CPI INTERNATIONAL, INC.

Form DEF 14A January 20, 2009

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

SCHEDULE 14A (Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

0	Preliminary Proxy Statement
0	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
X	Definitive Proxy Statement
0	Definitive Additional Materials
O	Soliciting Material Pursuant to §240.14a-12

CPI INTERNATIONAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.		
0	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.		
	(1)	Title of each class of securities to which transaction applies:	
	(2)	Aggregate number of securities to which transaction applies:	
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):	
	(4)	Proposed maximum aggregate value of transaction:	

	(5)	Total fee paid:
0	Fee paid previously with prelin	minary materials.
0	identify the filing for which the	e is offset as provided by Exchange Act Rule 0-11(a)(2) and e offsetting fee was paid previously. Identify the previous filing per, or the Form or Schedule and the date of its filing.
	(1)	Amount Previously Paid:
	(2)	Form, Schedule or Registration Statement No.:
	(3)	Filing Party:
	(4)	Date Filed:

CPI International, Inc. 811 Hansen Way Palo Alto, California 94303 January 19, 2009

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of CPI International, Inc. (the "Company") to be held on February 24, 2009, at 9:00 a.m. local time, at The Westin San Francisco Airport, One Old Bayshore Highway, Millbrae, California 94030.

At the meeting, you will be asked to consider and vote upon the following matters:

- · first, a proposal to re-elect two directors to serve on the Company's Board of Directors;
- second, a proposal to approve amendments to the Company's 2006 Equity and Performance Incentive Plan, as amended (the "2006 Plan"), to increase by 1,400,000 the maximum number of shares of the Company's common stock that may be issued or subject to awards under the 2006 Plan and to provide that future share-based awards (other than option and stock appreciation right awards) made under the 2006 Plan will count as two shares for purposes of determining whether the cap on the total number of shares issuable under the 2006 Plan has been exceeded;
- third, a proposal to approve the "performance-based" compensation provisions of the 2006 Plan to comply with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended;
- fourth, a proposal to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the 2009 fiscal year; and
- such other business as may properly come before the Annual Meeting or before any adjournments or postponements thereof.

Accompanying this letter is the formal notice of the Annual Meeting of Stockholders, proxy statement and proxy card relating to the meeting. The proxy statement contains important information concerning the matters to be acted upon at the meeting.

Your vote is very important regardless of how many shares you own. We hope you can attend the meeting in person. However, whether or not you plan to attend the meeting, please complete, sign, date and return the enclosed proxy card as soon as possible so that your vote will be counted. If you attend the meeting, you may vote in person if you wish, even though you may have previously returned your proxy card.

Very truly yours,

O. Joe Caldarelli Chief Executive Officer

CPI International, Inc. 811 Hansen Way Palo Alto, California 94303

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON FEBRUARY 24, 2009

NOTICE IS HEREBY GIVEN that the 2009 Annual Meeting (the "Annual Meeting") of Stockholders of CPI International, Inc., a Delaware corporation (the "Company"), will be held at The Westin San Francisco Airport, One Old Bayshore Highway, Millbrae, California 94030, on February 24, 2009, at 9:00 a.m. local time. At the Annual Meeting, the Company's stockholders will be asked to consider and vote upon:

- 1. the election of two directors to serve for a three-year term ending at the 2012 Annual Meeting of Stockholders and until their respective successors are duly elected and qualified;
- 2. the approval of amendments to the Company's 2006 Equity and Performance Incentive Plan, as amended (the "2006 Plan"), to increase by 1,400,000 the maximum number of shares of the Company's common stock that may be issued or subject to awards under the 2006 Plan and to provide that future share-based awards (other than option and stock appreciation right awards) made under the 2006 Plan will count as two shares for purposes of determining whether the cap on the total number of shares issuable under the 2006 Plan has been exceeded;
- 3. the approval of the "performance-based" compensation provisions of the 2006 Plan to comply with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended;
- 4. the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal year 2009; and
- 5. any other matter that may properly come before the Annual Meeting or any adjournment or postponement thereof.

Information regarding the two Board of Directors nominees, the proposed amendments to the 2006 Plan, the proposed approval of the "performance-based" compensation provisions of the 2006 Plan, and the ratification of the appointment of the independent registered public accounting firm is contained in the accompanying Proxy Statement, which you are urged to read carefully.

The Company's Board of Directors has fixed the close of business on January 7, 2009 as the record date for determining stockholders of the Company entitled to notice of and to vote at the Annual Meeting. A list of stockholders as of the record date will be available for inspection at the Company's corporate headquarters during business hours for a period of 10 days before the Annual Meeting.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on February 24, 2009

The Proxy Statement and the Company's Annual Report on Form 10-K are available at http://investor.cpii.com/annuals.cfm.

Your vote is very important. To ensure that your shares are represented at the Annual Meeting, you are urged to complete, date and sign the enclosed proxy card and mail it promptly in the postage-paid envelope provided, whether

or not you plan to attend the Annual Meeting in person. Your proxy can be withdrawn by you at any time before it is voted.

By Order of the Board of Directors,

Joel A. Littman Corporate Secretary

Palo Alto, California January 19, 2009

CPI International, Inc.
811 Hansen Way
Palo Alto, California 94303
PROXY STATEMENT RELATING TO
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON FEBRUARY 24, 2009

GENERAL

This proxy statement is being furnished to the stockholders of CPI International, Inc., a Delaware corporation (the "Company"), in connection with the solicitation of proxies by the Company's Board of Directors for use at the Annual Meeting of the Company's stockholders (the "Annual Meeting") to be held on Tuesday, February 24, 2009, at 9:00 a.m. local time, at The Westin San Francisco Airport, One Old Bayshore Highway, Millbrae, California 94030, and at any adjournments or postponements thereof. If you would like to obtain directions to be able to attend the Annual Meeting and vote in person, please contact the Company at (650) 846-2900 or visit the following website: http://www.starwoodhotels.com/westin/property/area/directions.html?propertyID=1007.

At the Annual Meeting, holders of the Company's common stock will be asked to vote upon: (1) the election of two directors to serve for a three-year term ending at the 2012 Annual Meeting of Stockholders and until their respective successors are duly elected and qualified, (2) the approval of amendments to the Company's 2006 Equity and Performance Incentive Plan, as amended (the "2006 Plan"), to increase by 1,400,000 the maximum number of shares of the Company's common stock that may be issued or subject to awards under the 2006 Plan and to provide that future share-based awards (other than option and stock appreciation right awards) made under the 2006 Plan will count as two shares for purposes of determining whether the cap on the total number of shares issuable under the 2006 Plan has been exceeded; (3) the approval of the "performance-based" compensation provisions of the 2006 Plan to comply with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"); (4) the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal year 2009 and (5) any other matter that may properly come before the Annual Meeting or any adjournment or postponement thereof.

This proxy statement and the accompanying proxy card are first being mailed to the Company's stockholders on or about January 22, 2009. The mailing address of the principal executive offices of the Company is 811 Hansen Way, Palo Alto, California 94303.

SOLICITATION OF PROXIES

The cost of preparing, assembling and mailing proxy materials will be borne by the Company. The solicitation of proxies is being made primarily by mail, but directors, officers and employees of the Company, none of whom will receive additional compensation therefor, may also engage in the solicitation of proxies by telephone or other means. The Company may reimburse brokers, custodians, nominees and other record holders for their reasonable out-of-pocket expenses in forwarding proxy materials to beneficial owners of the Company's common stock. Proxies solicited by means of this proxy statement will be tabulated by the inspectors of election designated by the Board of Directors.

VOTING

Outstanding Shares, Quorum and Vote Required

Only holders of record of common stock of the Company at the close of business on January 7, 2009 (the "Record Date") will be entitled to receive notice of and vote at the Annual Meeting. As of the close of business on the Record Date, there were 16,483,534 shares of common stock outstanding and entitled to vote. Each share of common stock entitles the holder to one vote on each matter to be voted on at the Annual Meeting. There is no cumulative voting for the election of directors.

The presence in person or by proxy of at least a majority of the total outstanding shares of common stock entitled to vote on the Record Date is necessary to constitute a quorum at the Annual Meeting. If there are not sufficient votes for a quorum or to approve any proposal at the Annual Meeting, then the Annual Meeting may be adjourned in order to permit the further solicitation of proxies.

Stockholders are requested to complete, date, sign and return the accompanying proxy card in the enclosed envelope. All properly executed, returned and unrevoked proxy cards will be voted in accordance with the instructions indicated thereon. If no instructions are indicated, then the shares of common stock represented by a properly submitted proxy will be voted "FOR" the election of each of the named director nominees, "FOR" the approval of the amendments to the 2006 Plan, "FOR" the approval of the "performance-based" compensation provisions of the 2006 Plan, and "FOR" the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal year 2009.

With respect to the election of directors, a stockholder may (1) vote "FOR" the election of the named director nominees, (2) "WITHHOLD AUTHORITY" to vote for all named director nominees or (3) vote for the election of all director nominees other than any nominee with respect to whom the stockholder withholds authority to vote. The affirmative vote of a plurality of the shares of common stock present in person or by proxy at the Annual Meeting and entitled to vote on the election of directors is necessary to elect directors. Accordingly, if a quorum is present at the Annual Meeting, then the two persons receiving the greatest number of votes will be elected to serve as directors.

With respect to the approval of the amendments to the 2006 Plan and the approval of the "performance-based" compensation provisions of the 2006 Plan, a stockholder may (1) vote "FOR" the approval of each such matter, (2) vote "AGAINST" the approval of each such matter or (3) "ABSTAIN" from voting on the matter. The affirmative vote of a majority of the votes cast "FOR," "AGAINST" or "ABSTAIN" with respect to such proposal in person or by proxy and entitled to vote at the Annual Meeting is required to approve each such proposal, provided that the total votes so cast on the proposal represents more than 50% of all shares entitled to vote on the proposal.

With respect to the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal year 2009, a stockholder may (1) vote "FOR" the approval of such matter, (2) vote "AGAINST" the approval of such matter or (3) "ABSTAIN" from voting on the matter. The affirmative vote of a majority of the shares of common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon is required to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm.

The Board of Directors of the Company currently knows of no other business that will be presented for consideration at the Annual Meeting. Delivery of a proxy, however, confers on the designated proxies discretionary authority to vote the shares in accordance with their discretion on such other business, if any, that may properly come before the Annual Meeting or any adjournments thereof, including any motion made for adjournment of the Annual Meeting.

Abstentions, Withheld Votes and Broker Non-votes

Under Delaware law, abstentions with respect to matters other than the election of directors are generally considered as shares present and entitled to vote and therefore have the same effect as a vote against such matter. Accordingly, an abstention with respect to the approval of the amendments to the 2006 Plan, the approval of the "performance-based" compensation provisions of the 2006 Plan and the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm will count as a vote against such matter. Withholding authority to vote for a director will not affect the outcome of the election of directors.

A proxy submitted by a stockholder may indicate that all or a portion of the shares represented by the proxy are not being voted by the stockholder with respect to a particular matter. This could occur, for example, when a broker is not

permitted to vote common stock held in street name on certain matters in the absence of instructions from the beneficial owner of the common stock. These "non-voted" shares, i.e., shares subject to a proxy that are not being voted with respect to a particular matter, will be considered shares not present and entitled to vote on such matter, although these shares may be considered present and entitled to vote for other purposes and will count for purposes of determining the presence of a quorum at the meeting. Accordingly, any non-voted shares will not affect the outcome of the election of directors, the proposal to approve the amendments to the 2006 Plan, the proposal to approve the "performance-based" compensation provisions of the 2006 Plan, or the proposal to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm. However, non-voted shares will not count towards the requirement that the total votes cast on the proposal to approve the amendments to the 2006 Plan and the total votes cast on the proposal to approve the

"performance-based" compensation provision of the 2006 Plan represent over 50% of all shares entitled to vote on the relevant proposal.

Revocation of Proxies

Any stockholder who has given a proxy may revoke it at any time before it is exercised at the Annual Meeting by (1) filing a written revocation with, or delivering a duly executed proxy bearing a later date to, the Corporate Secretary at 811 Hansen Way, Palo Alto, California 94303, or (2) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not, by itself, revoke a proxy).

Appraisal and Dissenters' Rights

Stockholders are not entitled to appraisal or dissenters' rights with respect to any of the proposals presented in this proxy statement.

ATTENDANCE AT THE ANNUAL MEETING

When you enter the Annual Meeting, you may be asked to present photo identification, such as a driver's license. If you hold common stock in street name, you may be asked for proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from a bank or broker are examples of proof of ownership. If you want to vote in person your common stock held in street name, you must get a written proxy in your name from the broker, bank or other nominee that holds your shares.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows information known to the Company with respect to the beneficial ownership of the Company's common stock as of January 7, 2009 by: (1) each of the Company's directors (including director nominees); (2) each of the Company's named executive officers (defined below); (3) all of the Company's directors and executive officers as a group; and (4) each person or group of affiliated persons whom the Company knows to beneficially own more than five percent of the Company's outstanding common stock.

Beneficial ownership and percentage ownership are determined in accordance with the rules of the Securities and Exchange Commission. This information does not necessarily indicate beneficial ownership for any other purpose. In computing the number of shares beneficially owned by a person and the percentage ownership of that person's shares of common stock, underlying options that are exercisable within 60 days of January 7, 2009 are considered to be outstanding. To the Company's knowledge, except as indicated in the footnotes to this table and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of the Company's common stock shown as beneficially owned by them. Percentage of beneficial ownership is based on 16,483,534 shares outstanding as of January 7, 2009.

The address for those individuals for whom an address is not otherwise indicated is: c/o CPI International, Inc., 811 Hansen Way, Palo Alto, California 94303.

		Number of Shares	
Name and Address of Beneficial	Number of	Subject to	Percent of
Owner	Shares	Options(16)	Class
Cypress Associates II LLC(1)	8,868,738	_	- 53.8%
Cypress Merchant Banking			
Partners II L.P.(1)	8,429,065	_	- 51.1%
Lazard Asset Management LLC(2)			
30 Rockefeller Plaza			
New York, New York			
10112	1,259,564	_	- 7.6%
TimeSquare Capital Management			
LLC(3)			
1177 Avenue of the			
Americas, 39th Floor			
New York, NY 10036	882,000	_	- 5.4%
Cypress Merchant B II C.V.(1)	358,332	_	- 2.2%
55th Street Partners II L.P.(1)	81,341	_	_ *
Cypress Side-by-Side LLC(4)	17,773	_	_ *
Jeffrey P. Hughes(5)(6)	8,877,002	_	- 53.9%
Michael F. Finley (7)	27,895	_	_ *
Michael Targoff (8)	78,170	24,517	*
William P. Rutledge(9)	17,650	6,000	*
Stephen R. Larson(10)	7,153	4,000	*
O. Joe Caldarelli	93,000	936,694	5.9%
Robert A. Fickett(11)(15)	16,000	572,649	3.5%
Joel A. Littman(12)(15)	35,148	321,254	2.1%
Don C. Coleman(13)(15)	8,000	188,631	1.2%
John R. Beighley(14)(15)	4,000	115,710	*

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Andrew E. Tafler	2,488	107,998	*
Executive officers and directors as a			
group (11 people)	9,166,506	2,277,453	61.0%

^{*} Represents less than one percent of total.

⁽¹⁾ Cypress Associates II LLC ("Cypress Associates") is the managing general partner of Cypress Merchant B II C.V. and the general partner of Cypress Merchant Banking Partners II L.P. and 55th Street Partners II L.P. (all such funds, collectively, the "Cypress Funds"), and has voting and investment power over the shares held or controlled by each of the Cypress Funds. Mr. Hughes and James A. Stern are managing members of Cypress Associates. Mr. Hughes is also a member of the investment committee that exercises voting control over the shares owned by the Cypress Funds. The address of Cypress Associates and the Cypress Funds is c/o The Cypress Group L.L.C., 65 East 55th Street, 28th Floor, New York, New York 10022.

- (2) As of September 30, 2008, based on a Schedule 13F Holdings Report filed with the Securities and Exchange Commission on November 12, 2008 reporting sole investment discretion as to all of such shares, sole voting authority as to 859,939 of such shares and no voting authority as to 399,625 of such shares
- (3) As of September 30, 2008, based on a Schedule 13F Holdings Report filed with the Securities and Exchange Commission on November 13, 2008 reporting sole investment discretion as to all of such shares, sole voting authority as to 791,300 of such shares and no voting authority as to 90,700 of such shares
- (4) Cypress Side-by-Side LLC is a single member limited liability company of which James A. Stern is the sole member. The address of Cypress Side-by-Side LLC is c/o The Cypress Group L.L.C., 65 East 55th Street, 28th Floor, New York, New York 10022.
- (5)Mr. Hughes is a managing member of Cypress Associates, and may be deemed to share beneficial ownership of the shares shown as beneficially owned by Cypress Associates and by the Cypress Funds. In addition, Mr. Hughes is a member of the investment committee that exercises voting control over the shares owned by the Cypress Funds. Mr. Hughes disclaims beneficial ownership of the shares shown as beneficially owned by Cypress Associates and the shares shown as beneficially owned by the Cypress Funds.
- (6) Number of shares beneficially owned includes 5,982 unvested shares. The unvested shares will vest as follows: half of the shares will vest on the day before this Annual Meeting and the other half will vest on the day before the 2010 annual stockholders' meeting. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of Mr. Hughes' status as a director.
- (7) Number of shares beneficially owned includes 2,932 unvested shares, all of which will vest on the day before this Annual Meeting. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of Mr. Finley's status as a director.
- (8) Number of shares beneficially owned includes 10,928 unvested shares. The unvested shares will vest as follows: one-third of the shares will vest on the day before this Annual Meeting, one-third of the shares will vest on the day before the 2010 annual stockholders' meeting and one-third of the shares will vest on the day before the 2011 annual stockholders' meeting. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of Mr. Targoff's status as a director.
- (9) Number of shares beneficially owned includes 10,928 unvested shares. The unvested shares will vest as follows: one-third of the shares will vest on the day before this Annual Meeting, one-third of the shares will vest on the day before the 2010 annual stockholders' meeting and one-third of the shares will vest on the day before the 2011 annual stockholders' meeting. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of Mr. Rutledge's status as a director.
- (10) Number of shares beneficially owned includes 5,982 unvested shares. The unvested shares will vest as follows: half of the shares will vest on the day before this Annual Meeting and the other half will vest on the day before the 2010 annual stockholders' meeting. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of Mr. Larson's status as a director.
- (11) Number of shares beneficially owned includes 14,000 unvested shares. 6,000 of the unvested shares vest as follows: one-third of the shares will vest on November 30 of each of 2009, 2010 and 2011. The remaining 8,000 unvested shares are subject to both time vesting and performance vesting as described in note 15 below. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of

Mr. Fickett's employment by the Company (or the applicable subsidiary) for cause (as defined in his employment agreement) or if he terminates his employment with the Company (or the applicable subsidiary) without good reason (as defined in his employment agreement).

(12) Number of shares beneficially owned includes 10,500 unvested shares. 4,500 of the unvested shares vest as follows: one-third of the shares will vest on November 30 of each of 2009, 2010 and 2011. The remaining 6,000 unvested shares are subject to both time vesting and performance vesting as described in note 15 below. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of Mr. Littman's employment by the Company (or the applicable subsidiary) for cause (as defined in his employment agreement) or if he terminates his

employment with the Company (or the applicable subsidiary) without good reason (as defined in his employment agreement).

- (13) Number of shares beneficially owned includes 7,000 unvested shares. 3,000 of the unvested shares vest as follows: one-third of the shares will vest on November 30 of each of 2009, 2010 and 2011. The remaining 4,000 unvested shares are subject to both time vesting and performance vesting as described in note 15 below. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of Mr. Coleman's employment.
- (14) Number of shares beneficially owned includes 3,500 unvested shares. 1,500 of the unvested shares vest as follows: one-third of the shares will vest on November 30 of each of 2009, 2010 and 2011. The remaining 2,000 unvested shares are subject to both time vesting and performance vesting as described in note 15 below. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of Mr. Beighley's employment.
- (15)8,000, 6,000, 4,000 and 2,000 shares shown as owned by Mr. Fickett, Mr. Littman, Mr. Coleman and Mr. Beighley are subject to time vesting and performance vesting conditions. All of such shares are broken up into two tranches (each a "Tranche"). Tranche One consists of one-half of the unvested shares and Tranche Two consists of one-half of the unvested shares. The unvested shares in each Tranche become fully vested only if both the time vesting conditions (described below) and the performance conditions (described below) are satisfied with respect to such unvested shares. The time vesting conditions with respect to 25% of the unvested shares in each Tranche will be satisfied on the third trading day following the Company's issuance of its press release reporting first quarter financial results in each of 2010, 2011, 2012 and 2013, but no later than the end of February in each year. The performance conditions of each Tranche are based on specified price thresholds reached by the Company's common stock. The unvested shares in Tranche One are subject to a \$13.50 stock price threshold, and the unvested shares in Tranche Two are subject to a \$16.00 stock price threshold. In order for the performance conditions to be satisfied with respect to a Tranche, beginning any time starting the 20th day following the grant date of December 5, 2008 and ending on the third trading day after the Company's issuance of its press release publicly reporting first quarter financial results for fiscal year 2019 but in no case later than the end of February 2019, the average closing share price of the Company's common stock must be at or above the applicable stock price threshold amount for 20 consecutive trading days. If the performance condition is satisfied with respect to a Tranche, the performance vesting for all of the shares of such Tranche will occur on the third trading day after the issuance of the Company's next press release publicly reporting quarterly or annual financial results, but no later than the end of the calendar month in which such press release would otherwise customarily occur.
- (16) Includes vested options and options that will vest within 60 days of January 7, 2009. An aggregate of 1,339,201 options, or 58.8% of the options exercisable by executive officers and directors, were issued prior to the Company's initial public offering. They were issued either through grants of options made prior to the January 2004 acquisition of the Company by affiliates of The Cypress Group that were not cashed out in connection with that acquisition and were "rolled over" as an investment into the acquired company or through grants made as an adjustment to compensate option holders for not participating in a 2005 \$75.8 million special distribution to stockholders.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information about the Company's directors and executive officers as of January 1, 2009. All directors hold their positions until their terms expire and until their respective successors are elected and qualified. Executive officers are appointed by the Board of Directors and serve at the discretion of the Board of Directors, subject to applicable employment agreements.

Name	Age	Position(s)
	Dire	ector and Chairman of the Board of
Michael Targoff(1)(3)(4)	64 Dire	ectors
O. Joe Caldarelli(4)	58 Chie	ef Executive Officer and Director
Michael F. Finley(2)(3)	46 Dire	ector
Jeffrey P. Hughes(3)(4)	68 Dire	ector
Stephen R. Larson(1)	64 Dire	ector
William P. Rutledge(1)(2)	66 Dire	ector
Robert A. Fickett	48 Pres	sident and Chief Operating Officer
	Chie	ef Financial Officer, Treasurer and
Joel A. Littman	56 Seci	retary
John R. Beighley	56 Vice	e President and Assistant Secretary
Don C. Coleman	54 Vice	e President
Andrew E. Tafler	53 Vice	e President

- (1) Member of the Audit Committee; Mr. Rutledge is the chairperson.
 - (2) Member of the Nominating and Governance Committee; Mr. Finley is the chairperson.
 - (3) Member of the Compensation Committee; Mr. Finley is the chairperson.
 - (4) Member of the Executive Committee; Mr. Caldarelli is the chairperson.

Set forth below is certain information regarding current directors (other than current directors who are nominees) and executive officers. On January 22, 2004, CPI International, Inc. acquired the business of Communications & Power Industries Holding Corporation and became the successor to Communications & Power Industries Holding Corporation. Unless the context requires otherwise, references in this proxy statement to the "Company," "we," "us," or "our" are references to CPI International, Inc. and its subsidiaries on or after January 23, 2004 and to Communications & Power Industries Holding Corporation and its subsidiaries before January 23, 2004.

Michael Targoff became a director of the Company in January 2004 and chairman of the Board of Directors of the Company in March 2004. Mr. Targoff currently serves as chief executive officer, vice chairman and director of Loral Space & Communications Inc. Mr. Targoff is the founder and chief executive officer of Michael B. Targoff & Co., a company that sought active or controlling investments in telecommunications and related industry early stage companies. From 1996 to 1998, Mr. Targoff was the president and chief operating officer of Loral Space & Communications Ltd. (now known as Loral Space & Communications Inc.). Prior to that, Mr. Targoff served as senior vice president and secretary of Loral Corporation. Mr. Targoff received a B.A. degree from Brown University and a J.D. from Columbia University School of Law. Mr. Targoff also serves on the Board of Directors of ViaSat, Inc., Leap Wireless International, Inc., and Telesat Holdings, Inc.

Jeffrey P. Hughes became a director of the Company in April 2005. Mr. Hughes is currently a vice chairman of The Cypress Group. Mr. Hughes helped found The Cypress Group in 1994, after 26 years at Lehman Brothers Inc. as a senior investment banker and merchant banker. Mr. Hughes started Lehman Brothers' private financing department and led early leveraged buyout financings; had senior investment banking coverage responsibilities for industrial, energy and consumer product companies; was co-head of the financial institutions group; and was a member of Lehman Brothers' investment committee. Mr. Hughes joined Lehman Brothers in 1968 and became a partner in 1976. Mr. Hughes received a B.A. degree from Wesleyan University and an L.L.B. degree from Duke University Law School. Mr. Hughes also serves on the Board of Directors of Financial Guaranty Insurance Company, Scottish Re Group Ltd., Cypress Sharpridge Investments, Inc. and Medicus Insurance Holdings, Inc.

Stephen R. Larson became a director of the Company in February 2007. Mr. Larson currently is, and has been since January 2000, the corporate vice president of strategy and technology of Esterline Technologies Corporation. From April 1992 to January 2000, Mr. Larson served as the corporate group vice president of Esterline Technologies Corporation. Mr. Larson served as president of Korry Electronics Corporation, a subsidiary of Esterline Technologies Corporation, from

1987 to 1992. From 1985 to 1987, he was executive vice president of marketing and sales, and from 1981 to 1985 served as executive vice president of operations, of Korry Electronics Corporation. Mr. Larson served as director of operations analysis of Criton Corporation (formerly known as Heath Tecna Corp.) from 1978 to 1981. Mr. Larson held various positions at Zenith Electronics Corporation from 1964 to 1978, including research and development group leader and marketing manager. Mr. Larson holds a B.S. degree in electrical engineering from Northwestern University and an M.B.A. from the University of Chicago.

William P. Rutledge became a director of the Company on April 27, 2006. Mr. Rutledge was chairman of the Board of Directors of the Company from 1999 to 2004. From June 1999 to November 1999 he served as president and chief executive officer of the Company. Prior to 1998, he was president and chief executive officer of Allegheny Teledyne. Mr. Rutledge received a B.S. degree in metallurgical engineering from Lafayette College and an M.S. in financial management from George Washington University. Mr. Rutledge also serves on the Board of Directors of AECOM, Inc., First Federal Bank of California and Sempra Energy, Inc. and is a trustee of Lafayette College and St. John's Hospital and Health Center Foundation.

Robert A. Fickett became president and chief operating officer of the Company in March 2002. Prior to this, Mr. Fickett was a co-chief operating officer of the Company since October 2000 and vice president of the Company since April 1998. Mr. Fickett has also been the division president of the Company's Microwave Power Products Division since April 1998. From January 1996 to April 1998, Mr. Fickett was vice president of operations for the Company's Microwave Power Products Division. From 1993 until January 1996, he was president and chief executive officer of Altair Technologies, Inc., a contract manufacturer. From 1982 until 1993, Mr. Fickett held a number of positions with Varian Associates, Inc., including engineering manager of the Microwave Power Products Division's Klystron Engineering Group, to which he was promoted in 1989. Mr. Fickett received a B.S. degree in mechanical engineering from the University of California, Berkeley.

Joel A. Littman became chief financial officer of the Company in September 2001. Mr. Littman was corporate controller for the Company from November 1996 to September 2001. From September 1989 to November 1996, Mr. Littman served as controller of the Microwave Power Products Division of Varian Associates, Inc. and the Company. Prior to that, Mr. Littman held various finance positions with Varian Associates, Inc. and TRW Inc. Mr. Littman received a B.A. degree in economics and an M.B.A., both from the University of California at Los Angeles.

John R. Beighley became a vice president of the Company in March 1997. Mr. Beighley currently heads the Company's worldwide field sales organization. From May 1992 to March 1997, Mr. Beighley was the Company's western hemisphere sales manager responsible for sales in the Americas, the Far East and Australia. From June 1989 to May 1992, Mr. Beighley was the Company's North American sales manager. From March 1981 to June 1989, Mr. Beighley held a number of product marketing and field sales positions with Varian Associates, Inc. Mr. Beighley received a B.S. degree in marketing from San Francisco State University and an M.B.A. from Santa Clara University.

Don C. Coleman became a vice president and division president of the Company's Beverly Microwave Division in February 1999. Mr. Coleman was vice president of manufacturing for the Company's Beverly Microwave Division from February 1996 until accepting his current position. From 1990 until 1996, Mr. Coleman held the position of engineering manager for receiver protector products at the Company's Beverly Microwave Division. Prior to 1990, Mr. Coleman held a variety of manufacturing and development engineering positions at Varian Associates, Inc. Mr. Coleman received a B.S. degree in engineering from the University of Massachusetts.

Andrew E. Tafler became a vice president of the Company in December 2005. Mr. Tafler became division president of the Company's Satcom Division in May 2004. Mr. Tafler was previously vice president of operations for the Satcom Division from 2000 to 2004. From 1989 to 2000, Mr. Tafler held the business development manager and then

the operations manager positions at the Communications & Medical Products Division of the Electron Device Group of Varian Associates, Inc. Mr. Tafler held a number of manufacturing and marketing positions at Varian Associates from 1984 to 1989. Prior to joining Varian Associates, Mr. Tafler served in engineering and management positions with Bell Canada Inc. Mr. Tafler holds a B.A.Sc. degree in electrical engineering from the University of Toronto.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

The Board of Directors has nominated each of O. Joe Caldarelli and Michael F. Finley for re-election, to serve for a three-year term expiring at the annual meeting of stockholders of the Company in 2012 and until their respective successors are elected and qualified.

The individuals named as proxyholders will vote your proxy for the election of the two nominees unless you direct them to withhold your votes. If any nominee becomes unable to serve as a director before the Annual Meeting (or decides not to serve), the individuals named as proxyholders may vote for a substitute. The Board of Directors has no reason to believe that any nominee named herein will be unable or unwilling to serve.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF THE NOMINEES LISTED ABOVE.

Set forth below is certain information concerning the nominees for election.

O. Joe Caldarelli, age 58, became chief executive officer and a director of the Company in March 2002. Prior to this, Mr. Caldarelli was a co-chief operating officer of the Company since October 2000 and vice president of the Company since August 1995. Mr. Caldarelli is also the division president of the Company's Communications & Medical Products Division. Mr. Caldarelli was vice president and general manager for the Communications & Medical Products Division under the Electron Device Business of Varian Associates, Inc. from 1985 until August 1995 and was president and a director of Varian Canada, Inc. from 1992 until August 1995. From 1982 until 1985, Mr. Caldarelli was marketing manager of the Communications & Medical Products Division of Varian Associates, Inc. and served as its equipment operations manager from 1979 until 1982. Prior to joining Varian Associates, Mr. Caldarelli served as manufacturing engineering manager for Medtronic Canada, Inc. Mr. Caldarelli holds a B.S. degree in mechanical engineering from the University of Toronto.

Michael F. Finley, age 46, became a director of the Company in January 2004. Mr. Finley has been a partner with Court Square Capital since 2008. Previously, he was a managing director of The Cypress Group since 1998 and had been a member of The Cypress Group since its formation in April 1994. Prior to joining The Cypress Group, he was a vice president in the Merchant Banking Group at Lehman Brothers Inc. Mr. Finley received a B.A. degree from St. Thomas University and an M.B.A. from the University of Chicago's Graduate School of Business. Mr. Finley also serves on the Board of Directors of Affinia Group Inc. and MSX International.

CORPORATE GOVERNANCE

Composition of the Board of Directors

The Company's amended and restated bylaws provide that the Board of Directors will consist of not less than three and not more than 15 persons, with the exact number of directors to be determined from time to time by resolution of the Board of Directors. The Board of Directors currently consists of six directors and is divided into three classes as described below, with each director serving a three-year term and one class being elected at each year's annual meeting of stockholders. Messrs. Hughes and Larson are serving as Class I directors (with a term expiring at the Company's annual stockholders' meeting to be held in 2010). Messrs. Rutledge and Targoff are serving as Class II directors (with a term expiring at the Company's annual stockholders' meeting to be held in 2011). Messrs. Caldarelli and Finley are serving as Class III directors (with a term expiring at the Annual Meeting).

Because funds affiliated with The Cypress Group (collectively, "Cypress") own collectively more than 50% of the Company's stockholder voting power, the Company currently qualifies for the controlled company exception of The Nasdaq Stock Market rule 4350(c), which provides that so long as Cypress continues to own more than 50% of the Company's stockholder voting power, the Company will be exempt from the rules that would otherwise require that the Company's Board of Directors consists of a majority of independent directors, as defined under The Nasdaq Stock Market rules, and that the Company's Compensation Committee and Nominating and Governance Committee consist only of independent directors. Currently, the Company's Board of Directors consists of a majority of independent directors as defined under The Nasdaq Stock Market rules, and all of the members of the Company's Compensation Committee and Nominating and Governance Committee are independent directors as defined under The Nasdaq Stock Market rules.

Independence of Directors

The Company's Board of Directors has determined that Messrs. Targoff, Finley, Larson and Rutledge, all current members of the Board of Directors, are independent members of the Board of Directors as defined under the rules of The Nasdaq Stock Market and the rules and regulations of the Securities and Exchange Commission and that Mr. Hughes is an independent member of the Board of Directors as defined under the rules of The Nasdaq Stock Market.

Meetings of the Board of Directors and Committees; Attendance at Annual Meetings

The Board of Directors met seven times during fiscal year 2008. Each incumbent director who served on the Board of Directors in fiscal year 2008 attended at least 75% of the meetings of the Board of Directors and of each committee of which he was a member that he was eligible to attend in fiscal year 2008. The Company's policy, as set forth in the Company's Corporate Governance Guidelines, is that directors are invited and encouraged to attend the Company's annual meetings of stockholders. Five of the directors attended the 2008 annual meeting of stockholders.

Committees of the Board of Directors

The Board of Directors currently has a standing Audit Committee, Compensation Committee, Nominating and Governance Committee and Executive Committee. The following is a brief description of the Company's committees.

Audit Committee

The functions of the Audit Committee include:

• responsibility for the appointment, compensation, retention and oversight of the Company's independent auditors;

- pre-approving audit and non-audit services to be rendered by the Company's independent auditors;
- reviewing and discussing with management and the independent auditors the adequacy of the Company's internal controls;
- reviewing the Company's financial statements and periodic reports and discussing with the Company's independent auditors and management significant financial reporting issues and judgments made in connection with the preparation of the financial statements;

- establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters;
- advising the Board of Directors regarding compliance with laws and regulations and the Company's Code of Legal and Ethical Conduct; and
- reviewing and approving all related-party transactions required to be disclosed pursuant to Item 404 of Regulation S-K.

The Audit Committee is governed by a charter, a copy of which is available for review on the Company's website at www.cpii.com, under the heading "Investors," and the subheading "Corporate Governance." The Audit Committee held five meetings during fiscal year 2008.

Messrs. Larson, Rutledge and Targoff are the members, and Mr. Rutledge is the chairperson, of the Audit Committee. Each member of the Audit Committee meets The Nasdaq Stock Market requirements as to independence and financial knowledge and is independent as defined in applicable Securities and Exchange Commission rules and regulations. In addition, the Board of Directors has determined that Messrs. Rutledge and Targoff each qualify as an "audit committee financial expert" under Securities and Exchange Commission rules and regulations.

Compensation Committee

The functions of the Compensation Committee include:

- · reviewing and determining, or recommending to the Board of Directors for determination, the compensation structure for the chief executive officer and all other executive officers;
- · establishing, administering and exercising authority under certain of the Company's employee benefit plans; and
- reviewing and making recommendations to the Board of Directors with respect to the compensation of non-management directors and directors' and officers' indemnity and insurance matters.

The Compensation Committee is governed by a charter, a copy of which is available for review on the Company's website at www.cpii.com, under the heading "Investors," and the subheading "Corporate Governance." The Compensation Committee held two meetings during fiscal year 2008.

Messrs. Finley, Hughes and Targoff are the members, and Mr. Finley is the chairperson, of the Compensation Committee. Each of Messrs. Finley, Hughes and Targoff is independent under the rules of The Nasdag Stock Market.

Nominating and Governance Committee

The functions of the Nominating and Governance Committee include:

- identifying qualified candidates to become members of the Board of Directors;
- recommending for selection by the Board of Directors candidates for election or reelection to the Board of Directors at any meeting of stockholders at which directors are to be elected and to fill vacancies that may occur at other times;
 - developing and recommending to the Board of Directors the corporate governance guidelines; and

• overseeing the evaluation of the Board of Directors.

The Nominating and Governance Committee is governed by a charter, a copy of which is available for review on the Company's website at www.cpii.com, under the heading "Investors," and the subheading "Corporate Governance." The Nominating and Governance Committee held two meetings during fiscal year 2008.

Messrs. Finley and Rutledge are the members, and Mr. Finley is the chairperson, of the Nominating and Governance Committee. Both Messrs. Finley and Rutledge are independent under The Nasdaq Stock Market rules.

Executive Committee

The Executive Committee, on behalf of the Board of Directors, exercises the full powers and prerogatives of the Board of Directors to the extent permitted by applicable law and the Company's amended and restated certificate of incorporation and the Company's amended and restated bylaws, between Board of Directors meetings.

Messrs. Caldarelli, Hughes and Targoff are the members, and Mr. Caldarelli is the chairperson, of the Executive Committee.

Director Nomination Process

It is the policy of the Board of Directors, as set forth in the Company's Corporate Governance Guidelines, to select director nominees on the basis of, among other things, knowledge, experience, skills, expertise, integrity, diversity, ability to make independent analytical inquiries and understanding of the Company's business environment, all in the context of an assessment of the perceived needs of the Board of Directors at that time. In addition, nominees should also be willing and able to devote adequate time and effort to Board of Directors responsibilities. However, exceptional candidates who do not meet all of the foregoing criteria may still be considered.

The Nominating and Governance Committee is responsible for identifying, recruiting and recommending for the Board of Directors' selection qualified individuals to be nominated for election to the Board, consistent with the criteria set forth in the Company's Corporate Governance Guidelines. To the extent necessary, the Nominating and Governance Committee may retain search firms and recruitment consultants to help identify, screen and review director candidates.

Before recommending to the Board of Directors a new or incumbent director for election or reelection, the Nominating and Governance Committee reviews a candidate's qualifications, including capability, availability to serve, conflicts of interest and other relevant factors. The Nominating and Governance Committee also periodically reviews the size and composition of the Board of Directors and recommends to the Board of Directors any appropriate changes.

The Board of Directors has not adopted any formal policies or procedures with regard to the consideration of director candidates recommended by stockholders. Stockholders should send their recommendations to the Corporate Secretary at 811 Hansen Way, Palo Alto, California 94303. In general, the Board of Directors would require the consent of any proposed director candidate to be considered and to be nominated, and such person's undertaking to serve if elected. The Board of Directors would also require the type of information that must be disclosed by and about directors, nominees and executive officers of the Company under the federal securities laws and such information as may now or hereafter be required by the Company's certificate of incorporation or bylaws as to stockholder nominees. Further, the Nominating and Governance Committee could seek information about a candidate's specific attributes, including a candidate's business experiences, experience as a director, community involvement and public credibility. The Board of Directors believes that these informal standards are sufficient to serve the Company's needs.

Executive Sessions

It is the policy of the Board of Directors to hold executive sessions without the presence of management (including executive sessions at which only independent directors, as defined under The Nasdaq Stock Market rules, are present)

as necessary to comply with all applicable legal, regulatory and stock exchange requirements, but no less than two times a year. Executive sessions of independent directors may be held in connection with regularly scheduled meetings of the Board of Directors. Committees of the Board of Directors may also meet in executive session as provided in the individual committee charters.

Stockholder Communications with Directors

Stockholders and other interested parties may contact any member (or all members) of the Board of Directors, any Board committee or any chair of any such committee by U.S. mail or by e-mail. To communicate with the Board of Directors, any individual director or any group or committee of directors, correspondence should be addressed to the Board of Directors or any such individual director or group or committee of directors by either name or title. If by U.S. mail, such correspondence should be sent c/o Corporate Secretary, CPI International, Inc., 811 Hansen Way, Palo Alto, California

94303. E-mail messages should be sent to CorporateSecretary@cpii.com. The Corporate Secretary will forward copies of all correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the Board or its committees or that he otherwise determines requires the attention of any member, group or committee of the Board. The Corporate Secretary will not forward junk mail, job inquiries, business solicitations, complaints by users or customers with respect to ordinary course of business customer service, offensive or otherwise inappropriate materials. The foregoing procedure is contained in the Company's Corporate Governance Guidelines.

Code of Legal and Ethical Conduct

The Company has adopted a code of legal and ethical conduct that applies to all employees, directors, consultants and agents of the Company and its subsidiaries, including the principal executive officer, principal financial officer, the controller and persons performing similar functions. This code is available on the Company's website at www.cpii.com under the heading "Investors," and the subheading "Corporate Governance." The Company will promptly disclose on the Company's website any amendments to, and waivers from, the Company's code of legal and ethical conduct, if and when required.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. The Company's management has the primary responsibility for establishing and maintaining adequate internal financial controls, for preparing the financial statements and for the public reporting process. KPMG LLP ("KPMG"), the Company's independent public accounting firm for the fiscal year ended October 3, 2008, is responsible for expressing opinions on the conformity of the Company's audited financial statements with generally accepted accounting principles.

In this context, the Audit Committee has reviewed and discussed with management and KPMG the audited financial statements for the fiscal year ended October 3, 2008. The Audit Committee has discussed with KPMG the matters that are required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged With Governance). KPMG has provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and the Audit Committee has discussed with KPMG that firm's independence. The Audit Committee has concluded that KPMG's provision of audit-related and non-audit services to the Company is compatible with KPMG's independence.

Based on the considerations referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ended October 3, 2008 be included in the Company's Annual Report on Form 10-K for such fiscal year.

Audit Committee

William P. Rutledge, Chairperson

Stephen R. Larson

Michael Targoff

DIRECTOR COMPENSATION

Director Compensation Table

The table below summarizes the compensation paid to or earned by each person who was a director of the Company during the fiscal year ended October 3, 2008, other than any director who is an executive officer. Mr. Caldarelli is also a named executive officer, and information regarding compensation paid to or earned by him is presented below under "Executive Compensation—Summary Compensation Table" and the related explanatory tables and narrative disclosures. Mr. Caldarelli did not receive any additional compensation for his service as a director.

	Fees	Stock		All	
	Earned or	Awards	Option C	Other	Total
	Paid in Cash(1)	(2)(3)	Awards(4)(5)omp	ensation Cor	npensation
Michael Targoff	\$ 50,500	\$ 32,372(6)) \$ _\$ _	— \$	82,872
Michael F. Finley	47,500	32,380(7)) —		79,880
Stephen R. Larson	47,500	32,036(8)) 18,421	_	97,957
Jeffrey P. Hughes	40,000	32,036(8)) —	_	72,036
William P. Rutledge	e 52,250	32,372(6)	18,223	753(9)	103,598

- (1) For a description of the fees earned by the non-employee directors during the fiscal year ended October 3, 2008, see the disclosure below under "—Narrative to Director Compensation Table."
- (2) Represents the dollar amount recognized for financial statement reporting purposes with respect to fiscal year 2008 for restricted stock granted to each of the Company's non-employee directors in fiscal year 2008 and in prior fiscal years, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R. Pursuant to rules of the Securities and Exchange Commission, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information regarding the valuation assumptions with respect to the stock option grants, see Note 9 to the Audited Consolidated Financial Statements included in the Company's Form 10-K filed for the fiscal year ended October 3, 2008.
- (3) The following table presents the aggregate number of outstanding stock awards held as of October 3, 2008 by each of the persons listed in the Director Compensation Table.

	Number of
	Shares of
Name	Common Stock
Michael Targoff	10,928
Michael F. Finley	2,932
Jeffrey P. Hughes	5,982
Stephen R. Larson	5,982
William P. Rutledge	10,928

(4) Represents the dollar amount recognized for financial statement reporting purposes with respect to fiscal year 2008 for stock options granted to each of the non-employee directors in fiscal year 2008 and in prior fiscal years, in accordance with SFAS No. 123R. Pursuant to rules of the Securities and Exchange Commission, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information regarding the valuation assumptions with respect to the stock option grants, see Note 9 to the Audited

Consolidated Financial Statements included in the Company's Form 10-K filed for the fiscal year ended October 3, 2008. No stock options were forfeited by any of the directors during fiscal year 2008.

(5) The following table presents the aggregate number of outstanding stock options held as of October 3, 2008 by each of the persons listed in the Director Compensation Table.

	Number of Shares Underlying
Name	Options
Michael Targoff	24,517
Michael F. Finley	_
Jeffrey P. Hughes	_
Stephen R. Larson	6,000
William P. Rutledge	6,000

- (6) Each of Mr. Targoff and Mr. Rutledge received an award of 10,982 shares of restricted common stock on February 26, 2008, the date of the Company's 2008 annual stockholders' meeting in accordance with the Company's standard non-employee director compensation, described below under "—Narrative to Director Compensation Table." The shares will vest as follows: one-third of the shares will vest on the day before this Annual Meeting, one-third of the shares will vest on the day before the 2010 annual stockholders' meeting and one-third of the shares will vest on the day before the 2011 annual stockholders' meeting. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of a person's status as a director. The grant date fair value of these awards was \$120,000 to each of Mr. Targoff and Mr. Rutledge. See footnote 2 above for assumptions used to value these awards.
- (7)Mr. Finley received an award of 1,821 shares of restricted common stock on February 26, 2008, the date of the Company's 2008 annual stockholders' meeting in accordance with the Company's standard non-employee director compensation, described below under "—Narrative to Director Compensation Table." The shares will all vest on the day before this Annual Meeting. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of a person's status as a director. The grant date fair value of this award was \$20,000. See footnote 2 above for assumptions used to value these awards.
- (8) Each of Mr. Hughes and Mr. Larson received an award of 3,642 shares of restricted common stock on February 26, 2008, the date of the Company's 2008 annual stockholders' meeting in accordance with the Company's standard non-employee director compensation, described below under "—Narrative to Director Compensation Table." The shares will vest as follows: half of the shares will vest on the day before this Annual Meeting and half of the shares will vest on the day before the 2010 annual stockholders' meeting. Unvested shares are generally subject to forfeiture restrictions in the event of the termination of a person's status as a director. The grant date fair value of these awards was \$40,000 to each of Mr. Hughes and Mr. Larson. See footnote 2 above for assumptions used to value these awards.
- (9) Consists of Company-paid premiums for dental and vision insurance.

Narrative to Director Compensation Table

Non-employee director compensation decisions are generally made by the full Board of Directors, upon recommendation by the Compensation Committee. The Compensation Committee considers publicly available information regarding director compensation of other companies in connection with its analysis of director compensation issues. In addition, the Compensation Committee has received input from an independent compensation consultant, Frederic W. Cook & Co., Inc., in connection with director compensation issues.

Directors who are not employees of the Company receive an annual cash retainer of \$35,000, payable in installments to directors in office at the end of each quarter. The Chairman of the Board of Directors receives additional annual compensation of \$7,500. The chairpersons of the Audit Committee, Compensation Committee and Nominating and Governance Committee receive additional annual compensation of \$7,500, \$2,500 and \$2,500, respectively. Members of the Audit Committee, other than the chairperson, receive additional annual compensation of \$4,000.

The Company also provides its non-employee directors with \$40,000 worth of restricted common stock for each year of service. The stock will vest on the day before the first annual stockholders' meeting occurring after the date of grant. Directors may instead elect to receive a grant of \$120,000 worth of restricted common stock once every three years, in which case the stock will vest as follows: one-third of the shares will vest on the day before the first annual stockholders' meeting

occurring after the date of grant; one-third of the shares will vest on the day before the second annual stockholders' meeting occurring after the date of grant; and the remaining one-third of the shares will vest on the day before the third annual stockholders' meeting occurring after the date of grant. In the event of a director's termination due to death or disability, if the termination date does not fall on a vesting date, then the date of termination will be deemed to occur on the next vesting date occurring after the termination date. On February 26, 2008, the Company issued an aggregate of 30,961 shares of restricted stock to directors pursuant to this restricted common stock program.

In addition, upon joining the Board of Directors for the first time, a non-employee director will receive a one-time grant of options to purchase 6,000 shares of common stock. One-third of the shares subject to the option will vest on the day before the first annual stockholders' meeting occurring after the date of grant, one-third of the shares subject to the option will vest on the day before the second annual stockholders' meeting occurring after the date of grant, and the remaining one-third of the shares subject to the option will vest on the day before the third annual stockholders' meeting occurring after the date of grant. In the event of a director's termination due to death or disability, if the termination date does not fall on a vesting date, then the date of termination will be deemed to occur on the next vesting date occurring after the termination date.

Non-employee directors receive a fee of \$1,500 for each regularly scheduled Board meeting they attend (\$500 if they attend telephonically) and \$1,500 for each special Board meeting they attend (no fee if they attend telephonically). Non-employee members of Board committees receive a fee of \$1,500 for each regularly scheduled committee meeting they attend (\$500 if they attend telephonically) and \$1,500 for each special committee meeting they attend (no fee if they attend telephonically). Committee members do not receive separate compensation for any committee meetings that occur on the same date as a Board meeting. Directors are reimbursed for travel and lodging expenses incurred in connection with attending meetings of the Board of Directors and its committees.

In addition, non-employee directors receive per-diem consideration for participation in any activities of the Company (other than any Board of Directors or Committee meetings for which such directors would otherwise receive compensation pursuant to the standard compensation arrangements) upon request by the Company equal to the per-meeting fee that such directors would be entitled to receive for in-person participation at a Board of Directors meeting.

Non-employee directors who so elect are eligible to participate in the Company's health insurance plans on the same terms as the Company's employees. Cash compensation for any director who elects this coverage will be reduced by the cost to a Company employee for receiving such coverage.

$PROPOSAL\ 2 \\ APPROVAL\ OF\ AMENDMENTS\ TO\ 2006\ EQUITY\ AND\ PERFORMANCE\ INCENTIVE\ PLAN$

Background

In 2006, the Company adopted the Company's 2006 Equity and Performance Incentive Plan ("2006 Plan"). The original 2006 Plan authorized for issuance up to an aggregate of 1,400,000 shares of the Company's common stock, plus any shares subject to awards granted under the Company's 2004 Stock Incentive Plan and 2000 Stock Option Plan (the "Prior Plans") which are forfeited, expire or otherwise terminate without the issuance of shares, or are settled for cash or otherwise do not result in the issuance of shares, on or after the effective date of the 2006 Plan. As of January 7, 2009, 283,489 shares remained available for future grants of awards under the 2006 Plan (excluding any additional shares available under the 2006 Plan as a result of future forfeiture, expiration or other termination of awards under the Prior Plans). Accordingly, the Board of Directors has determined that it is in the best interests of the Company to increase by 1,400,000 the maximum number of shares of the Company's common stock that may be issued or subject to awards under the 2006 Plan and to make certain other amendments to the 2006 Plan.

Proposal

The terms of the 2006 Plan, assuming that the stockholders approve this Proposal 2, are described below under "Summary of the 2006 Plan." A copy of the 2006 Plan, revised to reflect the proposed amendments, is attached in this Proxy Statement as Appendix A. The proposed amendments to the 2006 Plan would increase by 1,400,000 the maximum number of shares of the Company's common stock that may be issued or subject to awards under the 2006 Plan and would amend the 2006 Plan to provide that grants of share-based awards (other than options or stock appreciation right awards) made under the 2006 Plan on or after the date that stockholder approval of this Proposal 2 is received will count as two shares for purposes of determining whether the cap on the total number of shares issuable under the 2006 Plan has been exceeded.

The Board of Directors believes that the proposed increase in shares available under the 2006 Plan is necessary to ensure that the Company maintains the ability in the future to continue to attract and retain highly qualified officers and other employees by providing adequate incentives through the issuance of stock awards. As of January 7, 2009, 283,489 shares remained available for future grants of awards under the 2006 Plan (excluding any additional shares available under the 2006 Plan as a result of future forfeiture, expiration or other termination of awards under the 2006 Plan or the Prior Plans). The increase in shares under the 2006 Plan is therefore necessary to ensure that enough shares will be available for the issuance of stock awards so as to incentivize and retain key employees of the Company, which can assist in maximizing the full potential of stockholder value. The proposed amendment to count future grants of share-based awards (other than options or stock appreciation right awards) made under the 2006 Plan has been exceeded is being proposed to reflect the fact that share-based awards (other than stock options or stock appreciation right awards) are typically more valuable than stock option and stock appreciation right awards.

Accordingly, stockholders are requested to approve the amendments to the 2006 Plan to increase by 1,400,000 the maximum number of shares of the Company's common stock that may be issued or subject to awards under the 2006 Plan and to provide that grants of share-based awards made under the 2006 Plan on or after the date that stockholder approval of this Proposal 2 is received (other than options or stock appreciation right awards) will count as two shares for purposes of determining whether the cap on the total number of shares issuable under the 2006 Plan has been exceeded.

Required Vote

Affirmative votes representing a majority of the votes cast "FOR," "AGAINST" or "ABSTAIN" with respect to the proposal in person or by proxy and entitled to vote at the Annual Meeting will be required to approve this proposal, provided that the total votes cast on the proposal represent more than 50% of all shares entitled to vote on the proposal. A vote to "ABSTAIN" on the proposal will be considered as a vote cast with respect to such matter, and will have the same effect as a vote "AGAINST" the proposal.

New Plan Benefits

For fiscal year 2009, the dollar value of awards under the 2006 Plan are not currently determinable because such amounts are dependent on the Company's future performance and future grants which have not yet been determined. On January 7, 2009, the closing price of a share of the Company's stock on The Nasdaq Stock Market was \$8.97.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF THE AMENDMENTS TO THE 2006 EQUITY AND PERFORMANCE INCENTIVE PLAN.

Purpose of the 2006 Plan

The Board of Directors believes that the 2006 Plan is necessary to ensure that the Company maintains the ability in the future to continue to attract and retain highly qualified officers and other employees by providing adequate incentives through the issuance of stock options, stock appreciation rights, restricted stock, other stock unit awards and performance awards. The 2006 Plan also permits the award of other stock unit awards or performance awards payable in cash or shares, or the award of restricted stock with restrictions lapsing on the attainment of performance goals, to certain executive officers of the Company which will qualify as "performance-based" compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), as discussed below.

Summary of the 2006 Plan

The following is a summary of the key provisions of the 2006 Plan, assuming that stockholders approve this Proposal 2. This summary does not purport to be a complete description of all the provisions of the 2006 Plan, and it is qualified in its entirety by reference to the full text of the 2006 Plan. A copy of the 2006 Plan (including the amendments described in this Proposal 2) is attached as Appendix A to this Proxy Statement. Any stockholder who desires to obtain a copy of the 2006 Plan may do so by written request to the Corporate Secretary at 811 Hansen Way, Palo Alto, California 94303.

Shares Subject to the 2006 Plan

Up to an aggregate of 2,800,000 shares of the Company's stock (assuming that this Proposal 2 is approved by the stockholders) plus any shares subject to awards granted under the Prior Plans which are forfeited, expire or otherwise terminate without issuance of shares, or are settled for cash or otherwise do not result in the issuance of shares, on or after the effective date of the 2006 Plan, are authorized for issuance under the 2006 Plan. The 2,800,000 shares consist of 1,400,000 shares originally authorized when the 2006 Plan was adopted and 1,400,000 shares proposed for authorization pursuant to Proposal 2.

Assuming that this Proposal 2 is approved by the stockholders, awards of options or stock appreciation rights under the 2006 Plan will be counted against the cap on the total number of shares issuable under the 2006 Plan as one share for every one share granted, and awards other than options or stock appreciation rights under the 2006 Plan made on or after the date that stockholder approval of this Proposal 2 is received (including shares delivered on the settlement of dividend equivalents) will be counted against the cap on the total number of shares issuable under the 2006 Plan as two shares for every one share granted. The aggregate number of shares available under the 2006 Plan and the number of shares subject to outstanding awards will be increased or decreased to reflect any changes in the outstanding common stock of the Company by reason of any recapitalization, spin-off, reorganization, reclassification, stock dividend, stock split, reverse stock split or similar transaction.

If any shares subject to an award under the 2006 Plan or to an award under the Prior Plans are forfeited, expire or are terminated without issuance of such shares, or are settled for cash or otherwise do not result in the issuance of such shares, the shares will again be available for awards under the 2006 Plan. Any shares that again become available for grant will be added back as one share if the underlying award was issued prior to the date that stockholder approval of Proposal 2 is received, one share if the underlying award was issued on or after the date that stockholder approval of Proposal 2 is received and was an award of options or stock appreciation rights and, and as two shares if the underlying award was issued on or after the date that stockholder approval of Proposal 2 is received and was an award other than options or stock appreciation rights. Shares which are received or withheld by the Company to satisfy tax

liabilities arising from the grant or exercise of an option or award, or as a result of the use of shares to pay the option price, will again be available to awards under the 2006 Plan.

In assessing compensation and establishing the Company's equity and "performance-based" plans, the Compensation Committee will take into account measures used within the industry that it finds to be in the best interests of the Company. The Compensation Committee will also consider guidance regarding compensation that is or becomes available from stockholder rights organizations and similar external sources.

Eligibility and Participation

All employees (including officers), directors and consultants of the Company or any subsidiary are eligible for

selection to receive awards under the 2006 Plan, subject to the following restrictions: (1) no ISO (as defined below) may be granted to any person who, at the time of grant, is not an employee of the Company or any subsidiary, (2) no participant may be granted options or stock appreciation rights during any fiscal year of the Company with respect to more than 460,000 shares, (3) no participant may be granted more than 460,000 shares of restricted stock, performance awards and/or other stock unit awards that are denominated in shares in any fiscal year of the Company, and (4) the maximum dollar value payable to any participant in any fiscal year of the Company with respect to performance awards and/or other stock unit awards that are valued with reference to cash or property other than shares is \$3,000,000 (excluding awards denominated by reference to a number of shares). The share limitations set forth above are subject to adjustment in the event of a reorganization, spin-off, recapitalization, reclassification, stock dividend, stock split, reverse stock split or similar transaction during any fiscal year of the Company. If an option or stock appreciation right expires or terminates for any reason without having been exercised in full, or if any award is cancelled, the unpurchased shares subject to that expired or terminated option or stock appreciation right or cancelled award continue to be counted against the maximum number of shares for which options or stock appreciation rights or other awards may be granted to a participant during a fiscal year of the Company. Subject to such limitations, an individual who has been granted an option or stock appreciation right or other award may, if such individual is otherwise eligible, be granted additional options or stock appreciation rights or other awards as the Compensation Committee may determine.

Administration of the 2006 Plan

The 2006 Plan will be administered by the Compensation Committee of the Board of Directors consisting of two or more directors of the Company who are both (a) "non-employee directors" within the meaning of Rule 16b-3 of the Exchange Act, and (b) "outside directors" within the meaning of Section 162(m) of the Code. The Compensation Committee has extremely broad discretion and power in interpreting and operating the 2006 Plan and in determining the employees, directors and consultants who will be participants, and the terms of individual options, stock appreciation rights, restricted stock, other stock unit awards, performance awards and dividend equivalents. To the extent permitted by applicable law, the Compensation Committee may delegate to one or more directors or officers the authority to grant awards to employees or officers who are not directors, "covered employees" whose compensation is subject to the limits of Section 162(m) of the Code or officers subject to the short-swing rules of Section 16 of the Exchange Act. For a description of the limitation on deductibility under Section 162(m) of the Code for compensation paid to certain executive officers, see "—Federal Income Tax Matters—\$1,000,000 Limit on Deductible Non-performance-based Compensation."

Types of Awards

Awards under the 2006 Plan may consist of options, stock appreciation rights, restricted stock, other stock unit awards, performance awards or dividend equivalents. The nature of each of such types of awards is discussed below. Each award will be made by an award agreement for which the form and content will be determined by the Compensation Committee in its discretion, consistent with the provisions of the 2006 Plan. The terms of award agreements for a particular type of award need not be uniform.

Type of Options

Two types of options may be granted under the 2006 Plan: options intended to qualify as incentive stock options ("ISOs") under Section 422 of the Code and options not so qualified for favorable federal income tax treatment ("NSOs").

Stock Appreciation Rights

The Compensation Committee, in its discretion, may also issue stock appreciation rights to employees, consultants and directors of the Company. A stock appreciation right is a right to receive a payment based on the increase in the fair market value of a share after the date of grant. The Compensation Committee may determine, in its discretion, that a stock appreciation right will be paid out in cash or in shares on its exercise. The number of shares that may be issued on the exercise of a stock appreciation right will be determined by dividing: (a) the total number of shares as to which the stock appreciation right is exercised, multiplied by the amount by which the fair market value of one share on the exercise date exceeds the fair market value of one share on the date of grant of the stock appreciation right, by (b) the fair market value of one share on the exercise date; provided, however, that fractional shares will not be issued and in lieu thereof, a cash adjustment will be paid. In lieu of issuing shares on the exercise of a stock appreciation right, the Compensation Committee may in its sole discretion elect to pay the cash value of such shares. The Compensation Committee will not, however, take any action regarding a stock appreciation right, or otherwise under the 2006 Plan, that could subject a participant to a penalty tax under Section 409A of the Code.

Restricted Stock

The Compensation Committee, in its discretion, may also grant awards of restricted stock to participants. Restricted stock will be shares granted or sold to a participant that are subject to vesting restrictions based on continued employment or attainment of performance goals.

Other Stock Unit Awards

The Compensation Committee, in its discretion, may grant other stock unit awards, which are awards valued in whole or part by reference to, or otherwise based on, shares. Other stock unit awards include restricted stock units ("RSUs"), which represent the contractual right to receive shares upon satisfaction of certain conditions. Other stock unit awards will be subject to such conditions and restrictions as may be determined by the Compensation Committee, and may be payable in the form of cash or shares.

Performance Awards and Code Section 162(m) Provisions

The Compensation Committee, in its discretion, may issue performance awards to participants, the payment of which will be determined by the achievement of performance goals over a performance period. Upon the grant of a performance award, the Compensation Committee will determine the relevant performance goals and the performance period. The "performance-based" award provisions of the 2006 Plan permit the Company to grant performance awards to executive officers of the Company whose compensation is subject to the deductibility limit of Section 162(m) of the Code that will qualify as "performance-based" compensation and that will thus be deductible without regard to the deductibility limit. Similarly, these provisions of the 2006 Plan permit the Company to provide that the vesting of restricted stock, and the vesting or payment of any other stock unit award, granted to such an executive officer will be subject to the achievement of the objective performance goals over a performance period, and thus satisfy the requirements to be "performance-based" compensation which is deductible without regard to the deductibility limit. The Compensation Committee may also grant awards that are not "performance-based," and that will be subject to the deductibility limit of Section 162(m), if it determines that such awards are in the best interests of the Company.

The performance goals are based on the attainment of specified levels of or growth of one or any combination of the following factors, or an objective formula determined at the time of the award that is based on modified or unmodified calculations of one or any combination of the following factors: net sales; pretax income before or after allocation of corporate overhead and bonus; earnings per share; net income; division, group or corporate financial goals; return on stockholders' equity; return on assets; attainment of strategic and operational initiatives; appreciation in and/or maintenance of the price of the shares or any of the Company's other publicly traded securities; market share; gross profits; earnings before taxes; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization ("EBITDA"); an adjusted formula of EBITDA determined by the Compensation Committee; economic value-added models; comparisons with various stock market indices; reductions in costs, and/or return on invested capital of the Company or any affiliate, division or business unit of the Company for or within which the participant is primarily employed. Such performance goals also may be based solely by reference to the Company's performance or the performance of an affiliate, division or business unit of the Company, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. The Company's annual Management Incentive Plan bonuses (discussed below under "Executive Compensation") are paid to executives and employees under the 2006 Plan. Unless the Compensation Committee specifies otherwise when it sets performance goals for an award, the Compensation Committee will make objective adjustments to any of the foregoing measures for items that will not properly reflect the Company's financial performance for these purposes, such as the writeoff of debt issuance costs, pre-opening and development costs, gain or loss from asset dispositions, asset or other impairment charges, litigation settlement costs and other non-routine items that may occur during the performance period. Also, unless the Compensation Committee determines otherwise in setting the performance

goals for an Award, such performance goals will be applied by excluding the impact of (a) restructurings, discontinued operations and charges for extraordinary items, (b) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management or (c) a change in accounting standards required or recommended by generally accepted accounting principles.

The performance period will be determined by the Compensation Committee, but will not be shorter than six months nor longer than five years. Performance awards will generally be paid only after the end of the relevant performance period, and may be paid in cash, shares, other property or any combination thereof, in the sole discretion of the Compensation Committee at the time of payment.

In the case of any performance awards, restricted stock or other stock unit award that is intended to constitute

"performance-based" compensation, the performance goals and other terms and conditions of the award will be set by the Compensation Committee within the time prescribed by Section 162(m) and the regulations thereunder. If the performance period is 12 months or longer, such performance goals must be set by the Compensation Committee within the first 90 days of the performance period.

The Compensation Committee may adjust downward, but not upward, the amount payable to any executive officer of the Company under any award that is intended to constitute "performance-based" compensation under Section 162(m). The Compensation Committee may not waive the achievement of the applicable performance goals under Section 162(m), except in the case of death or disability of the participant or the occurrence of a change in control of the Company.

Before the vesting, payment, settlement or lapsing of any restrictions with respect to any award that is intended to constitute "performance-based" compensation under Section 162(m), the Compensation Committee will certify in writing that the applicable performance criteria have been achieved to the extent necessary for such award to qualify as "performance-based" compensation within the meaning of Section 162(m).

The Compensation Committee will have the power to impose such other restrictions on awards intended to constitute "performance-based" compensation as it may deem necessary or appropriate to ensure that such awards satisfy all requirements to constitute "performance-based" compensation within the meaning of Section 162(m), or which are not inconsistent with such requirements.

Unless affirmative votes representing a majority of the votes cast under applicable law or rules approve the continuation of the "performance-based" compensation provisions of the 2006 Plan at the first duly constituted meeting of the stockholders of the Company that occurs in the fifth year following the later of (i) the effective date of the 2006 Plan or (ii) the then most recent approval of the "performance-based" compensation provisions of the 2006 Plan, no awards other than stock options or stock appreciation rights will be made under the 2006 Plan following the date of such meeting to executive officers of the Company whose compensation is subject to the deduction limit of Section 162(m). Under currently applicable law or rules, to be duly constituted, a majority of the shares of capital stock outstanding and entitled to vote would have to be present in person or by proxy at the meeting at which stockholders vote to approve the continuation of the "performance-based" compensation provisions of the 2006 Plan.

Dividend Equivalents

The Compensation Committee, in its sole discretion, may determine that a participant who receives an award will also be entitled to receive, currently or on a deferred basis, cash, stock or other property dividends, or cash payments in amounts equivalent to stock or other property dividends on shares ("dividend equivalents") with respect to the number of shares covered by the award. The Compensation Committee may also provide that such amounts (if any) will be deemed to have been reinvested in additional shares or otherwise reinvested. In the event of a recapitalization, reorganization, spin-off, reclassification, stock dividend, stock split, reverse stock split or similar transaction, the Compensation Committee may, in its discretion, make an appropriate adjustment to dividend equivalents.

Option and Other Award Price

The purchase price for shares covered by each option will not be less than 100% of the fair market value of such shares on the date of grant, but if an ISO is granted to a 10% stockholder of the Company or its subsidiaries (measured by ownership of voting power), the purchase price of an ISO will not be less than 110% of the fair market value of such shares on the date of grant. The base price for a stock appreciation right will not be less than 100% of the fair market value of shares as of the date of grant. The Compensation Committee, in its discretion, may determine the purchase price, if any, for restricted stock, other stock unit awards and performance awards.

Exercisability of Options and Stock Appreciation Rights; Vesting of Restricted Stock and Other Awards

The Compensation Committee will determine when and under what conditions any option or stock appreciation right will become exercisable and when restricted stock, other stock unit awards and performance awards will become vested. However, there is a limit to the number of options that become exercisable for the first time in any calendar year that can be ISOs. In any calendar year, the options that become exercisable for the first time can be treated as ISOs only to the extent that the aggregate fair market value of shares of the Company's Common Stock (with such fair market value determined as of the date of grant of the options) covered by the options does not exceed \$100,000. Any options that first become exercisable in the calendar year in excess of this limit will be treated as NSOs. The purchase price of shares on the exercise of an option will be paid in full at the time of exercise in cash or by check payable to the order of the Company, or, subject to the approval of

the Compensation Committee and subject to applicable law, by the delivery of shares of the Company's Common Stock already owned by the participant, through a broker's exercise involving the immediate sale or pledge of shares with a value sufficient to pay the exercise price, or by any other method permitted by applicable law. The Compensation Committee will determine, in its discretion, the form of any payment for restricted stock, other stock unit awards and performance shares.

Duration of Options and Stock Appreciation Rights

Each option or stock appreciation right will expire on the date specified by the Compensation Committee, but not later than 10 years from the date of grant. ISOs granted to 10% stockholders of the Company (measured by ownership of voting power) will expire not later than five years from the date of grant.

No Repricing

The Compensation Committee has no authority to reprice any option, to reduce the base price of any stock appreciation right or to cancel any option when the fair market value of shares is less than the option's exercise price per share.

Termination of Employment; Death or Disability

If a participant ceases to be employed by the Company or any of its subsidiaries for any reason other than termination for cause (including death or permanent disability), the participant's options that were vested and exercisable will remain exercisable until the end of the original term or for a maximum period after the termination of employment set forth in the Award Agreement, whichever is earlier (unless otherwise determined by the Compensation Committee in an individual option agreement or otherwise). After a participant's death, options may be exercised by the person or persons to whom the participant's rights pass by will or the laws of descent and distribution. Unless the Compensation Committee determines otherwise in its discretion, similar rules will apply to stock appreciation rights. The treatment of each award of restricted stock, other stock unit award, or performance award on the termination of employment, death or disability of the participant will be determined by the Compensation Committee in its discretion. If a participant's employment is terminated for cause, all of his or her awards may be immediately terminated and canceled, subject to the Compensation Committee's discretion.

Certain Corporate Transactions

Upon the happening of a merger, reorganization or sale of substantially all of the assets of the Company or other change-of-control event specified in the 2006 Plan, the Compensation Committee may determine in its sole discretion to do one or more of the following: (i) shorten the period during which options and stock appreciation rights are exercisable (provided they remain exercisable for at least 30 days after the date notice of such shortening is given to the participants); (ii) accelerate in full or in part any vesting schedule to which an option, stock appreciation right, restricted stock, other stock unit award or performance award is subject; (iii) arrange to have the surviving or successor entity or any parent entity thereof assume the restricted stock, other stock unit awards, stock appreciation rights or options, or grant replacement options or stock appreciation rights with appropriate adjustments in the option prices and adjustments in the number and kind of securities issuable upon exercise; (iv) cancel options upon payment to the participants in cash of an amount that is the equivalent of the excess of the fair market value of the Company's Common Stock (at the effective time of the merger, reorganization, sale or other change-of-control event) over the exercise price of the option to the extent the options are vested and exercisable, and cancel stock appreciation rights by paying the value thereof or (v) make any other modification or adjustment that the Compensation Committee deems appropriate and fair in its discretion. The Compensation Committee may also provide for one or more of the foregoing alternatives in any particular award agreement.

Rights as a Stockholder

The recipient of an option or stock appreciation right will have no rights as a stockholder with respect to shares of the Company's Common Stock covered by an option or stock appreciation right until the date such recipient becomes a holder of record of such shares, unless the Compensation Committee, in its discretion, elects to grant the participant dividend equivalent rights in connection with such option or stock appreciation right. The recipient of restricted stock or of an other stock unit award will generally have all the rights of a stockholder with respect to the shares of the Company's Common Stock issued pursuant to such award, including the right to vote such shares, but any dividends and distributions with respect to such shares will generally be subject to the same vesting restrictions, if any, as the underlying shares.

Assignability of Options, Stock Appreciation Rights and Other Awards

An ISO granted under the 2006 Plan will, by its terms, be non-transferable by the participant, either voluntarily or by operation of law, other than by will or the laws of descent and distribution, and will be exercisable during the participant's lifetime only by him or her. Any award issued under the 2006 Plan other than an ISO will be nontransferable by the participant, either voluntarily or by operation of law, other than by will or the laws of descent and distribution, except as the Compensation Committee may determine in its discretion. With the consent of the Compensation Committee, an award under the 2006 Plan other than an ISO may be assigned, in whole or in part, during the participant's lifetime by gift to one or more members of the participant's immediate family or to a trust for their benefit.

Duration, Termination and Amendment of the 2006 Plan

The 2006 Plan became effective on the date of its adoption by the Board in April 2006. The 2006 Plan will continue in effect for 10 years thereafter. The Board of Directors, however, may suspend or terminate the 2006 Plan at any time. However, unless affirmative votes representing a majority of the votes cast under applicable law or rules approve the continuation of the "performance-based" compensation provisions of the 2006 Plan at the first duly constituted meeting of the stockholders of the Company that occurs in the fifth year following the later of (i) the effective date of the 2006 Plan or (ii) the then most recent approval of the "performance-based" compensation provisions of the 2006 Plan, no awards other than options or stock appreciation rights will be made under the 2006 Plan following the date of such meeting to executive officers of the Company whose compensation is subject to the deduction limit of Section 162(m). Under currently applicable rules, to be duly constituted, a majority of the shares of capital stock outstanding and entitled to vote would have to be present in person or by proxy at the meeting at which stockholders vote to approve the continuation of the "performance-based" compensation provisions of the 2006 Plan. The suspension or termination of the 2006 Plan will generally not affect the validity of any option, stock appreciation right, restricted stock, other stock unit award, performance award or dividend equivalent outstanding on the date of termination.

The Board of Directors may also amend the 2006 Plan at any time, except that the Board of Directors will not amend the 2006 Plan in a way which violates Rule 16b-3 of the Exchange Act. The Board of Directors will not amend the 2006 Plan without obtaining stockholder approval to (a) increase the number of shares that may be the subject of awards under the 2006 Plan, (b) expand the types of awards available under the 2006 Plan, (c) materially expand the class of persons eligible to participate in the 2006 Plan, (d) amend any provision prohibiting the Compensation Committee from repricing options or taking similar action, (e) increase the maximum permissible term of any option, (f) amend the limits on grants of awards to any participant during a 12-month period or (g) make any modification that requires stockholder approval under applicable law. Furthermore, no amendment of the 2006 Plan will amend or impair any rights or obligations under any award theretofore granted under the 2006 Plan without the written consent of the holder of the affected award.

This summary description of the 2006 Plan is qualified by reference to the 2006 Plan. A copy of the 2006 Plan (which shows the impact of the proposed amendments) is attached to this Proxy Statement as Appendix A.

Federal Income Tax Matters

The following discussion of federal income tax consequences does not purport to be a complete analysis of all of the potential tax effects of the 2006 Plan. It is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. No information is provided with respect to persons who are not citizens or residents of the United States, or foreign, state or local tax laws or estate and gift tax considerations. In addition, the tax consequences to a particular participant may be affected by matters not discussed above. ACCORDINGLY, EACH PARTICIPANT IS URGED TO CONSULT HIS OR HER TAX ADVISOR CONCERNING THE TAX

CONSEQUENCES TO HIM OR HER OF THE 2006 PLAN, INCLUDING THE EFFECTS OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND OF CHANGES IN THE TAX LAWS.

The 2006 Plan is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA") and is not qualified under Section 401(a) of the Code.

Non-qualified Stock Options

Under current federal income tax law, the grant of an NSO has no tax effect on the Company or the participant. If the shares of the Company's Common Stock received on the exercise of an NSO are not subject to restrictions on transfer or risk of forfeiture, the exercise of the NSO will result in ordinary income to the participant equal to the excess of the fair market value of the shares at the time of exercise over the option price. The participant's tax basis in the shares will be equal

to the option price plus the amount of ordinary income recognized upon the exercise of the option. Upon any subsequent disposition of the shares, any gain or loss recognized by the participant will be treated as capital gain or loss and will be long-term capital gain or loss if the shares are held for more than one year after exercise. At the time of recognition of ordinary income by the participant upon exercise, the Company will normally be allowed to take a deduction for federal income tax purposes in an amount equal to such recognized ordinary income.

If the shares received on the exercise of an NSO are subject to restrictions on transfer or risk of forfeiture (e.g., a vesting condition), different rules will apply, and the tax consequences will depend on whether the participant makes an election under Section 83(b) of the Code within 30 days after exercise of the option. If the participant does not make a Section 83(b) election, the participant will recognize ordinary income when the shares vest in an amount equal to the excess of the fair market value on the date of vesting over the exercise price. In that case, the participant's basis in the shares will be the fair market value of the shares on the date of vesting, and the participant's holding period will begin on the date of vesting. Upon any later disposition of the shares, any gain or loss that the participant recognizes will be capital gain or loss, and will be long-term capital gain or loss if the participant holds the shares more than one year after vesting. The Company will be allowed a deduction for federal income tax purposes when the shares vest equal to the amount of ordinary income the participant recognizes.

On the other hand, if the participant makes a Section 83(b) election, the participant will recognize ordinary income at the time of exercise equal to the excess of the fair market value on the date of exercise over the exercise price. The Company will be allowed a deduction for federal income tax purposes on the date of exercise equal to the amount of ordinary income he or she recognizes. The participant's basis in the shares will generally begin on the date of exercise, and the participant's basis in the shares will generally be the option price increased by the amount of ordinary income the participant recognized at the time of exercise. Upon any later disposition of the shares, any gain or loss that the participant recognizes will be capital gain or loss, and will be long-term capital gain or loss if the participant holds the shares more than one year after exercise. However, if the participant later forfeits the shares, the participant will recognize a capital loss equal to excess (if any) of the option price over any amount the participant receives from the Company on the forfeiture. In other words, if a participant makes the Section 83(b) election and thereby recognizes ordinary income on the date of exercise, the participant will receive no corresponding deduction or loss if the participant later forfeits the shares for the amount of ordinary income the participant recognized.

Incentive Stock Options

The federal income tax consequences associated with ISOs are generally more favorable to the participant and less favorable to the Company than those associated with NSOs. Under current federal income tax law, the grant of an ISO does not result in income to the participant or in a deduction for the Company at the time of the grant. Generally, the exercise of an ISO will not result in income for the participant if the participant does not dispose of the shares within two years after the date of grant or within one year after the date of exercise. If these requirements are met, the basis of the shares of the Company's Common Stock upon a later disposition will be the option price, any gain on the later disposition will be taxed to the participant as long-term capital gain, and the Company will not be entitled to a deduction. The excess of the market value on the exercise date over the option price is an adjustment to regular taxable income in determining alternative minimum taxable income, which could cause the participant to be subject to the alternative minimum tax, thereby in effect depriving the participant of the tax benefits of ISO treatment. If the participant disposes of the shares before the expiration of either of the holding periods described above (a "Disqualifying Disposition"), the participant will have compensation taxable as ordinary income, and the Company will normally be entitled to a deduction, equal to the lesser of (a) the fair market value of the shares on the exercise date minus the option price or (b) the amount realized on the disposition minus the option price. If the price realized in any such Disqualifying Disposition of the shares exceeds the fair market value of the shares on the exercise date, the excess will be treated as long-term or short-term capital gain, depending on the participant's holding period for the shares.

Stock Appreciation Rights

A participant holding a stock appreciation right will recognize ordinary income on the exercise of the stock appreciation right equal to the amount of cash or the fair market value of the shares he or she receives on the exercise. The Company will receive a tax deduction in the same amount. Upon disposition of the shares acquired, the participant will recognize the appreciation or depreciation on the shares after the date of grant as either short-term or long-term capital gain or loss, depending on how long the shares have been held.

Other Awards

The taxation of an award other than an option or a stock appreciation right depends on whether or not it consists of restricted stock (i.e., stock subject to a vesting restriction based on continued employment or attainment of performance goals). If any other stock unit award or a performance award does not consist of restricted stock and is not settled in restricted stock, the participant will recognize ordinary income on the receipt of cash or shares equal to the amount of cash or the excess of the fair market value of the shares over the amount (if any) that the participant pays for the shares. The Company will receive a tax deduction in the same amount. Upon disposition of the shares acquired, the participant will recognize the appreciation or depreciation on the shares after the date of grant as either short-term or long-term capital gain or loss, depending on how long the shares have been held.

In general, no taxable income will be recognized by a participant at the time restricted stock is granted. Generally, on the date the restricted stock becomes vested, the participant will recognize ordinary income in an amount equal to the difference between the fair market value of the shares on the date the shares vest and the purchase price, and the Company will receive a tax deduction for the same amount. Upon disposition of the shares acquired, the participant will recognize the appreciation or depreciation on the shares after the date of vesting as either short-term or long-term capital gain or loss, depending on how long the shares have been held.

Alternatively, a participant may elect to make an election under Section 83(b) of the Code with respect to unvested shares. If a participant makes a Section 83(b) election with the Internal Revenue Service within 30 days from the date of grant, the participant will recognize ordinary income in an amount equal to the difference between the fair market value of the shares on the date of grant and the purchase price, and the Company will receive a tax deduction for the same amount. If the participant makes a timely Section 83(b) election, the participant will not recognize ordinary income when the shares vest. Upon disposition of the shares acquired, the participant will recognize the appreciation or depreciation on the shares after the date of grant as either short-term or long-term capital gain or loss, depending on how long the shares have been held. If the participant forfeits unvested shares, the participant will recognize a capital loss equal to the excess (if any) of the purchase price over any amount the participant receives from the Company on the forfeiture. Generally, if the participant makes a Section 83(b) election, and thereby recognizes ordinary income on the date of grant, the participant will receive no corresponding deduction or loss for the amount of ordinary income the participant recognized if the participant later forfeits any unvested shares.

\$1,000,000 Limit on Deductible Non-performance-based Compensation

Section 162(m) of the Code provides that any publicly traded corporation will be denied a deduction for compensation paid to certain executive officers to the extent that the compensation exceeds \$1,000,000 per officer per year. However, the deduction limit does not apply to "performance-based" compensation, as defined in Section 162(m). Compensation is "performance-based" compensation if (i) the compensation is payable on account of the attainment of one or more performance goals; (ii) the performance goals are established by a compensation committee of the board of directors consisting of "outside directors;" (iii) the material terms of the compensation and the performance goals are disclosed to and approved by the stockholders in a separate vote; and (iv) the compensation committee certifies that the performance goals have been satisfied. The Company believes that, since the stockholders have approved the 2006 Plan, the stock options and stock appreciation rights granted thereunder will satisfy the requirements to be treated as "performance-based" compensation, and accordingly will not be subject to the deduction limit of Section 162(m) of the Code. As discussed above, the "performance-based" award provisions of the 2006 Plan permit the Company to grant performance awards to executive officers of the Company whose compensation is subject to the deductibility limit of Section 162(m) of the Code that will qualify as "performance-based" compensation, and to provide that the vesting of restricted stock, and the vesting or payment of any other stock unit award, granted to such an executive officer will be subject to the achievement of the objective performance goals over a performance period, and thus satisfy the requirements to be "performance-based" compensation. The Compensation Committee may

also grant awards that are not "performance based," and that will be subject to the deductibility limit of Section 162(m), if it determines that such awards are in the best interests of the Company.

Excess Parachute Payments

Under Section 4999 of the Code, certain officers, stockholders or highly compensated individuals ("Disqualified Individuals") will be subject to an excise tax (in addition to federal income taxes) of 20% of the amount of certain "excess parachute payments" which they receive as a result of a change in control of the Company. Furthermore, Section 280G of the Code prevents the Company from taking a deduction for any "excess parachute payments." The cash out or acceleration of the vesting of stock options, stock appreciation rights, restricted stock, other stock unit awards or performance awards upon a change of control may cause the holders of such stock options, stock appreciation rights, restricted stock, other stock unit

awards and performance awards who are Disqualified Individuals to recognize certain amounts as "excess parachute payments" on which they must pay the 20% excise tax, and for which the Company will be denied a tax deduction.

Section 409A Considerations

Section 409A of the Code imposes certain additional taxes on an employee or service provider who receives "deferred compensation" that does not comply with the requirements of Section 409A. The Company believes that stock options, stock appreciation rights and restricted stock granted under the 2006 Plan will not constitute "deferred compensation" within the meaning of Section 409A. The Company also believes that other awards under the 2006 Plan that are payable within a limited period of time after vesting will not constitute "deferred compensation" within the meaning of Section 409A. The Company intends that awards under the 2006 Plan that constitute "deferred compensation" within the meaning of Section 409A will have terms that conform with the requirements of Section 409A, so that persons who receive such awards will not be subject to additional taxes under Section 409A.

Special Rules; Withholding of Taxes

Special tax rules may apply to a participant who is subject to Section 16 of the Exchange Act. Other special tax rules will apply if a participant exercises a stock option by delivering shares of the Company's Common Stock which he or she already owns or through a broker's exercise.

The Company may take whatever steps the Compensation Committee deems appropriate to comply with any applicable withholding tax obligation in connection with the exercise of an option or stock appreciation right or the grant or vesting of restricted stock, other stock unit awards or performance awards, including requiring any participant to pay the amount of any applicable withholding tax to the Company in cash. The Compensation Committee may, in its discretion, authorize "cashless withholding."

PROPOSAL 3

APPROVAL OF THE "PERFORMANCE-BASED" COMPENSATION PROVISIONS OF THE 2006 EQUITY AND PERFORMANCE INCENTIVE PLAN TO COMPLY WITH THE REQUIREMENTS OF SECTION 162(M) OF THE INTERNAL REVENUE CODE

Background

In 2006, the Company adopted the Company's 2006 Equity and Performance Incentive Plan (as amended, the "2006 Plan"). The 2006 Plan is intended to comply with Section 162(m) of the Code and the regulations promulgated thereunder, resulting in the tax deductibility of amounts payable under the 2006 Plan to the chief executive officer or other named executive officers whose compensation is reported in this Proxy Statement as "performance-based" compensation. In order to extend the time during which amounts payable to the chief executive officer or other named executive officers whose compensation is reported in this Proxy Statement continue to be characterized as "performance-based" compensation, the Company is submitting the "performance-based" compensation provisions of the 2006 Plan to its stockholders for approval. Continued compliance with Section 162(m) of the Code results in the tax deductibility of related compensation expense to the chief executive officer or other named executive officers whose compensation is reported in this Proxy Statement for the Company.

Section 162(m) denies to a publicly held corporation a deduction from taxable income for covered compensation in excess of \$1,000,000 paid in any taxable year to the chief executive officer or other named executive officers whose compensation is reported in this Proxy Statement. Covered compensation does not include amounts payable upon the attainment of performance targets established by a Compensation Committee consisting solely of outside directors if the material terms of the compensation are approved by the company's stockholders. If the Compensation Committee has the authority to change the performance targets, the "performance-based" compensation provisions must be approved at least once every five years. Therefore, the 2006 Plan provides that unless affirmative votes representing a majority of the votes cast under applicable law approve the continuation of the "performance-based" compensation provisions of the 2006 Plan on or before the first duly constituted meeting of the stockholders of the Company that occurs in the fifth year following the effective date of the 2006 Plan, no awards other than stock options or stock appreciation rights will be made under the 2006 Plan following the date of such meeting to executive officers of the Company whose compensation is subject to the deduction limit of Section 162(m). There have been no material changes to the "performance-based" compensation provisions set forth in the 2006 Plan; however, the 2006 Plan has not been approved by the Company's Stockholders since the Company's 2006 initial public offering. For this reason, the Company is submitting the "performance-based" compensation provisions of the 2006 Plan for approval by its stockholders.

The five-year re-approval requirement does not apply to stock options and stock appreciation requirements, which can qualify as "performance-based" compensation under Section 162(m) if they meet certain requirements. We believe that the stock options and stock appreciation rights granted under the 2006 Plan meet the requirements to be treated as "performance-based" compensation, and accordingly will not be subject to the deduction limit of Section 162(m), whether or not the stockholders approve the "performance-based" compensation provisions of the 2006 Plan.

Proposal

The approval of the "performance-based" compensation provisions contained in Article X of the 2006 Plan will allow the Company to continue to award incentives with meaningful performance milestones that will qualify as "performance-based" compensation under Section 162(m) of the Code. Awards which so qualify will not be subject to the \$1,000,000 per person limitation on the income tax deductibility of compensation paid to certain executive officers that would otherwise be imposed under Section 162(m) of the Code.

If this proposal regarding the approval of the "performance-based" compensation provisions of the 2006 Plan receives affirmative votes representing a majority of the votes cast under applicable law, the Company will not be required to seek approval of its ability to make certain awards under the 2006 Plan to executive officers of the Company whose compensation is subject to the deduction limit of Section 162(m) until the date of the Company's first duly constituted stockholders meeting in 2014.

If this proposal is not approved by the stockholders, no awards other than stock options or stock appreciation rights will be made under the 2006 Plan following the date of the Company's first duly constituted stockholders meeting in 2011 to executive officers of the Company whose compensation is subject to the deduction limit of Section 162(m). In short, approval of "performance-based" compensation provisions of the 2006 Plan will extend by three years the time during which the Company can make awards, other than stock options or stock appreciation rights, under the 2006 Plan to executive officers of

the Company whose compensation is subject to the deduction limit of Section 162(m) and have the Company receive tax deductions appurtenant thereto before having to seek stockholder approval again.

Required Vote

Affirmative votes representing a majority of the votes cast "FOR," "AGAINST" or "ABSTAIN" with respect to the proposal in person or by proxy and entitled to vote at the Annual Meeting will be required to approve this proposal, provided that the total votes cast on the proposal represent more than 50% of all shares entitled to vote on the proposal. A vote to "ABSTAIN" on the proposal will be considered as a vote cast with respect to such matter, and will have the same effect as a vote "AGAINST" the proposal. Broker non-votes will have no effect on the proposal, unless the votes otherwise cast constitute less than over 50% of all shares entitled to vote on the proposal.

New Plan Benefits

For fiscal year 2009, the dollar value of awards under the 2006 Plan are not currently determinable because such amounts are dependent on the Company's future performance and future grants which have not yet been determined. On January 7, 2009, the closing price of a share of the Company's stock on The Nasdaq Stock Market was \$8.97.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF THE "PERFORMANCE-BASED" COMPENSATION PROVISIONS OF THE 2006 EQUITY AND PERFORMANCE INCENTIVE PLAN TO COMPLY WITH THE REQUIREMENTS OF SECTION 162(M) OF THE INTERNAL REVENUE CODE.

Performance Goals and 2006 Plan Information

The Compensation Committee, in its discretion, may issue performance awards to participants, the payment of which will be determined by the achievement of performance goals over a performance period. Upon the grant of a performance award, the Compensation Committee will determine the relevant performance goals and the performance period.

As was the case when the 2006 Plan was initially adopted, the performance goals will be based on the attainment of specified levels of or growth of one or any combination of the following factors, or an objective formula determined at the time of the award that is based on modified or unmodified calculations of one or any combination of the following factors: net sales; pretax income before or after allocation of corporate overhead and bonus; earnings per share; net income; division, group or corporate financial goals; return on stockholders' equity; return on assets; attainment of strategic and operational initiatives; appreciation in and/or maintenance of the price of the shares or any of the Company's other publicly traded securities; market share; gross profits; earnings before taxes; earnings before interest and taxes; EBITDA; an adjusted formula of EBITDA determined by the Compensation Committee; economic value-added models; comparisons with various stock market indices; reductions in costs, and/or return on invested capital of the Company or any affiliate, division or business unit of the Company for or within which the participant is primarily employed. Such performance goals also may be based solely by reference to the Company's performance or the performance of an affiliate, division or business unit of the Company, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. The Company's annual Management Incentive Plan bonuses (discussed below under "Executive Compensation") are paid to executives and employees under the 2006 Plan. Unless the Compensation Committee specifies otherwise when it sets performance goals for an award, the Compensation Committee will make objective adjustments to any of the foregoing measures for items that will not properly reflect the Company's financial performance for these purposes, such as the writeoff of debt issuance costs, pre-opening and development costs, gain or loss from asset dispositions, asset or other impairment charges, litigation settlement costs and other non-routine items that may occur during the

performance period. Also, unless the Compensation Committee determines otherwise in setting the performance goals for an award, such performance goals will be applied by excluding the impact of (a) restructurings, discontinued operations and charges for extraordinary items, (b) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management or (c) a change in accounting standards required or recommended by generally accepted accounting principles.

The performance period will be determined by the Compensation Committee, but will not be shorter than six months nor longer than five years.

Performance awards will generally be paid only after the end of the relevant performance period, and may be paid in cash, shares, other property or any combination thereof, in the sole discretion of the Compensation Committee at the time of payment.

The Compensation Committee may adjust downward, but not upward, the amount payable to any executive officer of the Company under any award that is intended to constitute "performance-based" compensation. The Compensation Committee may not waive the achievement of the applicable performance goals, except in the case of death or disability of the participant, or the occurrence of a change in control of the Company.

Before the vesting, payment, settlement or lapsing of any restrictions with respect to any award that is intended to constitute "performance-based" compensation, the Compensation Committee will certify in writing that the applicable performance criteria have been achieved to the extent necessary for such award to qualify as "performance-based" compensation within the meaning of Section 162(m) of the Code.

The Compensation Committee will have the power to impose such other restrictions on awards intended to constitute "performance-based" compensation as it may deem necessary or appropriate to ensure that such awards satisfy all requirements to constitute "performance-based" compensation within the meaning of Section 162(m), or which are not inconsistent with such requirements.

This summary description of the 2006 Plan is qualified by reference to the 2006 Plan. A copy of the 2006 Plan (which shows the impact of the proposed amendments) is attached to this Proxy Statement as Appendix A.

PROPOSAL NO. 4 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected and appointed the firm of KPMG LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending October 2, 2009, and the Company seeks ratification of such appointment by its stockholders. KPMG LLP has audited the Company's financial statements since fiscal year 1995.

Stockholder ratification of KPMG LLP as the Company's independent registered public accounting firm is not required by the Company's amended and restated bylaws or otherwise. However, the Board of Directors is submitting the appointment of KPMG LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the appointment, the Audit Committee and the Board of Directors will reconsider whether or not to retain that firm. Even if the appointment is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of the Company's stockholders.

Representatives of KPMG LLP are expected to be present at the Annual Meeting, will have an opportunity to make a statement if they desire to do so and will be available to answer questions at the Annual Meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2009.

Fees Paid to Independent Public Accountants

The following table sets forth the aggregate fees billed to the Company by KPMG LLP for professional services during fiscal years 2008 and 2007, as well as out-of-pocket costs incurred in connection with these services (in thousands):

	Fiscal Year			
	2008		,	2007
Audit Fees	\$	1,485	\$	1,499
Audit-related Fees			-	47
Tax Fees		_	-	
All Other Fees			-	
Total	\$	1,485	\$	1,546

Audit Fees

Consists of fees for professional services rendered for the audit of the Company's financial statements and review of the interim financial statements included in quarterly reports and services that were provided by KPMG LLP in connection with statutory and regulatory filings or engagements. For both fiscal years 2007 and 2008, the audit scope included a review of internal controls over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002.

Audit-related Fees

Consists of fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements that are not reported under "Audit Fees." These services include consultations in connection with acquisitions and advice on other accounting-related matters. For fiscal year 2007, audit-related fees were primarily for Securities and Exchange Commission filings.

Pre-approval Policies and Procedures

Under the policies and procedures established by the Board of Directors of the Company, the Audit Committee must pre-approve the audit and non-audit services performed by the independent auditors in order to assure that the provision of such services does not impair the auditors' independence. Unless a type of service to be provided by the independent auditors has received general pre-approval, it will require specific pre-approval by the Audit Committee.

Company management and the independent auditors will each confirm to the Audit Committee that each non-audit service submitted for pre-approval is permissible under all applicable legal requirements. The term of any pre-approval pursuant to the policy will be 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. The Audit Committee will periodically revise the list of pre-approved services based on subsequent determinations.

Delegation

The Audit Committee may delegate pre-approval authority to one or more of its members provided that such member(s) is not a member of management. The member or members to whom such authority is delegated will report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Audit Services

The annual audit services engagement terms and fees will be subject to the specific pre-approval of the Audit Committee. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, company structure or other matters. In addition to the annual audit services engagement approved by the Audit Committee, the Audit Committee may grant pre-approval for other audit services, which are those services that only the independent auditors reasonably can provide.

Audit-related Services and Tax Services

The Audit Committee believes that the provision of audit-related services does not impair the independence of the auditors, and therefore the Audit Committee may pre-approve such services. The Audit Committee believes that the

independent auditors can provide tax services to the Company such as tax compliance, tax planning and tax advice without impairing the auditors' independence, and accordingly, the Audit Committee may pre-approve tax services.

All Other Services

In addition, the Audit Committee may grant pre-approval to non-audit services not described above that it believes are routine and recurring services and that would not impair the independence of the auditors, provided that the Audit Committee cannot approve any services that constitute prohibited non-audit services under Securities and Exchange Commission rules.

Supporting Documentation

With respect to each proposed pre-approved service, the independent auditors will provide back-up documentation to the Audit Committee as necessary to permit the Audit Committee to assess the impact of such services on the auditors' independence.

The Audit Committee has determined that the non-audit services provided to the Company by KPMG LLP are compatible with maintaining the independence of KPMG LLP.

EXECUTIVE COMPENSATION

Forward-looking Statements

This proxy statement contains "forward-looking statements" (as defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include statements that are predictive in nature; that depend upon or refer to future events or conditions; or that include words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate "predict," "potential" or "continue," or variations or negatives of such words or similar or comparable words or phrases. These statements are only predictions. Forward-looking statements are based on the Company's current expectations and projections about future events and are subject to risks, uncertainties and assumptions that may cause results to differ materially from those set forth in the forward-looking statements. The forward-looking statements may include statements regarding actions to be taken by the Company. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. Forward-looking statements should be evaluated together with the uncertainties that may affect the Company's business, particularly those mentioned in the cautionary statements in Item 1A of the Company's Annual Report on Form 10-K for the year ended October 3, 2008 and in the other periodic reports filed by the Company with the Securities and Exchange Commission.

Compensation Discussion and Analysis

Attracting, retaining and motivating well-qualified executives are essential to the success of any company. The business and product lines of the Company are specialized and require executives with specialized knowledge and unique experience. Accordingly, we have assembled a team of executive officers having deep, specialized knowledge of our particular business and product lines. The goals of our compensation program are to provide significant rewards for successful performance, to encourage stability of our management team and retention of top executives who may have attractive opportunities at other companies and to align the executive officers' interest with those of our stockholders. We seek to achieve these goals by placing a major portion of each executive officer's total compensation at risk, in the form of Management Incentive Plan ("MIP") awards and stock option, restricted stock and restricted stock unit awards, while providing each executive officer an opportunity to profit if we achieve or exceed the objective targets set forth in the MIP or if our stock price increases. We also intend for the level of total compensation available to an executive officer who successfully enhances stockholder value to be fair as compared to the total compensation available to our other executive officers, as well as competitive in the marketplace. We believe that our executive compensation policy has been successful in encouraging stability and retention because our executive officers have an average tenure of more than 25 years with us and our predecessor companies.

Our compensation decisions are made by the Compensation Committee, which is composed entirely of non-executive members of our Board of Directors. The Compensation Committee retained an independent compensation consultant, Frederic W. Cook & Co., Inc., in designing our 2006 Equity and Performance Incentive Plan and in evaluating our compensation program immediately before our initial public offering. The Compensation Committee has subsequently used the same consultant to provide updates. The Compensation Committee also receives recommendations from our chief executive officer and considers publicly available information on the executive compensation of a peer group of approximately 14 publicly traded specialty electronic and communication companies. Those companies include Analogic Corporation; Anaren, Inc.; Argon ST, Inc.; Comtech Telecommunications Corporation; Esterline Technologies Corporation; GSI Group Inc.; Herley Industries, Inc.; Mercury Computer Systems, Inc.; Newport Corporation; OSI Systems, Inc.; Teledyne Technologies, Inc.; Varian, Inc.; Varian Semiconductor Equipment Associates, Inc.; and ViaSat, Inc. In addition, the Compensation Committee considered data submitted by the compensation consultant from a proprietary third party survey of 400 technology-industry companies (not specifically identified to the Compensation Committee) with revenues of less than \$1 billion. Because 2008 compensation

information for this peer group is generally not yet available, comparisons of the Company's compensation to peer group compensation are generally based upon the Company's fiscal year 2008 compensation as compared to adjusted calculations of the peer group's 2007 compensation.

Internal Revenue Code Section 162(m) generally disallows a tax deduction to reporting companies for compensation over \$1,000,000 paid to each of the Company's chief executive officer and the four other most highly compensated officers, except for compensation that is "performance-based." Our general intent is to design compensation awards to our named executive officers so that the awards will be deductible without limitation. However, we may make compensation awards that are not deductible if our best interests so require.

Elements and Brief Description of Components of Compensation

Benefits:

The table below lists the elements of our current compensation program for named executive officers and briefly explains the purpose of each element:

Element of Our Compensation Program	Brief Description	How This Element Promotes Our Objectives
Annual Compensation: —Salary	Fixed annual compensation	Intended to be generally below market, so that a larger proportion of total compensation will be at risk
—Management Incentive Plan	Opportunity to earn "performance-based" compensation for achieving or exceeding pre-set financial and performance goals	Motivate and reward achievement of annual operating goals and other pre-set performance goals that enhance stockholder value
Long-term Compensation: —Stock Options	Stock options, generally granted on an annual basis with vesting terms	Highly leveraged risk and reward aligned with creation of stockholder value; vesting terms promote retention
—Restricted Stock and Restricted Stock Units	Grants of stock and restricted stock units (beginning in fiscal year 2008), subject to vesting terms	Unleveraged risk and reward aligned with creation of stockholder value; vesting terms promote retention
Retirement Savings and		
Pension: —401(k) Plan	Qualified 401(k) plan, including employer contributions, intended to encourage savings for retirement	Program available to all employees
—Non-qualified Deferred Compensation Plan	Deferral opportunities and employer contributions under a fixed formula provided to executive officers in excess of legal maximums under 401(k) plan	Competitive compensation intended to help retain executive officers
—Retirement Plan for Chic Executive Officer	eDefined benefit pension plan for chief executive officer under Canadian law	Retirement pension accruing over years of service; common practice for Canadian executives in lieu of participation in broad-based defined contribution plan
Severance Payments and		

—Severance Payments and Benefits in General	Payments and benefits provided to certain executive officers upon termination of employment and in specified circumstances	Competitive employment agreement terms intended to retain certain executive officers
•	Payments and benefits upon termination of an executive officer's employment and in specified circumstances following a change in control	Intended to provide financial security to attract and retain executive officers under disruptive circumstances of a change in control and to encourage management to identify, consider and pursue transactions that would benefit stockholders, but that might lead to termination of employment
Other Compensation Elements:		
—Benefits	Health, life and disability benefits	Standard benefits for all employees
—Perquisites	Personal benefits, such as automobile allowance	Intended to provide competitive compensation

The elements of our compensation program are further described as follows:

Salary

In view of our desire to reward performance and loyalty and to place a significant portion of each executive officer's compensation at risk, we regard salary as only one component of the compensation of our named executive officers. We design the base salaries of our named executive officers to be generally below the market for salaries that peer group companies pay to similar officers. The salaries of our named executive officers were originally determined in the course of negotiations over their employment agreements. In preparing those employment agreements, we were assisted by legal counsel and, where appropriate, qualified compensation consultants.

Our Compensation Committee generally reviews the base salaries of our named executive officers annually, after receiving recommendations from our chief executive officer and, where appropriate, independent compensation consultants. For fiscal year 2008, we believe that the base salaries for our chief executive officer and our chief financial officer were below the median for our peer group, and the base salary for our chief operating officer was slightly below the median for our peer group. In addition, for fiscal year 2008, our chief executive officer refused the raise in his base salary that was offered to him by our Compensation Committee. Our chief executive officer has not had an increase in his base salary (denominated in Canadian dollars) since October 2004.

Management Incentive Plan

Under our Management Incentive Plan, our Compensation Committee sets objective financial and performance goals near the beginning of each fiscal year. Each executive officer receives an award determined by the Compensation Committee under which he will receive a bonus equal to a percentage of his base salary; the applicable percentage depends on whether, and the extent to which, the objective performance goals are achieved for the fiscal year. For each fiscal year, the Compensation Committee determines a minimum level of objective performance goals that must be achieved before the executive officers will receive any bonuses under the MIP. Our policy is to set these thresholds relatively high, so that there is a meaningful chance that the executive officers will not be rewarded if our performance falls short of the pre-determined, objective performance goals. On the other hand, the parameters of our MIP are designed so that if the pre-determined, objective performance goals are met or exceeded, the executive officers will receive bonuses which as a percentage of salary are above the bonuses paid by our peer companies. The intended result is that our executive officers will have a higher percentage of their total compensation at risk than comparable officers at our peer companies. If our actual performance exceeds the pre-determined, objective performance goals by a sufficient amount, then bonuses that our executive officers receive under the MIP will be large enough to compensate for the fact that their base salaries may be below market, so that their total cash compensation can exceed the median cash compensation paid by our peer companies to their executive officers. The goals and calculations underlying the MIP for fiscal year 2008 are discussed in greater detail under "-Management Incentive Plan Awards for Fiscal Year 2008."

In setting the pre-determined, objective performance goals and the awards for individual executives for a fiscal year under the MIP, our Compensation Committee receives recommendations from our chief executive officer and, where appropriate, independent compensation consultants. For fiscal year 2008, we believe that the target payouts under the MIP for our chief executive officer and our chief financial officer were at the median for our peer group, and the target payout under the MIP for our chief operating officer was between the median and the 75th percentile range for our peer group. In fiscal year 2008, the Company failed to meet one of its key performance goals, which reduced the actual payouts under the MIP for fiscal year 2008. For fiscal year 2008, we believe that the total actual cash compensation for our chief executive officer and our chief financial officer was below the median for our peer group, and the total actual cash compensation for our chief operating officer was moderately above the median for our peer group.

Stock Options

We believe that awards of stock options to named executive officers provide a valuable long-term incentive for them and aligns their interests with those of our stockholders. We believe that stock options are a vital component of our philosophy of compensating named executive officers for successful results, as they can realize value on their stock options only if the stock price increases.

We also believe that unvested options are a significant tool to encourage retention. Our stock options typically vest over a four-year period, which encourages our named executive officers to think about our long-term success and also creates greater likelihood of in-the-money, unvested options that will encourage a named executive officer to remain with us rather than exploring other promising opportunities.

Our Compensation Committee determines the size of each grant, after receiving advice from our chief executive officer and, where appropriate, outside consultants. Stock option grants are awarded annually as of the date of the Compensation Committee's annual meeting in December. We may also grant options to a newly hired executive officer on his date of hire. The exercise price of each stock option is the closing price of our stock on the day of the Compensation Committee's meeting or, in the case of options we may grant to newly hired executive officers, on the date of hire. The Compensation Committee does not delegate to management or others its decisions regarding stock options granted to named executive officers. We do not intend to grant options while in possession of material non-public information, except pursuant to a pre-existing policy under which options are granted on the fixed dates of our annual Compensation Committee meetings in December or on the date of hire to newly hired executive officers.

Restricted Stock and Restricted Stock Units

Because we regard equity ownership by our named executive officers as extremely important in aligning their interests with the interests of our stockholders, we want our named executive officers to have a meaningful equity ownership in the Company even if the value of our stock does not increase and their stock options therefore are not valuable. In fiscal year 2008, we instituted minimum share ownership guidelines for our executive officers. In fiscal year 2008, we began making grants of either restricted stock or restricted stock units to the named executive officers. To encourage our named executive officers to remain with us, the restricted stock and the restricted stock units are subject to a four-year vesting schedule. In connection with the grant of restricted stock and restricted stock units, we reduced the number of options that would otherwise have been awarded to the executive officers for fiscal year 2008.

We believe that "shareholder value transfer," which represents the present fair market value of aggregate long-term equity grants (stock and stock option awards) as a percentage of market capitalization, is a helpful measure in determining the value of equity incentive grants. When determining the aggregate amount of option and stock awards, the Compensation Committee based its determinations primarily on a comparative analysis of historical peer group grants. Absent other compelling factors, the Company aims to make grants such that the resulting "shareholder value transfer" is at or near the median or average figure for the peer group. For fiscal years 2006 and 2007, we believe the Company's shareholder value transfer amount was below the median of our peer companies (calculated for the 2005 – 2007 period). During fiscal year 2008, the Company's grants were structured with the goal of achieving a shareholder value transfer amount that approximated the median or average for the peer group. However, based on data presented by the independent compensation consultant after the end of fiscal year 2008, we believe our shareholder value transfer amount for fiscal year 2008 was at approximately the 75th percentile of our peer group (calculated for the 2005 – 2007 period). When allocating grants between the named executive officers and other employees, the Compensation Committee takes a number of factors into account, including the proportion of total equity awards issued to named executive officers by our peer group, and makes awards that are structured with the goal of setting the amount of awards allocated to named executive officers, as a percentage of the total awards allocated to all employees, at a level which is below the comparable percentage for executives in the peer group. We believe that the proportion of the annual equity incentive awards allocated to our named executive officers, taken as a group, as measured by shareholder value transfer amounts, is below the median proportion for the named executive officers of our peer companies.

Deferred Compensation

We offer a non-qualified deferred compensation plan for our executive officers and other employees who are part of a select group of highly compensated or management employees. This deferred compensation plan provides participants with an opportunity to make deferrals. In addition, employer contributions are made under a formula. We believe that this deferred compensation plan is desirable to make the overall compensation package of our executive officers competitive with those of our peer companies. Although the employer contributions to the deferred compensation plan for our executive officers are fully vested, they are in relatively small annual amounts as compared to the executive

officers' base salaries.

Canadian Defined Benefit Pension Plan for Chief Executive Officer

We provide a defined benefit pension plan governed by Canadian law to our chief executive officer. The purpose of this plan is to provide retirement income to our chief executive officer after he has completed many years of service to us. The plan is a retention device, as our chief executive officer's benefits under the plan will depend on the number of years of his service to us. The plan is in lieu of our chief executive officer's participation in our Canadian defined contribution plan (analogous to a 401(k) plan) that is generally available to our Canadian employees. Benefits under this defined benefit pension plan are subject to the same statutory limits that are applicable to broad-based plans in Canada. Similar plans are common in similarly sized Canadian companies, and this plan is therefore a competitive compensation practice.

Severance Payments, Change-in-control Payments and Related Tax Gross-ups

Our employment agreements with our named executive officers provide that they will receive certain severance benefits if we terminate their employment without "cause," or, in the case of our chief executive officer, chief operating officer and president, and chief financial officer, treasurer and secretary, if they terminate their employment with "good reason" (e.g., because they are demoted). If their termination of employment follows a change in control of the Company, our chief executive officer, chief operating officer and president, and chief financial officer, treasurer and secretary will receive an enhanced level of severance benefits. Furthermore, if a golden parachute excise tax is imposed on our chief executive officer, chief operating officer and president or chief financial officer, treasurer and secretary in connection with his termination of employment following a change in control, the affected executive will receive "gross-up" payments to make him whole for the golden parachute excise tax. However, if a 10% or less reduction in severance would eliminate the golden parachute tax, then the severance will be reduced to eliminate the tax and no reimbursement will be provided. The details of such arrangements are discussed in the section entitled "—Narrative Disclosure to Summary Compensation Table and Grants of Plan-based Awards Table—Employment Agreements" below.

The change-in-control provisions contained in the employment agreements of our named executive officers are "double trigger" provisions: i.e., the named executive officer does not receive his change-in-control payments automatically on the occurrence of a change in control, but must either be discharged by the Company (or the applicable subsidiary) without "cause" or (in the case of our chief executive officer, chief operating officer and president, and chief financial officer, treasurer and secretary) terminate his employment with the Company (or the applicable subsidiary) for "good reason" within a stated period after the occurrence of the change in control. Thus, the change-in-control payments are essentially compensation for being fired or forced out of a job in connection with the change in control.

We believe that the severance provisions in the employment agreements of our executive officers are necessary to retain our executive officers by protecting them against involuntary termination of their employment or being forced out of the Company. The severance provisions applicable following a change in control will encourage our executive officers to consider or pursue potential changes in control that would benefit stockholders, without needing to worry about the potentially negative consequences of the transactions to them personally. The provisions are desirable after a change in control to retain the executive officers under disruptive circumstances when their services might be especially necessary. Based on a survey of our peer companies conducted by an independent compensation consultant when we negotiated the employment agreements with our executive officers, we believe that the change-in-control provisions of the employment agreements of our executive officers are well within the range of similar provisions in the employment agreements between our peer companies and their executive officers.

We believe that the gross-up provisions in the employment agreements of our chief executive officer, chief operating officer and president, and chief financial officer, treasurer and secretary are necessary to enable them to enjoy the full benefit of their change-in-control payments. These provisions will also enable them to assist the Board of Directors in analyzing any offers that might be made for acquisition of control of the Company without the distraction of worrying about the negative tax consequences that they might otherwise incur. Based on a survey of our peer companies conducted by an independent compensation consultant when we negotiated the employment agreements with our executive officers in 2006, we believe several of the companies in our peer group provide such gross-up payments to their named executive officers.

All Other Compensation

All other compensation for our named executive officers includes, among other things, Company contributions under our 401(k) plan, car allowances and, in the case of our chief executive officer, a tax gross-up on his car allowance. These items are commonly provided by public companies to their executive officers.

In addition, our named executive officers are permitted to participate in the Company's 2006 Employee Stock Purchase Plan on the same terms and conditions as the Company's other employees.

Compensation Committee Report on Executive Compensation

The Compensation Committee reviewed the Compensation Discussion and Analysis for fiscal year 2008 and discussed its contents with the Company's management. Based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the proxy statement.

Compensation Committee

Michael F. Finley, Chairperson

Jeffrey P. Hughes

Michael Targoff

Compensation Committee Interlocks and Insider Participation

Michael Targoff and Michael F. Finley served on the Company's Compensation Committee during fiscal year 2008. None of the members of the Compensation Committee was an officer or employee or former officer or employee of the Company or its subsidiaries, and no such member has any interlocking relationships with the Company that are subject to disclosure under the rules of the Securities and Exchange Commission relating to compensation committees.

Summary Compensation Table

The table below summarizes the total compensation paid to or earned for the fiscal year ended October 3, 2008 by:

- the chief executive officer;
- the chief financial officer; and
- the three other most highly compensated individuals who were serving as executive officers of the Company at the end of the fiscal year.

These individuals are referred to in this proxy as the "named executive officers."

						Change in
						Pension Value
						and
						Non-qualified
					Non-equity	Deferred
Name and Principal	Fiscal		Stock	Option	Incentive Plan	Compensation
Position	Year	Salary(c)	Awards(d)	Awards(d)	Compensation(e)	Earnings(f)