CPI INTERNATIONAL, INC.
Form 10-Q
August 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2009

or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number: 000-51928

CPI INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	75-3142681
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

811 Hansen Way, Palo Alto, California 94303
(Address of Principal Executive Offices and Zip Code)
(650) 846-2900
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding for each of the registrant's classes of Common Stock, as of the latest practicable date: 16,585,394 shares of Common Stock, $0.01 par value, at August 03, 2009.

CPI INTERNATIONAL, INC.

and Subsidiaries

10-Q REPORT

INDEX

Cautionary Statements Regarding Forward-Looking Statements

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that relate to future events or our future financial performance. In some cases, readers can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. Forward-looking statements are subject to known and unknown risks and uncertainties, which could cause actual results to differ materially from the results projected, expected or implied by the forward-looking statements. These risk factors include, without limitation, competition in our end markets; the impact of a general slowdown in the global economy; our significant amount of debt; changes or reductions in the United States defense budget; currency fluctuations; goodwill impairment considerations; customer cancellations of sales contracts; U.S. Government contracts laws and regulations; changes in technology; the impact of unexpected costs; the impact of environmental laws and regulations; and inability to obtain raw materials and components. All written and oral forward-looking statements made in connection with this report that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing risk factors and other cautionary statements included herein and in our other filings with the Securities and Exchange Commission ("SEC"). We are under no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

The information in this report is not a complete description of our business or the risks and uncertainties associated with an investment in our securities. You should carefully consider the various risks and uncertainties that impact our business and the other information in this report and in our other filings with the SEC before you decide to invest in our securities or to maintain or increase your investment.

Table of Contents

CPI INTERNATIONAL, INC.

and Subsidiaries

Part I: FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data – unaudited)

	July 3, 2009	October 3, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 35,185	$ 28,670
Restricted cash	767	776
Accounts receivable, net	41,369	47,348
Inventories	68,900	65,488
Deferred tax assets	12,916	11,411
Prepaid and other current assets	4,382	3,823
Total current assets	163,519	157,516
Property, plant, and equipment, net	58,907	62,487
Deferred debt issue costs, net	3,923	4,994
Intangible assets, net	76,251	78,534
Goodwill	162,230	162,611
Other long-term assets	3,448	806
Total assets	$ 468,278	$ 466,948
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$ -	$ 1,000
Accounts payable	19,200	21,109
Accrued expenses	22,419	23,044
Product warranty	3,802	4,159
Income taxes payable	5,562	7,766
Advance payments from customers	12,355	12,335
Total current liabilities	63,338	69,413
Deferred income taxes	26,910	27,321
Long-term debt, less current portion	212,919	224,660
Other long-term liabilities	2,974	1,689
Total liabilities	306,141	323,083
Commitments and contingencies		
Stockholders' equity		
Common stock ($0.01 par value, 90,000 shares authorized; 16,792 and 16,538 shares issued; 16,586 and 16,332 shares outstanding)	168	165
Additional paid-in capital	74,789	71,818

Accumulated other comprehensive loss	(1,725)	(1,809)
Retained earnings	91,705	76,491
Treasury stock, at cost (206 shares)	(2,800)	(2,800)
Total stockholders’ equity	162,137	143,865
Total liabilities and stockholders' equity	$ 468,278	$ 466,948

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

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

CONDENSED CONSOLIDATED
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share data – unaudited)

	Three Months Ended		Nine Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Sales	$ 82,520	$ 90,734	$ 241,569	$ 271,448
Cost of sales	58,236	63,502	175,603	192,014
Gross profit	24,284	27,232	65,966	79,434
Operating costs and expenses:				
Research and development	2,731	2,766	8,071	8,420
Selling and marketing	4,762	5,012	14,552	15,512
General and administrative	5,066	5,136	15,466	16,781
Amortization of acquisition-related intangible assets	691	782	2,076	2,344
Net loss on disposition of fixed assets	7	128	71	203
Total operating costs and expenses	13,257	13,824	40,236	43,260
Operating income	11,027	13,408	25,730	36,174
Interest expense, net	4,204	4,627	12,965	14,244
(Gain) loss on debt extinguishment	(51)	121	(248)	514
Income before income taxes	6,874	8,660	13,013	21,416
Income tax expense (benefit)	3,004	2,836	(2,201)	6,928
Net income	$ 3,870	$ 5,824	$ 15,214	$ 14,488
Other comprehensive income, net of tax				
Net unrealized gain (loss) on cash flow hedges and minimum pension liability adjustment	3,346	1,268	84	(1,934)
Comprehensive income	$ 7,216	$ 7,092	$ 15,298	$ 12,554
Earnings per share - Basic	$ 0.24	$ 0.36	$ 0.93	$ 0.88
Earnings per share - Diluted	$ 0.22	$ 0.33	$ 0.87	$ 0.82
Shares used to compute earnings per share - Basic	16,362	16,395	16,316	16,384
Shares used to compute earnings per share - Diluted	17,577	17,669	17,428	17,719

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

Table of Contents

CPI INTERNATIONAL, INC.

and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands – unaudited)

	Nine Months Ended July 3, 2009	Nine Months Ended June 27, 2008
Cash flows from operating activities		
Net cash provided by operating activities	$ 20,308	$ 24,699
Cash flows from investing activities		
Capital expenditures	(2,349)	(3,288)
Proceeds from adjustment to acquisition purchase price	-	1,615
Payment of patent application fees	-	(147)
Net cash used in investing activities	(2,349)	(1,820)
Cash flows from financing activities		
Purchases of treasury stock	-	(1,800)
Repayments of debt	(12,358)	(16,000)
Proceeds from issuance of common stock to employees	781	639
Proceeds from exercise of stock options	82	3
Excess tax benefit on stock option exercises	51	2
Net cash used in financing activities	(11,444)	(17,156)
Net increase in cash and cash equivalents	6,515	5,723
Cash and cash equivalents at beginning of period	28,670	20,474
Cash and cash equivalents at end of period	$ 35,185	$ 26,197
Supplemental cash flow disclosures		
Cash paid for interest	$ 9,742	$ 10,020
Cash paid for income taxes, net of refunds	$ 2,417	$ 9,846

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

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(All tabular dollar amounts in thousands except share and per share amounts)

1. The Company and a Summary of its Significant Accounting Policies

The Company

Unless the context otherwise requires, “CPI International” means CPI International, Inc., and “CPI” means Communications & Power Industries, Inc. CPI is a direct subsidiary of CPI International. CPI International is a holding company with no operations of its own. The term “the Company” refers to CPI International and its direct and indirect subsidiaries on a consolidated basis.

The accompanying consolidated financial statements represent the consolidated results and financial position of CPI International, which is controlled by affiliates of The Cypress Group L.L.C. (“Cypress”). CPI International, through its wholly owned subsidiary, CPI, develops, manufactures and distributes microwave and power grid Vacuum Electron Devices (“VEDs”), microwave amplifiers, modulators, antenna systems and various other power supply equipment and devices. The Company has two reportable segments, VED and satcom equipment.

Basis of Presentation and Consolidation

The Company’s fiscal year is the 52- or 53-week period that ends on the Friday nearest September 30. Fiscal year 2009 comprises the 52-week period ending October 2, 2009 and fiscal year 2008 comprised the 53-week period ending October 3, 2008. The third quarters of both fiscal years 2009 and 2008 include 13 weeks. The first three quarters of both fiscal years 2009 and 2008 include 39 weeks. All period references are to the Company’s fiscal periods unless otherwise indicated.

The accompanying unaudited condensed consolidated financial statements of the Company as of July 3, 2009 and for the three and nine months ended July 3, 2009 are unaudited and reflect all normal recurring adjustments which are, in the opinion of management, necessary for the fair presentation of such financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended October 3, 2008. The condensed consolidated balance sheet as of October 3, 2008 has been derived from the audited financial statements at that date. The results of operations for the interim period ended July 3, 2009 are not necessarily indicative of results to be expected for the full year.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances, transactions and stockholdings have been eliminated in consolidation.

Foreign Currency Translation

The functional currency of the Company’s foreign subsidiaries is the U.S. dollar. Gains or losses resulting from the translation into U.S. dollars of amounts denominated in foreign currencies are included in the determination of net income or loss. Foreign currency translation gains and losses are generally reported on a net basis in the caption “general and administrative” in the condensed consolidated statements of income and comprehensive income, except for translation gains or losses on income tax-related assets and liabilities, which are reported in “income tax expense (benefit)” in the condensed consolidated statements of income and comprehensive income.

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of sales and costs and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition; inventory and inventory reserves; provision for product warranty; business combinations; recoverability and valuation of recorded amounts of long-lived assets and identifiable intangible assets, including goodwill; recognition of share-based compensation; and recognition and measurement of current and deferred income tax assets and liabilities. The Company bases its estimates on various factors and information, which may include, but are not limited to, history and prior experience, experience of other enterprises in the same industry, new related events, current economic conditions and information from third-party professionals that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

Sales are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured. The Company’s products are generally subject to warranties, and the Company provides for the estimated future costs of repair, replacement or customer accommodation in cost of sales.

The Company has commercial and U.S. Government fixed-price contracts that are accounted for under American Institute of Certified Public Accountants Statement of Position No. 81-1, “Accounting for Performance of Construction-Type and Certain Production-Type Contracts.” These contracts are generally greater than one year in duration and include a significant amount of product development. The Company uses the percentage-of-completion method when reasonably dependable estimates of the extent of progress toward completion, contract revenues and contract costs can be made. The portion of revenue earned or the amount of gross profit earned for a period is determined by measuring the extent of progress toward completion using total cost incurred to date and estimated costs at contract completion.

Sales under cost-reimbursement contracts, which are primarily for research and development, are recorded as costs are incurred and include estimated earned fees in the proportion that costs incurred to date bear to total estimated costs. The fees under certain commercial and U.S. Government contracts may be increased or decreased in accordance with cost or performance incentive provisions that measure actual performance against established targets or other criteria. Such incentive fee awards or penalties are included in revenue at the time the amounts can be reasonably determined.

Revenue is recorded net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

2. Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. In particular, disclosures are required to provide information on: the extent to which fair value is used to measure assets and liabilities; the inputs used to develop measurements; and the effect of certain of the measurements on earnings (or changes in net assets). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position ("FSP") SFAS No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13," which removes certain leasing transactions from the scope of SFAS No. 157 and FSP SFAS No. 157-2, "Effective Date of FASB Statement No. 157," which defers the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. Effective October 4, 2008, the Company adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis. The adoption of SFAS No. 157 did not have a significant impact on the Company's consolidated financial statements, and the resulting fair values calculated under SFAS No. 157 after adoption were not significantly different than the fair values that would have been calculated under previous guidance. See Note 4 for further details on the Company's fair value measurements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115." SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 159 effective October 4, 2008. The Company currently does not have any instruments for which it has elected the fair value option under SFAS No. 159. Therefore, the adoption of SFAS No. 159 has not impacted the Company's consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), or 141(R), "Business Combinations," which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company will be required to adopt SFAS No. 141(R) in its fiscal year 2010 commencing October 3, 2009.

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosures about an entity's derivative instruments and hedging activities including: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related interpretations; and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. The Company adopted SFAS No. 161 in the second quarter of fiscal year 2009. Since SFAS No. 161 only required additional disclosure, the adoption did not have an impact on the Company's consolidated financial position, results of operations or cash flows. See Note 6 for further details on the Company's derivative instruments and hedging activities.

In October 2008, FASB issued FSP No.132 (R)-1, "Employers' Disclosures about Pensions and Other Postretirement Benefits," to require that an employer disclose the following information about the fair value of plan assets: (1) the level within the fair value hierarchy in which fair value measurements of plan assets fall; (2) information about the inputs and valuation techniques used to measure the fair value of plan assets; and (3) a reconciliation of beginning and ending balances for fair value measurements of plan assets using significant unobservable inputs. The final FSP will be effective for fiscal years ending after December 15, 2009, with early application permitted. The Company will be required to adopt FSP No.132 (R)-1 in its fiscal year 2010 commencing October 3, 2009. At initial adoption, application of the FSP would not be required for earlier periods that are presented for comparative purposes. The Company is currently evaluating the potential impact of adopting this FSP on the disclosures in its consolidated financial statements.

In April 2009, the FASB issued FSP SFAS No. 141R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." FSP SFAS No. 141R-1 amends the provisions in SFAS No. 141R, "Business Combinations," and requires an acquirer to recognize at fair value, at the acquisition date, an asset acquired or a liability assumed that arises from a contingency if the acquisition date fair value of that asset or liability can be determined during the measurement period. If the acquisition date fair value cannot be determined during the measurement period, an asset or liability shall be recognized at the acquisition date if (1) information available before the end of the measurement period indicates that it is probable that an asset existed or that a liability had been incurred at the acquisition date, and (2) the amount of the asset or liability can be reasonably estimated. FSP SFAS No. 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will apply the provisions of FSP SFAS No. 141R-1 if and when a future acquisition occurs.

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

In April 2009, the FASB issued FSP SFAS No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," which provides additional guidance in evaluating certain factors that are indicative of a significant decrease in the volume and level of activity for an asset or liability when compared to normal market activity. Additionally, this statement clarifies the circumstances to consider when evaluating whether a transaction is not orderly, in which quoted prices may not be determinative of fair value. FSP SFAS No. 157-4 is applied prospectively to all fair value measurements where appropriate and is effective for interim and annual periods ending after June 15, 2009. The Company adopted the provisions of FSP SFAS No. 157-4 effective April 4, 2009. The adoption of FSP SFAS No. 157-4 did not have an impact on the Company's results of operations and financial position.

In April 2009, the FASB issued FSP SFAS No. 107-1 and Accounting Principles Board ("APB") No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP SFAS No. 107-1 and APB No. 28-1 amend FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP FAS No. 107-1 and APB No. 28-1 is effective for interim reporting periods ending after June 15, 2009. The Company's disclosures about fair value of financial instruments in the third quarter of fiscal year 2009 reflect the adoption of this FSP. Since FSP FAS No. 107-1 and APB No. 28-1 only requires additional disclosures, the adoption did not have an impact on the Company's consolidated financial position, results of operations or cash flows. See Notes 4 and 5.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which provides guidance to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. The Company adopted the provisions of SFAS No. 165 in the third quarter of fiscal year 2009. The Company evaluated all events or transactions that occurred from July 4, 2009 through August 12, 2009, the date the Company issued these financial statements. During this period, the Company did not have any material recognizable or non recognizable subsequent events.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets and amendment of FASB Statement No. 140." This statement was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This statement is effective for the first annual reporting period that begins after November 15, 2009. The application of this statement will only apply and be effective should the Company transfer financial assets after October 2, 2010. The adoption of this statement is not expected to have a material effect on the Company's results of operations, financial position or cash flows.

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This standard replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," and establishes only two levels of U.S. generally accepted accounting principles ("GAAP"), authoritative and nonauthoritative. The FASB Accounting Standards Codification (the "Codification") will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The Company will begin to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the fourth quarter of fiscal year 2009. As the Codification was not intended to change or alter existing GAAP, it will not have any impact on the Company's results of operations, financial position or cash flows.

3. Supplemental Balance Sheet Information

Accounts Receivable: Accounts receivable are stated net of allowances for doubtful accounts as follows:

	July 3, 2009	October 3, 2008
Accounts receivable	$ 41,475	$ 47,437
Less: Allowance for doubtful accounts	(106)	(89)
Accounts receivable, net	$ 41,369	$ 47,348

Inventories: The following table provides details of inventories, net of reserves:

	July 3, 2009	October 3, 2008
Raw material and parts	$ 38,173	$ 40,187
Work in process	22,134	17,622
Finished goods	8,593	7,679
	$ 68,900	$ 65,488

Reserve for excess, slow-moving and obsolete inventory: The following table summarizes the activity related to reserves for excess, slow-moving and obsolete inventory:

	Nine Months Ended	
	July 3, 2009	June 27, 2008
Balance at beginning of period	$ 9,860	$ 9,784
Inventory provision, charged to cost of sales	818	988
Inventory write-offs	(1,036)	(1,619)

Balance at end of period	$ 9,642	$ 9,153

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

Reserve for loss contracts: The following table summarizes the activity related to reserves for loss contracts:

	Nine Months Ended	
	July 3, 2009	June 27, 2008
Balance at beginning of period	$ 1,928	$ 2,700
Provision for loss contracts, charged to cost of sales	2,696	1,932
Credit to cost of sales upon revenue recognition	(1,522)	(2,702)
Balance at end of period	$ 3,102	$ 1,930

Reserve for loss contracts are reported in the condensed consolidated balance sheet in the following accounts:

	July 3, 2009	June 27, 2008
Inventories	$ 3,092	$ 1,112
Accrued expenses	10	818
	$ 3,102	$ 1,930

Intangible Assets: The following tables present the details of the Company's total acquisition-related intangible assets:

	Weighted Average Useful Life (in years)	July 3, 2009 Cost	July 3, 2009 Accumulated Amortization	July 3, 2009 Net	October 3, 2008 Cost	October 3, 2008 Accumulated Amortization	October 3, 2008 Net
VED Core Technology	50	$ 30,700	$ (3,347)	$ 27,353	$ 30,700	$ (2,887)	$ 27,813
VED Application Technology	25	19,800	(4,307)	15,493	19,800	(3,713)	16,087
X-ray Generator and Satcom Application Technology	15	8,000	(2,908)	5,092	8,000	(2,508)	5,492
Antenna and Telemetry Technology	25	5,300	(400)	4,900	5,300	(241)	5,059
	1	580	(580)	-	580	(580)	-

Customer backlog							
Land lease	46	11,810	(1,371)	10,439	11,810	(1,181)	10,629
Tradename	20 - Indefinite	7,600	(220)	7,380	7,600	(55)	7,545
Customer list and programs	25	6,280	(1,150)	5,130	6,280	(950)	5,330
Noncompete agreement	5	640	(305)	335	640	(208)	432
Patent application fees	-	129	-	129	147	-	147
		$ 90,839	$ (14,588)	$ 76,251			