever is shorter.

The cost of equipment acquired under capital leases was \$10,545 and \$9,781 at December 31, 2004 and 2005, respectively, and accumulated amortization was \$10,519 and \$7,726 at December 31, 2004 and 2005, respectively. Equipment acquired under a capital lease is amortized and included in depreciation over the useful life of the leased equipment or the life of the lease, whichever is shorter.

#### GOODWILL AND OTHER INTANGIBLES

Goodwill, process technology, customer list and a covenant-not-to-compete were recorded as part of the Company's acquisitions. Goodwill is not subject to amortization but is reviewed for potential impairment annually or upon the occurrence of an impairment indicator using a two-phase process. The first phase screens for impairment; while the second phase measures the impairment. Process technology, the customer list and the covenant continued to be amortized using the straight-line method over three to four year lives. The carrying amount of the Company's intangibles are reviewed on a regular basis for any signs of an impairment. The Company determines if the carrying amount is impaired based on anticipated cash flows. In the event of impairment, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the asset. For each of the reporting units, fair value is determined primarily using the anticipated cash flows, discounted at a rate commensurate with the associated risk.

#### IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets used in operations are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measures the impairment loss based on the difference between the carrying amount and fair value. Long-lived assets held for sale are reported at the lower of cost or fair value less costs to sell.

#### INCOME TAXES

Deferred income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the income tax basis of such assets and liabilities. The Company maintains a full valuation allowance on its deferred tax assets.

#### RESEARCH AND DEVELOPMENT COSTS

The Company charges all research and development costs associated with the development of new products to expense when incurred.

#### IN-PROCESS RESEARCH AND DEVELOPMENT

In the event of an acquisition, the Company will calculate the fair value of in-process research and development projects, based upon discounted cash flows estimated by management of future revenues and expected profitability of the related technology. The rate used to discount the projected future cash flows accounts for the time value of money, as well as the risks of realization of the cash flows. Management will record a charge to earnings where projects are determined to have not reached technological feasibility and do not have alternative uses.

#### CASH EQUIVALENTS

The Company considers all highly liquid marketable securities with a maturity of three months or less when purchased as cash equivalents.

#### MARKETABLE SECURITIES

Available for sale securities are stated at fair value, as determined by quoted market prices, with unrealized gains and losses reported in other accumulated comprehensive income or loss. The cost of securities sold is based upon the specific identification method. The amortized cost of debt securities is adjusted for amortization of premium and accretion of discounts to maturity. Such amortization, realized gains and losses, interest and dividends are included in interest income. See Note 8 for a summary of available-for-sale securities.

#### INVENTORY

Inventories are valued at the lower of cost or market ("LCM"), using the first-in, first-out method. In addition to LCM limitations, the Company reserves against inventory items for estimated obsolescence or unmarketable inventory. The reserve for excess and obsolete inventory is primarily based upon forecasted short-term demand for the product and any change to the reserve arising from forecast revisions is reflected in cost of sales in the period the revision is made.

#### DEFERRED RENT

Aggregate rental expense is recognized on a straight-line basis over the lease terms of operating leases that contain predetermined increases in rentals payable during the lease term.

#### FOREIGN CURRENCY TRANSLATION

The financial statements of subsidiaries outside of the United States are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. The resultant translation adjustments are included in other accumulated comprehensive income or loss. Income and expense items are translated at the average monthly rates of exchange. Gains and losses from foreign currency transactions of these subsidiaries are included in the determination of net income or loss.

#### EARNINGS PER SHARE

Basic and diluted earnings per share are calculated in accordance with FASB Statement No. 128, Earnings Per Share. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised resulting in the issuance of common stock of the Company. Any dilution arising from the Company's outstanding stock options or shares potentially issuable upon conversion of the convertible notes are not included as their effect is anti-dilutive.

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The fair value of each of the following instruments approximates their carrying value because of the short maturity of these instruments: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. At December 31, 2005, the fair value of the Company's outstanding convertible senior notes, estimated based upon dealer quotes, was approximately \$93,694.

#### IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In November 2004, the Financial Accounting Standards Board issued Statement No. 151 (FAS 151), Inventory costs, an amendment of ARB No. 43, Chapter 4. FAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be recognized as current period charges. In addition, FAS 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. FAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company currently believes that the adoption of FAS 151 will not have a material impact on its consolidated financial statements.

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#### STOCK BASED COMPENSATION

As permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation (FAS 123), the Company has elected to follow the intrinsic value method under Accounting Principle Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations in accounting for its employee stock option and other stock based compensation plans. Under APB 25, no compensation expense is recognized at the time of option grant when the exercise price of the Company's employee stock options equals the fair market value of the underlying common stock on the date of grant. Compensation expense attributable to restricted stock awards is based on the fair value of such shares at the date of issuance and is amortized over the vesting period.

The following table illustrates the effect on net loss and loss per common share as if the Company had applied the fair value method to measure stock-based compensation, required under the disclosure provisions of FAS 123:

	2003	2004	2005
Net loss, as reported	\$(50,757)	\$(43,082)	<b>\$(31,233)</b>
Stock based compensation included in reported net loss	26	704	<b>2,649</b>
Stock based compensation expense under fair value reporting	(7,905)	(9,978)	<b>(3,758)</b>
Pro forma net loss	\$(58,636)	\$(52,356)	<b>\$(32,342)</b>
Basic and diluted loss per share			
Net loss, as reported	\$ (1.65)	\$ (1.33)	<b>\$ (0.92)</b>
Pro forma net loss	\$ (1.91)	\$ (1.62)	<b>\$ (0.95)</b>

On July 3, 2003, the Company announced a voluntary stock option exchange program for employees and officers. Directors of the Company were not eligible for the exchange program. Pursuant to the terms and conditions of the offer, which expired on August 4, 2003, the Company accepted for cancellation options to purchase 1,674 shares of common stock having a weighted average exercise price of \$19.49. On February 6, 2004, participating employees were issued 552 stock options, under this one-for-three exchange program, for the cancelled options. The new options have an exercise price equal to \$7.27, which represented the fair market value at the date of grant and are now fully vested.

On December 22, 2004, the Company authorized the immediate vesting of eligible employees' unvested share options with an exercise price greater than \$5.00 per share. Directors were not eligible. In total, 1,772 options with an average exercise price of \$7.26 immediately vested and had an average remaining contractual life of 9.1 years. The unamortized fair value associated with these accelerated-vest shares in the amount of \$2,654 amortized immediately. Had the accelerated-vest program not occurred, the related cost in the years ended December 31, 2006 and 2007 would have included \$751 and \$57, respectively. In addition to its employee-retention value, the Company's decision to accelerate the vesting of these "out-of-the-money" options was based upon the accounting of such costs moving from disclosure-only in 2004 to being included in the Company's consolidated statement of operations in 2005 based upon the Company's expected adoption of FAS 123R prior to its required adoption date being deferred. For the year ended December 31, 2005, \$1,846 would have been included in the pro forma disclosure.

In the years ended December 31, 2004 and 2005, the Company granted restricted shares under the 1995 Long Term Incentive and Share Award Plan (the "1995 Plan"), 1997 Long Term Incentive and Share Award Plan for Employees (the "1997 Plan") and the 2005 Long Term Incentive and Share Award Plan (the "2005 Plan," and together with the 1995 Plan and the 1997 Plan, the "Plans"). The value of the grants have been recorded as deferred compensation, a component of Stockholders' Equity and amortized over their respective vesting periods. Restricted share grant activity is illustrated below:

As of December 31, 2005						
Grant Date	Plan Type	Shares Granted	Grant Market Price	Vest Condition	Shares Forfeited to Date	Shares Vested
July 23, 2004	1995 Plan	67	\$4.01	1 year	—	67*
July 23, 2004	1997 Plan	336	4.01	1 year	47	289*
January 21, 2005	1995 Plan	191	3.15	3 years	—	—
January 25, 2005	1995 Plan	11	3.04	1 year	—	—
February 4, 2005	1995 Plan	149	2.65	1 year	17	—
February 4, 2005	1995 Plan	666	2.65	3 years	69	1
August 1, 2005	2005 Plan	15	2.54	3 years	—	—
August 4, 2005	2005 Plan	271	2.60	1 year	2	—

\*Of the 357 restricted shares which have fully vested, 114 shares were repurchased by the Company, as Treasury stock, from the employees and officers to fund withholding tax obligations.

On January 31, 2006, the Company granted an additional 1,395 restricted shares under the 2005 Plan at a market price equal to \$6.64, which represents the fair market value at the date of grant.

#### RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current presentation.

## 2. Business Acquisitions

On March 31, 2003, the Company acquired certain assets and liabilities of the WLAN power amplifier business of RF Solutions ("RFS"). The RFS acquisition was a strategic initiative that allows the Company to participate in the WLAN market with a depth of experienced design personnel and cutting-edge products. The Company paid cash purchase consideration on March 31, 2003 of \$2,800 and issued 747 shares effective March 31, 2004, valued at \$4,648 after RFS achieved certain revenue milestones. In addition, the Company incurred \$217 in acquisition-related costs.

On October 14, 2003, the Company acquired certain assets of a CDMA wireless handset power amplifier developer, formerly named Tavanza, a wholly-owned subsidiary of Celeritek. The Company paid cash consideration of \$1,000 and incurred \$255 in acquisition-related costs.

The acquisitions were accounted for using the purchase method of accounting. The results of operations for RFS and Tavanza are included in the results of operations of the Company from the respective dates of purchase. There are no significant differences between the accounting policies of the Company and RFS or Tavanza.

The acquisition costs of \$8,920 was allocated to the assets acquired and liabilities assumed, based on their fair values as follows:

	Total
Fair value of tangible assets	\$1,029
Fair value of liabilities assumed	(527)
In-process research and development	1,863
Process technology	210
Covenant-not-to-compete	175
Customer list	240
Goodwill	5,930
<b>Total purchase price</b>	<b>\$8,920</b>

The Company recorded a charge of \$1,863 representing the fair value of certain acquired research and development projects relating to dual band, high gain and modules applications for Wireless LAN and certain passive-free power amplifier applications, in the case of Tavanza, that were determined to have not reached technological feasibility and to not have alternative future uses. The fair value of such projects was determined based on discounted net cash flows. These cash flows were based upon management's estimates of future revenues and expected profitability of each technology. The rate used to discount these projected cash flows accounted for the time value of money, as well as the risks of realization of cash flows.

The following table reflects the changes in goodwill for the year ended December 31, 2004:

Balance at December 31, 2003	\$1,227
Additions, primarily related to RFS share issuance	4,703
<b>Balance at December 31, 2004</b>	<b>\$5,930</b>

The following unaudited pro forma consolidated financial information reflects the results of operations for the twelve months ended December 31, 2003, as if the acquisitions of RFS and Tavanza had occurred on December 31, 2002 and after giving effect to purchase

accounting adjustments. The charge for purchased in-process research and development is not included in the pro forma results, because it is non-recurring.

	Year Ended December 31, 2003
Pro forma revenue	\$ 75,751
Pro forma net loss	\$(51,947)
Basic and diluted net loss per share	
Pro forma net loss	\$ (1.69)

These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisition actually taken place on December 31, 2002. In addition, these results are not intended to be a projection of future results and do not reflect any synergies that might be achieved from the combined operations.

### 3. Intangibles and Goodwill

As of December 31, 2004 and 2005, the Company's intangible assets consist of the following:

	Gross Carrying Amount		Accumulated Amortization	
	December 31, 2004	2005	December 31, 2004	2005
Goodwill	\$5,930	<b>\$5,918</b>	\$ —	\$ —
Process Technology	210	<b>210</b>	91	<b>147</b>
Covenant not to compete	175	<b>175</b>	70	<b>175</b>
Customer list	240	<b>240</b>	97	<b>177</b>
	<b>\$6,555</b>	<b>\$6,543</b>	<b>\$258</b>	<b>\$499</b>

Annual amortization expense related to intangible assets is calculated over their estimated useful lives of three to four years and was \$194 and \$240 in the years ended December 31, 2004 and 2005, respectively.

Future annual amortization expense related to intangible assets is expected to be as follows:

	2006	2007
Amortization expense	\$116	\$11

### 4. Restructuring, Impairment and Other Charges

During 2003, the Company recorded restructuring charges of \$925 pertaining to severance and related benefits of workforce reductions of approximately 19 operations and administrative positions and lease-related costs. Certain lease-related obligations were settled during 2005 and resulted in a savings to the Company of \$120.

Activity and liability balances related to the restructuring and other charges for the years ended December 31, 2003, 2004 and 2005 are as follows:

	Lease Related	Workforce Reductions	Total
December 31, 2002 restructuring balance	\$ 2,804	\$ 152	\$ 2,956
Restructuring and other expenses	300	625	925
Deductions	(1,124)	(763)	(1,887)
December 31, 2003 restructuring balance	1,980	14	1,994
Deductions	(1,254)	(14)	(1,268)
December 31, 2004 restructuring balance	726	—	726
Deductions	(566)	—	(566)
Savings on settlement of obligation	(120)	—	(120)
<b>December 31, 2005 restructuring balance</b>	<b>\$ 40</b>	<b>\$ —</b>	<b>\$ 40</b>

## 5. Segments

The Company operates in one segment. Its integrated circuits are primarily manufactured using common manufacturing facilities located in the same domestic geographic area. All operating expenses and assets of the Company are combined and reviewed by the chief operating decision maker on an enterprise-wide basis, resulting in no additional discrete financial information or reportable segment information.

The Company classifies its revenues based upon the end application of the product in which its integrated circuits are used. Net sales by end application are regularly reviewed by the chief operating decision maker and are as follows:

	Year Ended December 31,		
	2003	2004	2005
Wireless	\$41,538	\$45,379	<b>\$ 53,143</b>
Broadband	33,674	45,971	<b>55,138</b>
<b>Total</b>	<b>\$75,212</b>	<b>\$91,350</b>	<b>\$108,281</b>

The Company primarily sells to three geographic regions: Asia, USA and Canada, and Other. The geographic region is determined based on shipping addresses, not on the locations of the ultimate users. Net sales to each of the three geographic regions are as follows:

	Year Ended December 31,		
	2003	2004	2005
Asia	\$31,014	\$48,939	<b>\$ 57,188</b>
USA and Canada	38,024	35,982	<b>41,729</b>
Other	6,174	6,429	<b>9,364</b>
<b>Total</b>	<b>\$75,212</b>	<b>\$91,350</b>	<b>\$108,281</b>

## 6. Long-Term Debt

On September 24, 2004, the Company issued \$38,000 aggregate principal amount of 5% convertible Senior Notes ("2009 Notes") due October 15, 2009. The 2009 Notes are convertible into shares of the Company's common stock at any time prior to their maturity, at an initial conversion rate, subject to adjustment, of 200 shares for each \$1,000 principal amount, which is equivalent to a conversion price of \$5.00 per share. Pursuant to the indenture, dated as of September 24, 2004, between the Company and U.S. Bank Trust Association, as trustee, in the event of a "fundamental change" on or prior to July 15, 2009, the Company will pay a make whole premium upon the repurchase or conversion of the 2009 Notes. Subject to certain exceptions, the make whole premium will be 1% of the principal amount of the 2009 Notes, plus an additional premium based on the date such "fundamental change" becomes effective and the price paid per share of the Company's common stock in the transaction constituting the "fundamental change." Interest on the 2009 Notes is payable semi-annually in arrears on April 15 and October 15 of each year.

On November 27, 2001, the Company issued \$100,000 aggregate principal amount of 5% convertible Senior Notes ("2006 Notes") due November 15, 2006. The outstanding 2006 Notes are convertible into shares of common stock at any time prior to their maturity or prior redemption by the Company. The 2006 Notes are convertible into shares of common stock at a rate of 47.619 shares for each \$1,000 principal amount (convertible at a price of \$21.00 per share), subject to adjustment. Interest is payable semi-annually in arrears on May 15 and November 15 of each year.

ANADIGICS, Inc. has the option to redeem all or a portion of the 2006 Notes at a redemption price of 101% of the principal amount during the period from December 31, 2005 to November 14, 2006. In the event of a change in control, as defined, 2006 Note-holders may require the Company to repurchase the notes at 100% of the principal amount. In the event of a change in control, the Company, in certain circumstances, may elect to repay the 2006 Notes in common stock valued at 95% of the average of the closing prices of the Company's common stock for the five days immediately preceding and including the third trading day prior to the repurchase.

As of December 31, 2005, \$46,700 aggregate principal amount of the 2006 Notes remain outstanding. During 2002, the Company repurchased and retired \$33,300 aggregate principal amount of the 2006 Notes. In addition, in the third quarter of 2004 and concurrent with the issuance of the 2009 Notes, the Company repurchased and retired \$20,000 aggregate principal amount of the 2006 Notes for \$19,758 in cash, inclusive of accrued interest of \$358. The Company recognized a gain of \$327 on the repurchase after adjusting for the write-off of a proportionate share of unamortized offering costs.

Unamortized debt issuance costs of \$2,744 and \$1,999 at December 31, 2004 and 2005, respectively, consisting principally of underwriters' fees, were included in other assets and are being amortized over the life of the notes.

### 7. Commitments and Contingencies

The Company leases manufacturing, warehousing and office space and manufacturing equipment under noncancelable operating leases that expire through 2016. The Company also leases certain equipment under capital leases that expire through 2011. Rent expense, net of sublease income was \$3,225, \$3,063 and \$2,447 in 2003, 2004 and 2005, respectively. Sublease income was \$789, \$780 and \$270 in 2003, 2004 and 2005, respectively. The future minimum lease payments under the noncancelable operating leases and the present value of the minimum capital lease payments are as follows:

Year	Capital Leases	Operating Leases
2006	\$ 427	\$ 1,943
2007	427	1,778
2008	427	1,704
2009	427	1,776
2010	427	1,859
Thereafter	390	12,257
Total minimum lease payments	2,525	21,317
Less: contractually-required sublease income	—	(8)
Less: amount representing interest	(493)	—
	<b>\$2,032</b>	<b>\$21,309</b>

In addition to the above, at December 31, 2005, the Company had unconditional purchase obligations of approximately \$4,820.

### 8. Marketable Securities

The following is a summary of available-for-sale securities:

	Available-for-Sale Securities		
	Cost	Gross Unrealized Gains (Losses)	Estimated Fair Value
US Treasury & Agency			
Debt Securities	\$11,908	\$ (81)	\$11,827
State & Municipal Debt Securities	5,275	—	5,275
Corporate Debt Securities	76,208	(430)	75,778
<b>Total at December 31, 2004</b>	<b>\$93,391</b>	<b>\$(511)</b>	<b>\$92,880</b>
US Treasury & Agency			
Debt Securities	\$ 8,500	\$ (53)	\$ 8,447
State & Municipal Debt Securities	10,725	—	10,725
Corporate Debt Securities	55,510	(216)	55,294
<b>Total at December 31, 2005</b>	<b>\$74,735</b>	<b>\$(269)</b>	<b>\$74,466</b>

Management has the ability and intent, if necessary, to liquidate any of its marketable securities in order to meet the Company's liquidity needs in the next 12 months. Accordingly, certain securities with contractual maturities greater than one year from year-end have been classified as short-term on the accompanying consolidated balance sheet. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations. The amortized cost and estimated fair value of marketable securities at December 31, 2005, are shown below:

	Available-for-Sale Securities	
	Cost	Estimated Fair Value
Due in one year or less	\$70,598	\$70,364
Due after one year through two years	4,137	4,102
<b>Total</b>	<b>\$74,735</b>	<b>\$74,466</b>

### 9. Inventories

Inventories consist of the following:

	December 31,	
	2004	2005
Raw materials	\$ 3,510	\$ 2,870
Work in progress	9,026	10,973
Finished goods	5,974	5,068
	18,510	18,911
Reserves	(4,074)	(2,902)
<b>Total</b>	<b>\$14,436</b>	<b>\$16,009</b>

### 10. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,	
	2004	2005
Accrued compensation	\$ 2,005	\$ 2,123
Warranty reserve	159	396
Other	2,619	2,153
	\$ 4,783	\$ 4,672

Warranty reserve movements in the years ended December 31, 2004 and 2005 for returns were \$331 and \$397, respectively. The periodic charges for estimated warranty costs were \$390 and \$634 in the years ended December 31, 2004 and 2005.

## 11. Income Taxes

The components of the provision (benefit) for income taxes are as follows:

	Year Ended December 31,		
	2003	2004	2005
Current benefit			
Federal	\$(382)	\$—	\$—
State and foreign	—	—	—
Deferred provision			
Federal	—	—	—
State and foreign	—	—	—
<b>Total</b>	<b>\$(382)</b>	<b>\$—</b>	<b>\$—</b>

Deferred tax assets require a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets may not be realized. Whereas realization of the deferred tax assets is dependent upon the timing and magnitude of future taxable income prior to the expiration of the deferred tax attributes, management began recording a full valuation allowance in 2001. The amount of the deferred tax assets considered realizable, however, could change if estimates of future taxable income during the carry-forward period are changed.

Significant components of the Company's net deferred taxes as of December 31, 2004 and 2005 are as follows:

	December 31,	
	2004	2005
Deferred tax balances		
Accruals/reserves	\$ 3,642	\$ 3,148
Net operating loss carryforwards	94,285	105,819
Research and experimentation credits	5,073	5,870
Deferred rent expense	1,160	1,215
Difference in basis of plant and equipment	2,689	3,560
Other	—	—
Valuation allowance	(106,849)	(119,612)
<b>Net deferred tax assets</b>	<b>\$ —</b>	<b>\$ —</b>

As of December 31, 2005, the Company had net operating loss carryforwards of approximately \$290,000 for both federal and state tax reporting purposes. The federal carryforward will begin to expire in 2019, and the state carryforwards began to expire in 2005. At December 31, 2005, \$25,149 of the deferred tax asset related to net operating loss carryforwards and an equivalent amount of deferred tax asset valuation allowance represented tax benefits associated with the exercise of non-qualified stock options. Such benefit, when realized, will be credited to additional paid-in capital. The valuation allowance increased \$17,850 and \$12,763 in the years ended December 31, 2004 and 2005, respectively.

The reconciliation of income tax expense computed at the U.S. federal statutory rate to the benefit from income taxes is as follows:

	Year Ended December 31,					
	2003		2004		2005	
Tax at US statutory rate	\$(17,899)	(35.0)%	\$(15,079)	(35.0)%	<b>\$(10,932)</b>	<b>(35.0)%</b>
State and foreign tax (benefit), net of federal tax effect	(1,662)	(3.2)	(1,400)	(3.2)	<b>(1,015)</b>	<b>(3.2)</b>
Research and experimentation tax credits, net	—	—	(516)	(1.2)	<b>(797)</b>	<b>(2.6)</b>
Valuation allowance	20,098	39.3	17,850	41.4	<b>12,763</b>	<b>40.9</b>
Other	(919)	(1.8)	(855)	(2.0)	<b>(19)</b>	<b>(0.1)</b>
<b>Benefit from income taxes</b>	<b>\$ (382)</b>	<b>(0.7)%</b>	<b>\$ —</b>	<b>0.0%</b>	<b>\$ —</b>	<b>0.0%</b>

## 12. Stockholders' Equity

On December 17, 1998, the Company adopted a Shareholders' Rights Agreement (the "Agreement"). Pursuant to the Agreement, as amended on November 30, 2000, rights were distributed as a dividend at the rate of one right for each share of ANADIGICS, Inc. common stock, par value \$0.01 per share, held by stockholders of record as of the close of business on December 31, 1998. The rights will expire on December 17, 2008, unless earlier redeemed or exchanged. Under the Agreement, each right will entitle the registered holder to buy one one-thousandth of a share of Series A Junior Participating Preferred Stock at a price of \$75.00 per one one-thousandth of a share, subject to adjustment in

accordance with the Agreement. The rights will become exercisable only if a person or group of affiliated or associated persons acquires, or obtains the right to acquire, beneficial ownership of ANADIGICS, Inc. common stock or other voting securities that have 18% or more of the voting power of the outstanding shares of voting stock, or upon the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in such person or group acquiring, or obtaining the right to acquire, beneficial ownership of 18% or more of the voting power of ANADIGICS, Inc. common stock or other voting securities.

### 13. Employee Benefit Plans

In 1995, the Company adopted an Employee Stock Purchase Plan (“ESP Plan”) under Section 423 of the Internal Revenue Code. All full-time employees of ANADIGICS, Inc. and part-time employees, as defined in the ESP Plan, are eligible to participate in the ESP Plan. An aggregate of 2,694 shares of common stock are reserved for offering under the ESP Plan. Offerings are made at the commencement of each calendar year and must be purchased by the end of that calendar year. Pursuant to the terms of the ESP Plan, shares purchased and their applicable per share prices were 529 (\$2.32), 182 (\$3.11), and 328 (\$3.13) for the years ended December 31, 2003, 2004 and 2005, respectively.

Employees and outside directors have been granted options to purchase shares of common stock under stock option plans adopted in 1994, 1995, 1997 and 2005. An aggregate of 489, 4,913, 5,100 and 2,700 shares of common stock were reserved for issuance under the 1994 Long-Term Incentive Share and Award Plan, the 1995 Long-Term Incentive Share Award Plan, the 1997 Long-Term Incentive and Share Award Plan and the 2005 Long-Term Incentive and Share Award Plan for Employees (the “Plans”), respectively. The Plans provide for the granting of stock options, stock appreciation rights, restricted shares, or other share-based awards to eligible employees and directors, as defined in the Plans. Options granted under the Plans become exercisable in varying amounts over periods of up to three years. To date, no stock appreciation rights have been granted under the Plans.

In years 2004 and 2005, the Company granted restricted shares under the 1995 Long Term Incentive and Share Award Plan, 1997 Long Term Incentive and Share Award Plan for Employees and the 2005 Long Term Incentive and Share Award Plan. The value of the grants have been recorded as deferred compensation, a component of Stockholders’ Equity and amortized over their respective vesting period.

On May 20, 2002, the Company announced a voluntary stock option exchange program for eligible employees. Officers and Directors were not eligible for the exchange program. Pursuant to the terms and conditions of the offer, which expired on June 18, 2002, the Company accepted for cancellation options to purchase 838 shares of common stock having a weighted average exercise price of \$36.90. On December 20, 2002, participating employees were issued 761 options under this program in exchange for the cancelled options. The new options had an exercise price equal to \$2.53, which represented the fair market value at the date of grant and fully vested on December 20, 2003.

On July 3, 2003, the Company announced a voluntary stock option exchange program for employees and Officers. Directors of the Company were not eligible for the exchange program. Pursuant to the terms and conditions of the offer, which expired on August 4, 2003, the Company accepted for cancellation options to purchase 1,674 shares of common stock having a weighted average exercise price of \$19.49. On February 6, 2004, participating employees were issued 552 stock options, under this one-for-three exchange program, for the cancelled options. The new options had an exercise price equal to \$7.27, which represented the fair market value at the date of grant and fully vested on December 22, 2004.

A summary of the Company’s stock option activity, and related information for the years ended December 31, 2003, 2004 and 2005 are as follows:

	2003		2004		2005	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	7,132	\$10.80	5,905	\$7.30	<b>6,792</b>	<b>\$7.47</b>
Granted	856	3.44	1,944	7.16	<b>159</b>	<b>3.12</b>
Exercised	(23)	2.93	(537)	2.53	<b>(416)</b>	<b>2.80</b>
Forfeited	(386)	10.78	(520)	9.31	<b>(591)</b>	<b>7.57</b>
Cancelled	(1,674)	19.49	—	—	—	—
Outstanding at end of year	5,905	7.30	6,792	7.47	<b>5,944</b>	<b>7.67</b>
Exercisable at end of year	4,185	\$ 8.65	6,172	\$7.94	<b>5,759</b>	<b>\$7.83</b>

Stock options outstanding at December 31, 2005 are summarized as follows:

Range of exercise prices	Outstanding Options at Dec. 31, 2005	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at Dec. 31, 2005	Weighted Average Exercise Price
\$1.39–\$ 2.84	1,354	7.08	\$ 2.58	1,261	\$ 2.60
\$2.89–\$ 5.33	1,323	4.19	\$ 4.31	1,234	\$ 4.39
\$5.58–\$ 7.27	1,712	8.03	\$ 7.18	1,709	\$ 7.19
\$7.65–\$53.48	1,555	3.82	\$15.50	1,555	\$15.50

FAS 123 requires pro forma information regarding net income and earnings per share as if the Company has accounted for its employee stock options, warrants and shares of common stock purchased by employees in connection with the ESP Plan ("equity awards") under the fair value method prescribed by FAS 123. The fair value of these equity awards was estimated at the date of grant using a Black-Scholes option-pricing model. The following are weighted average assumptions for stock option grants for 2003, 2004 and 2005, respectively: risk-free interest rate of 1.8%, 2.2% and 3.4%; expected volatility of 1.10, 1.01 and 0.95; expected option life of one year from vesting and an expected dividend yield of 0.0%. The weighted average fair value of options granted during 2003, 2004 and 2005 was \$2.24, \$4.17 and \$1.70, respectively.

ANADIGICS, Inc. also sponsors an Employee Savings and Protection Plan under Section 401(k) of the Internal Revenue Code which is available to all full-time employees. Employees can make voluntary contributions up to limitations prescribed by the Internal Revenue Code. This plan was amended in 2001 and the Company now matches 50% of employee contributions up to 6% of their gross pay. The Company recorded

expense of \$628, \$730 and \$675 for the years ended December 31, 2003, 2004 and 2005, respectively, relating to plan contributions.

#### 14. Earnings Per Share

The reconciliation of shares used to calculate basic and diluted earnings per share consists of the following:

	Year Ended December 31,		
	2003	2004	2005
Weighted average common shares outstanding used to calculate basic earnings per share	30,717	32,413	34,012
Net effect of dilutive securities—based on treasury stock method using average market price	—*	—*	—*
Weighted average common shares outstanding used to calculate diluted earnings per share	30,717	32,413	34,012

\*Any dilution arising from the Company's outstanding stock options or shares potentially issuable upon conversion of the convertible notes, as summarized below, are not included as their effect is anti-dilutive.

	2003		2004		2005	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Exercise of options outstanding	5,905	\$ 7.30	6,792	\$ 7.47	5,944	\$ 7.67
5% convertible notes, due in 2006	3,176	21.00	2,224	21.00	2,224	21.00
5% convertible notes, due in 2009	—	—	7,600	5.00	7,600	5.00

#### 15. Other Accumulated Comprehensive Income (Loss)

The components of other accumulated comprehensive income (loss) are as follows:

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Available-for-Sale Securities	Total
Balance at December 31, 2003	\$ 13	\$ 125	\$ 138
Unrealized loss on available-for-sale securities	—	(617)	(617)
Foreign currency translation adjustment	12	—	12
Net gain recognized in other comprehensive income	—	(19)	(19)
Balance at December 31, 2004	25	(511)	(486)
Unrealized gain on available-for-sale securities	—	242	242
Foreign currency translation adjustment	(72)	—	(72)
<b>Balance at December 31, 2005</b>	<b>\$(47)</b>	<b>\$(269)</b>	<b>\$(316)</b>

The earnings associated with the Company's investment in its foreign subsidiaries is considered to be permanently invested and no provision for U.S. federal and state income taxes on those earnings or translation adjustments have been provided.

**16. Legal Proceedings**

ANADIGICS is a party to litigation arising out of the operation of our business. We believe that the ultimate resolution of such litigation should not have a material adverse effect on our consolidated financial condition or results of operation.

**17. Quarterly Financial Data (Unaudited)**

	Quarter Ended							
	2004				2005			
	April 3	July 3	Oct. 2	Dec. 31	April 2	July 2	Oct. 1	Dec. 31
Net sales	\$ 21,195	\$ 22,687	\$25,053	\$ 22,415	\$ 21,773	\$23,943	\$29,264	\$33,301
Cost of sales	19,175	19,207	19,811	19,162	19,252	19,511	22,691	24,475
Gross profit	2,020	3,480	5,242	3,253	2,521	4,432	6,573	8,826
Research and development expenses	8,902	8,866	7,884	7,654	7,862	7,374	7,491	7,179
Selling and administrative expense	5,790	6,099	5,482	5,140	5,552	5,506	5,234	5,001
Restructuring and other charges	—	—	—	—	(120)	—	—	—
Operating loss	(12,672)	(11,485)	(8,124)	(9,541)	\$(10,773)	(8,448)	(6,152)	(3,354)
Interest income	659	551	469	524	577	599	607	690
Interest expense	(940)	(940)	(955)	(1,250)	(1,249)	(1,249)	(1,250)	(1,249)
Gain on notes repurchase	—	—	327	—	—	—	—	—
Other income (expense)	201	143	(36)	(13)	(6)	9	15	—
Loss before income taxes	(12,752)	(11,731)	(8,319)	(10,280)	(11,451)	(9,089)	(6,780)	(3,913)
Benefit from income taxes	—	—	—	—	—	—	—	—
Net loss	\$(12,752)	\$(11,731)	\$(8,319)	\$(10,280)	\$(11,451)	\$(9,089)	\$(6,780)	\$(3,913)
Basic and diluted loss per share	\$ (0.40)	\$ (0.36)	\$ (0.25)	\$ (0.31)	\$ (0.34)	\$ (0.27)	\$ (0.20)	\$ (0.11)

## Report of Independent Registered Public Accounting Firm—2005

To the Board of Directors and Stockholders  
ANADIGICS, Inc.

We have audited the accompanying consolidated balance sheet of ANADIGICS, Inc. as of December 31, 2005, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for the year then ended. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audit.

We conducted our audit 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. Our audit included 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ANADIGICS,

Inc. as of December 31, 2005, and their consolidated results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule for the year ended December 31, 2005, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ANADIGICS, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2006 expressed an unqualified opinion thereon.

/s/ J.H. Cohn LLP

Roseland, New Jersey  
February 27, 2006

## Report of Independent Registered Public Accounting Firm—2004

The Board of Directors and Stockholders  
ANADIGICS, Inc.

We have audited the accompanying consolidated balance sheet of ANADIGICS, Inc. as of December 31, 2004, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2004. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the

overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ANADIGICS, Inc. as of December 31, 2004, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2004 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the information for each of the two years in the period ended December 31, 2004 in the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

MetroPark, New Jersey  
March 2, 2005

## Controls and Procedures

### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer, or CEO and Chief Financial Officer, or CFO, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2005. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported as specified within the SEC's rules and forms.

### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework of *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Our management's evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by J.H. Cohn LLP, an independent registered public accounting firm, as stated in their report which is included below.

There was no change in the Company's internal control over financial reporting during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### Inherent Limitations of Controls

Because of their inherent limitations, disclosure controls and procedures and 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/Bami Bastani

Bami Bastani  
President and Chief Executive Officer

/s/Thomas C. Shields

Thomas C. Shields  
Executive Vice President and  
Chief Financial Officer

February 27, 2006

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders  
ANADIGICS, Inc.

We have audited management's assessment, included in Item 9A, Management's Report on Internal Control over Financial Reporting, that ANADIGICS, Inc. maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ANADIGICS, Inc.'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 an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit 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. Our audit included 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 considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) 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 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.

In our opinion, management's assessment that ANADIGICS, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of the Sponsoring Organizations of the Treadway Commission. Also, in our opinion, ANADIGICS, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on such criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of ANADIGICS, Inc. as of December 31, 2005, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for the year then ended, and our report dated February 27, 2006 expressed an unqualified opinion thereon.

/s/ J.H. Cohn LLP

Roseland, New Jersey  
February 27, 2006

**Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our \$0.01 par value Common Stock, ("Common Stock") has been quoted on the NASDAQ National Market under the symbol "ANAD" since the commencement of trading on April 21, 1995 following our initial public offering of our Common Stock. The following table sets forth for the periods indicated the high and low sale prices for our Common Stock.

	High	Low
<b>Calendar 2005</b>		
<b>Fourth Quarter</b>	<b>\$6.30</b>	<b>\$3.05</b>
<b>Third Quarter</b>	<b>3.55</b>	<b>1.70</b>
<b>Second Quarter</b>	<b>1.95</b>	<b>1.26</b>
<b>First Quarter</b>	<b>3.80</b>	<b>1.43</b>
Calendar 2004		
Fourth Quarter	\$3.92	\$2.65
Third Quarter	5.15	3.21
Second Quarter	7.04	4.17
First Quarter	9.11	5.65

As of December 31, 2005, there were 34,893,077 shares of Common Stock outstanding (excluding Treasury) and 627 holders of record of the Common Stock.

We have never paid cash dividends on our capital stock. We currently anticipate that we will retain available funds for use in the operation and expansion of our business, and do not anticipate paying any cash dividends in the foreseeable future.



**Anadigics** 2005 Annual Report

## Company Information

### Executive Officers

**Dr. Bami Bastani**  
President, Chief Executive Officer and Director

**Ronald Rosenzweig**  
Chairman of the Board and Director

**Dr. Charles Huang**  
Executive Vice President and Chief Technical Officer

**Thomas Shields**  
Executive Vice President and Chief Financial Officer

### Directors

**Paul Bachow**  
President of Bachow & Associates, Inc.

**Garry McGuire**  
Chief Financial Officer and Senior Vice President  
of Corporate Development for AVAYA

**Harry Rein**  
General Partner  
Foundation Medical Partners

**Lewis Solomon**  
Chairman of G & L Investments

**Dennis Strigl**  
President & CEO of Verizon Wireless



### BOARD OF DIRECTORS

(FROM TOP TO BOTTOM, LEFT TO RIGHT)  
Paul Bachow, Dr. Bami Bastani,  
Garry McGuire, Harry Rein,  
Ronald Rosenzweig, Lewis Solomon,  
Dennis Strigl

### Corporate Information

Stock Listing: Nasdaq National Market®  
Symbol: ANAD

### Corporate Office

ANADIGICS, Inc.  
Attn: Investor Relations  
141 Mt. Bethel Road  
Warren, NJ 07059  
908-668-5000  
908-668-5068 (fax)

### Web Address

[www.anadigics.com](http://www.anadigics.com)

### Transfer Agent And Registrar

Mellon Investors Services  
P.O. Box 3315  
South Hackensack, NJ 07606  
1-800-851-9677  
<http://www.mellon-investors.com>

### Auditors

J.H. Cohn LLP  
4 Becker Farm Rd  
Roseland, NJ 07068

### Annual Meeting

ANADIGICS Annual Meeting will be held on May 18,  
2006 at 10:00 a.m. at the Somerset Hills Hotel,  
200 Liberty Corner Road, Warren, NJ 07059.



141 Mt. Bethel Road  
Warren, NJ 07059  
908.668.5000

<http://www.anadigics.com>

#### **WIRELESS SOLUTIONS**

ANADIGICS wireless products answer the changing needs of the dynamic wireless handset, PDA, and basestation equipment markets. Our proven RFIC (radio frequency integrated circuit) products provide leading manufacturers with the performance and reliability needed for advanced wireless communications systems.

#### **BROADBAND SOLUTIONS**

ANADIGICS provides industry-leading RF products for Cable TV and Wireless systems. Using internally-developed InGaP HBT and GaAs MESFET technology, ANADIGICS designs and manufactures highly linear power amplifiers and video tuners that are used in WLAN transmitters, CATV infrastructure and CATV digital set-up boxes. By working closely with market share leaders, ANADIGICS develops low-cost, integrated solutions that uniquely combine increased functionality with high performance and reliability.