

CPI INTERNATIONAL, INC.
Form S-1/A
April 11, 2006

As filed with the Securities and Exchange Commission on April 11, 2006

Registration No. 333-130662

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Amendment No. 5
To

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CPI INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	3670	75-3142681
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

811 Hansen Way
Palo Alto, California 94303-1110
(650) 846-2900

(Address, Including Zip Code, and Telephone Number, Including
Area Code, of Registrant's Principal Executive Offices)

Joel A. Littman
811 Hansen Way
Palo Alto, California 94303-1110
(650) 846-2900

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copy to:

Daniel J. Zubkoff, Esq.

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered(1)	Proposed Maximum Offering Price Per Unit(2)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount Of Registration Fee (3)
Common Stock, par value \$0.01 per share	8,117,701	\$ 18.00	\$ 146,118,618	\$ 15,635

(1)

Includes 1,058,831 shares of common stock that may be sold pursuant to the underwriters' option to purchase additional shares.

(2)

Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(a) under the Securities Act.

(3)

\$13,375 of this fee was previously paid; the net amount of \$ 2,260 is being submitted herewith.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

, 2006

Subject to completion

7,058,870 Shares

Common Stock

This is the initial public offering of the common stock of CPI International, Inc. No public market currently exists for our common stock. We are offering 2,941,200 shares of our common stock, and the selling stockholders identified in this prospectus are offering 4,117,670 shares of our common stock. We will not receive any proceeds from the sale of our common stock by the selling stockholders. We expect the public offering price to be between \$16.00 and \$18.00 per share.

We have applied to have our common stock approved for quotation on The Nasdaq National Market under the symbol "CPII."

Investing in our common stock involves a high degree of risk. Before buying any shares, you should read the discussion of material risks of investing in our common stock in "Risk factors" beginning on page 9 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$
Proceeds, before expenses, to the selling stockholders	\$	\$

The underwriters may also purchase up to an additional 1,058,831 shares of our common stock at the public offering price, less the underwriting discounts and commissions, to cover over-allotments, if any, within 30 days of the date of this prospectus. Of these additional shares that the underwriters may purchase to cover over-allotments, if any, up to 441,180 shares will be offered by us and up to 617,651 shares will be offered by the selling stockholders. If the underwriters exercise this option in full, the total underwriting discounts and commissions will be \$, our

total proceeds, before expenses, will be \$ _____, and the total proceeds, before expenses, to the selling stockholders will be \$ _____.

The underwriters are offering the common stock as set forth under ‘‘Underwriting.’’ Delivery of the shares will be made on or about _____, 2006.

UBS Investment Bank _____ Bear, Stearns & Co. Inc.

Wachovia Securities _____ Banc of America Securities LLC

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You should rely only on the information contained in this prospectus. We have not, and the selling stockholders and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

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Prospectus summary

This summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information that is important to you. You should read this entire prospectus carefully, especially the section entitled “Risk factors,” our consolidated financial statements and the related notes included elsewhere in this prospectus, and the documents we have referred you to, before deciding to invest in our common stock.

OUR COMPANY

We are a leading provider of microwave and radio frequency products for critical defense, communications, medical, scientific and other applications. Our products include high power microwave amplifiers, satellite communications amplifiers, medical x-ray imaging subsystems, and other related products. Our products enable the generation, control and transmission of high power and high frequency microwave and radio frequency signals.

The founders of our business invented the klystron, a vacuum electron device that is still a foundation of modern high power microwave applications. Today, we continue to develop higher power, wider bandwidth and higher frequency microwave products and systems that enable significant technological advances for our defense and commercial customers.

We are one of three companies in the United States that have the facilities and expertise to produce a broad range of high power microwave systems to the demanding specifications required for advanced military applications such as high power radar, electronic warfare and broadband satellite communications. Defense applications for our products include transmitting and receiving radar signals for locating and tracking threats, weapons guidance and navigation, transmitting decoy and jamming signals for electronic warfare and transmitting signals for satellite communications. Our products are critical elements of high priority U.S. and foreign military programs and platforms such as the U.S. Navy's Aegis surface combat vessels (the DDG-51 class destroyers and the CG-47 cruisers), the ALE-50(V) Advanced Airborne Towed Decoy, the MK-234 NULKA Off-board Active Decoy, the Patriot missile air defense system, F-16 and F/A-18 E/F aircraft, Active Denial (a new system that uses microwave energy to deter unfriendly personnel) and high power military radar systems. In fiscal year 2005, we derived approximately 50% of our sales from U.S. and foreign government customers. The U.S. Government is the only customer that accounted for more than 10% of our revenues in the last three fiscal years.

In addition to our strong presence in defense applications, we have successfully applied our key technologies to various commercial end markets, including communications, medical, industrial and scientific applications. In the communications market, we provide microwave amplifiers for satellite communication uplinks for broadcast, video, voice and data transmission. In the medical market, we supply amplifiers used in radiation oncology treatment systems. We also supply medical x-ray generators that provide the power, control, software and user interfaces for diagnostic imaging systems, a dynamic, high-technology market where we continue to experience significant growth.

OUR COMPETITIVE STRENGTHS

Leading positions in attractive end markets. We believe we are the market leader in the sale of high power, high frequency microwave devices and related products for the radar, communications, medical, electronic warfare and industrial end markets and the number two supplier of these and other related products for the scientific end market.

Large installed product base with recurring sales of replacement parts, spares, repairs and upgrades. We estimate that our products are installed on over 125 U.S. defense systems in addition to over 180 commercial systems. We estimate that sales of replacement parts, spares, repairs and upgrades generate approximately 50% of our total sales. As the average age of military equipment increases, we believe that increased levels of replacement parts, spares, repairs and upgrades will be necessary.

Substantial sole provider position. In fiscal year 2005, we generated approximately 58% of our sales from products for which we believe we are the sole provider to our customers.

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Significant barriers to entry. We believe that the following factors create significant barriers to entry for potential competitors: the sophisticated nature of microwave technology; the depth of our customer relationships; our specialized facilities and equipment and our extensive trade secrets and know-how, which would require significant investments to duplicate; our installed base of products on over 300 systems; and the stringent product qualification requirements of our end markets.

Strong and experienced management team with a successful track record. Our current management team averages more than 25 years of experience with us. Since assuming its leadership responsibilities in 2002, our management team has instilled a culture that emphasizes cost control, profitable growth and cash generation. While we have had a history of net losses for the past five fiscal years, with the exception of fiscal years 2003 and 2005, our current management team has succeeded in increasing our sales at a compound annual growth rate of 8.5% since fiscal year 2002, with 7.1% organic growth. Since fiscal year 2002, EBITDA has increased from \$28.7 million to \$57.3 million, for a compound annual growth rate of 26%, and net income (loss) has increased from \$(6.7) million to \$13.7 million. In addition, EBITDA as a percentage of sales has increased from 11.4% in fiscal year 2002 to 17.9% in fiscal year 2005. See page 7 for a definition of EBITDA.

MARKET TRENDS

We believe the following industry trends will favorably impact demand for our products:

Increasing importance of military communications. Satellite communication is a critical element of the Department of Defense's plans to transform military communications to supply real time, high data-rate communications, intelligence and battlefield information to the front-line soldier. Department of Defense investments in military satellite communications are expected to be more than \$30 billion through 2024.

High power microwave initiatives. The Department of Defense is increasingly exploring the use of high power microwave products in a growing number of new weapon systems. Examples of these new systems include directed energy systems that disable or destroy an enemy's electronic systems and systems to disable or destroy roadside bombs and other improvised explosive devices.

Resurgence of global demand for commercial satellite-based communication and data transmission equipment and technology. There has been a general resurgence in the demand for and importance of satellite communications, and a significant improvement in the bandwidth and data-carrying capacity of the various underlying technologies, making commercial and government use of satellite communications more prevalent and cost effective. As demand continues to grow, we believe the demand for the ground-based equipment required to provide these services, including microwave-based satellite uplink equipment, will continue to expand.

Growth of market for radiation therapy equipment in cancer treatment. The U.S. market for radiotherapy equipment is projected to grow at a compound annual growth rate of 9.3% between 2004 and 2009.

Growth in X-ray and diagnostic imaging applications. We believe that the demand for power and control products for x-ray and diagnostic imaging applications will continue to grow due to growth in demand for x-ray and diagnostic imaging services, increased outsourcing of component production by the major original equipment manufacturers and continued demand for replacement or upgraded products from our existing installed product base.

RISK FACTORS

In connection with this offering, you should be aware that:

Following this offering, we will be controlled by affiliates of The Cypress Group, who will own 55.5% of our outstanding common stock, control 55.5% of our voting power and have the ability to influence our management and affairs.

We will use the net proceeds from this offering to redeem, repurchase or repay debt. We borrowed an aggregate of \$90 million in fiscal year 2005 and the first quarter of fiscal year 2006 and used the entire net proceeds of these borrowings, together with cash on hand, to fund \$92.8 million in cash dividends to affiliates of The Cypress Group.

We have a significant amount of debt that exceeds the amount of our tangible net assets. We are a holding company without any operations or income of our own. We rely on distributions from our operating subsidiaries to satisfy our obligations under our floating rate senior notes and the terms of our debt restrict the ability of our subsidiaries to make distributions to us.

We have a history of net losses for the past five fiscal years, except for fiscal years 2003 and 2005.

OUR CORPORATE INFORMATION

CPI International, Inc. was incorporated in Delaware in November 2003 under the name CPI Acquisition Corp. and was wholly-owned at that time by affiliates of The Cypress Group. In January 2004, CPI Acquisition Corp. acquired the business of Communications & Power Industries Holding Corporation (our predecessor), and later changed its name to CPI Holdco, Inc. (see “Management’s discussion and analysis of financial condition and results of operations—The Merger”). In January 2006, CPI Holdco, Inc. changed its name to CPI International, Inc. Our principal executive offices are located at 811 Hansen Way, Palo Alto, California 94303, and our telephone number is (650) 846-2900. We maintain an internet website at www.cpii.com. We have not incorporated by reference into this prospectus the information on our website, and you should not consider it to be a part of this prospectus.

OUR EXISTING EQUITY INVESTORS

Affiliates of The Cypress Group own substantially all of our outstanding common stock. We collectively refer to the entities affiliated with The Cypress Group that own our common stock as “Cypress” in this prospectus. In connection with our January 2004 merger, Cypress made a \$100 million capital contribution to us in exchange for the shares of common stock currently owned by Cypress. Cypress is a selling stockholder in this offering. See “Principal and selling stockholders.” After giving effect to this offering, Cypress will own 55.5% of our outstanding common stock.

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The offering

Common stock we are offering

2,941,200 shares

Common stock being offered by the selling stockholders

4,117,670 shares

Total shares of common stock being offered

7,058,870 shares

Common stock to be outstanding immediately after this offering

16,020,154 shares

Use of proceeds

We estimate that the net proceeds to us from this offering after expenses will be approximately \$44.5 million, or approximately \$51.5 million if the underwriters exercise their over-allotment option in full, assuming an initial public offering price of \$17.00 per share. We intend to use the net proceeds from this offering to repay, repurchase or redeem our indebtedness and to pay any associated early redemption costs, accrued interest and transaction fees and expenses. See "Use of proceeds."

We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

Proposed Nasdaq National Market symbol

"CPII"

The number of shares of our common stock outstanding after the offering mentioned in this prospectus is based on 13,078,954 shares outstanding as of March 15, 2006. Unless otherwise indicated, all information in this prospectus:

reflects a 3.059-for-1 split of our common stock effected on April 7, 2006; and

assumes the initial offering price will be \$17.00, which is the midpoint of the estimated price range shown on the cover page of this prospectus.

The number of shares of our common stock to be outstanding immediately after this offering excludes:

2,895,432 shares of our common stock issuable upon exercise of options outstanding as of March 15, 2006, at a weighted average exercise price of \$3.13 per share, of which options to purchase 2,359,286 shares were exercisable as of that date;

2,160,000 shares of our common stock available for future grant under our 2006 Equity and Performance Incentive Plan and future purchase under our 2006 Employee Stock Purchase Plan; and

441,180 shares of our common stock that may be purchased from us by the underwriters to cover over-allotments, if any.

Unless we specifically state otherwise, the information in this prospectus assumes that the underwriters do not exercise their option to purchase up to 1,058,831 shares of our common stock to cover over-allotments, if any.

Summary financial data

In January 2004, CPI International, Inc. acquired the business of Communications & Power Industries Holding Corporation and became the successor to Communications & Power Industries Holding Corporation for financial reporting purposes (see "Management's discussion and analysis of financial condition and results of operations—The Merger").

The following summary consolidated financial data for CPI International, Inc. and subsidiaries as of September 30, 2005 and October 1, 2004, and for the year ended September 30, 2005 and for the 36-week period ended October 1, 2004, and of Communications & Power Industries Holding Corporation, our predecessor, and subsidiaries for the 16-week period ended January 22, 2004 and the year ended October 3, 2003, has been derived from the audited consolidated financial statements included elsewhere in this prospectus. The consolidated financial data for Communications & Power Industries Holding Corporation as of October 3, 2003 has been derived from audited consolidated financial statements not included in this prospectus.

The following summary consolidated financial data as of, and for the quarters ended, December 30, 2005 and December 31, 2004 has been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The unaudited condensed consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements. The results for any interim period are not necessarily indicative of the results that may be expected for a full year.

You should read the following data in conjunction with "Selected financial data," "Management's discussion and analysis of financial condition and results of operations" and the consolidated financial statements and the related notes included elsewhere in this prospectus.

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	Year Ended October 3, 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-Week Period Ended October 1, 2004 (Successor)	Year Ended September 30, 2005 (Successor)	Quarter Ended December 31, 2004 (Successor)	Quarter Ended December 30, 2005 (Successor)
	(dollars in thousands, except per share data)				(unaudited)	
Statement of Operations						
Data:						
Sales	\$265,434	\$79,919	\$202,266	\$320,732	\$73,733	\$82,379
Cost of sales ⁽¹⁾	183,957	56,189	141,172	216,031	50,029	57,171
Gross profit	81,477	23,730	61,094	104,701	23,704	25,208
Operating costs and expenses:						
Research and development	6,860	2,200	5,253	7,218	1,448	1,910
Selling and marketing	15,650	4,352	11,082	18,547	4,068	5,024
General and administrative	17,847	6,026	12,499	27,883	3,969	7,302
Merger expenses ⁽²⁾	—	6,374	—	—	—	—
Amortization of acquisition-related intangible assets ⁽²⁾	—	—	13,498	7,487	4,906	548
Acquired in-process research and	—	—	2,500	—	—	—

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development ⁽²⁾									
Net loss on the disposition of assets	92	7	197	446	56	65			
Gain on sale of Solid State Products Division	(136)	—	—	—	—	—			
Total operating costs and expenses	40,313	18,959	45,029	61,581	14,447	14,849			
Operating income	41,164	4,771	16,065	43,120	9,257	10,359			
Interest expense, net	14,540	8,902	10,518	20,310	4,080	6,064			
Income tax expense	10,076	439	2,899	9,138	2,079	2,080			
Net income (loss)	\$16,548	\$ (4,570)	\$2,648	\$13,672	\$3,098	\$2,215			
Net income per share ⁽³⁾ :									
Basic	N/A	(4)	N/A	(4)	\$0.20	\$1.05	\$0.24	\$0.17	
Diluted	N/A	(4)	N/A	(4)	\$0.19	\$0.98	\$0.23	\$0.15	
Pro forma	—	—	\$—	\$0.73	\$—	\$0.11			
Shares used to calculate net income per share:									
Basic	N/A	(4)	N/A	(4)	13,062,753	13,078,954	13,078,954	13,078,954	
Diluted	N/A	(4)	N/A	(4)	13,700,182	13,973,727	13,727,997	14,768,082	
Pro forma	—	—	—	—	18,628,845	—	19,292,906		
Other Financial Data:									
EBITDA ⁽⁵⁾	\$47,457	\$6,549	\$32,816	\$57,297	\$15,476	\$12,515			
EBITDA margin ⁽⁶⁾	17.9 %	8.2 %	16.2 %	17.9 %	21.0 %	15.2 %			
Operating income margin ⁽⁷⁾	15.5 %	6.0 %	7.9 %	13.4 %	12.6 %	12.6 %			
Net income (loss) margin ⁽⁸⁾	6.2 %	(5.7)%	1.3 %	4.3 %	4.2 %	2.7 %			
Depreciation and amortization ⁽⁹⁾	\$6,293	\$1,778	\$16,751	\$14,177	\$6,219	\$2,156			
Capital expenditures ⁽¹⁰⁾	3,067	459	3,317	17,131	1,194	2,945			

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	As of	
	October 30, 2004	September 30, 2005
	(Predecessor)	(Successor)
	(dollars in thousands)	(unaudited)
Balance Sheet Data (at period end):		
Working capital	\$72,388	\$65,400
Total assets	181,907	154,544
Long-term debt and redeemable preferred stock	128,000	84,231
Total stockholders' (deficit) equity	(10,759)	2,667
		37,700

We did not pay cash dividends on the common stock of CPI International or our predecessor, as applicable, in fiscal years 2003 or 2004. In fiscal year 2005, and during the quarter ended December 30, 2005, we paid special cash dividends of \$75,809 and \$17,000, respectively, to stockholders of CPI International.

(1)

Includes charges of \$5,500 for the amortization of inventory write-up incurred during the 36-week period ended October 1, 2004 in connection with our January 2004 merger and \$351 of charges for the amortization of inventory write-up incurred in connection with the Econco acquisition for fiscal year 2005 and the quarter ended December 31, 2004.

(2)

As a result of our January 2004 merger, we incurred charges for merger expenses during the 16-week period ended January 22, 2004, and charges for the amortization of intangible assets and a write off of in-process research and development during the 36-week period ended October 1, 2004. In fiscal year 2005 and for the quarter ended December 30, 2005, we incurred charges for the amortization of intangible assets as a result of our January 2004 merger and in connection with the Econco acquisition.

(3)

Basic net income per share represents net income divided by weighted average common shares outstanding, and diluted net income per share represents net income divided by weighted average common and common equivalent shares outstanding. Pro forma net income per share represents net income divided by weighted average common and common equivalent shares outstanding and pro forma shares to replace capital withdrawn in excess of earnings.

(4)

Due to the significant change in capital structure at the closing date of our January 2004 merger, the predecessor amount has not been presented because it is not considered comparable to the amount for CPI International.

(5)

EBITDA represents earnings before provision for income taxes, interest expense, net and depreciation and amortization. For the reasons listed below, we believe that GAAP-based financial information for highly leveraged businesses such as ours should be supplemented by EBITDA so that investors better understand our financial performance in connection with their analysis of our business:

-

EBITDA is a component of the measure used by our board of directors and management team to evaluate our operating performance;

-

our senior credit facilities contain covenants that require us to maintain certain interest expense coverage and leverage ratios that contain EBITDA as a component, and our management team uses EBITDA to monitor compliance with such covenants;

-

EBITDA is a component of the measure used by our management team to make day-to-day operating decisions;

-

EBITDA facilitates comparisons between our operating results and those of competitors with different capital structures and therefore is a component of the measure used by the management to facilitate internal comparisons to competitors' results and our industry in general; and

the payment of bonuses to certain members of management is contingent upon, among other things, the satisfaction by us of certain targets that contain EBITDA as a component.

Other companies may define EBITDA differently and, as a result, our measure of EBITDA may not be directly comparable to EBITDA of other companies. Although we use EBITDA as a financial measure to assess the performance of our business, the use of EBITDA is limited because it does not include certain material costs, such as interest and taxes, necessary to operate our business. When analyzing our performance, EBITDA should be considered in addition to, and not as a substitute for, net income (loss), cash flows from operating activities or other statements of operations or statements of cash flows data prepared in accordance with GAAP.

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The following table reconciles net income (loss) to EBITDA.

	Year Ended October 3, 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-Week Period Ended October 1, 2004 (Successor)	Year Ended September 30, 2005 (Successor)	Quarter Ended December 31, 2004 (Successor)	Quarter Ended December 30, 2005 (Successor)
			(dollars in thousands) (unaudited)			
Net Income (loss)	\$ 16,548	\$ (4,570)	\$ 2,648	\$ 13,672	\$ 3,098	\$ 2,215
Depreciation and amortization ⁽⁹⁾	6,293	1,778	16,751	14,177	6,219	2,156
Interest expense, net	14,540	8,902	10,518	20,310	4,080	6,064
Income tax expense	10,076	439	2,899	9,138	2,079	2,080
EBITDA	\$ 47,457	\$ 6,549	\$ 32,816	\$ 57,297	\$ 15,476	\$ 12,515

The EBITDA amounts presented above were impacted by the following items, which are either non-cash charges or charges that are not expected to recur in the ordinary course of business:

	Year Ended October 3, 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-Week Period Ended October 1, 2004 (Successor)	Year Ended September 30, 2005 (Successor)	Quarter Ended December 31, 2004 (Successor)	Quarter Ended December 30, 2005 (Successor)

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			(dollars in thousands)		(unaudited)	
Stock compensation expense ^(a)	\$ 1,010	\$ 1,289	\$—	\$ —	\$—	\$ —
Amortization of acquisition-related inventory write-up ^(b)	—	—	5,500	351	351	—
Merger expenses ^(c)	—	6,374	—	—	—	—
Acquired in-process research and development ^(d)	—	—	2,500	—	—	—
Compensation expense from performance-based stock options ^(e)	—	—	—	6,985	45	—
Move-related expenses ^(f)	—	—	—	1,790	76	1,123
Special bonus ^(g)	—	—	—	—	—	3,250

(a)

In fiscal year 2003, represents compensation expense for stock subsequently determined to have been sold at less than fair value of \$790, and compensation expense for stock options subsequently determined to have been issued at less than fair value of \$220. During the 16-week period ended January 22, 2004, represents additional compensation expense of \$1,289 from the same stock options issued in fiscal year 2003, the vesting of which was accelerated in connection with our January 2004 merger.

(b)

During the 36-week period ended October 1, 2004, represents a non-cash charge related to purchase accounting for our January 2004 merger. For fiscal year 2005 and the quarter ended December 31, 2004, represents a non-cash charge related to purchase accounting for the acquisition of Econco.

(c)

Represents expenses incurred by our predecessor in connection with our January 2004 merger.

(d)

Represents a non-cash charge related to purchase accounting for our January 2004 merger.

(e)

Represents a non-cash charge related to performance-based stock options. Fiscal year 2005 includes \$2,820 from the acceleration of vesting of performance-based stock options that were expected to vest in fiscal years 2006, 2007 and 2008 assuming that the performance criteria would have been achieved. This charge is not expected to recur, as all performance-based stock options are now vested.

(f)

Represents expenses and move-related inefficiencies related to the relocation of our San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities.

(g)

Represents a one-time special bonus to employees and directors (other than directors who are employees or affiliates of Cypress) to reward them for the increase in company value.

(6)

EBITDA margin represents EBITDA divided by sales.

(7)

Operating income margin represents operating income divided by sales.

(8)

Net income (loss) margin represents net income (loss) divided by sales.

(9)

Depreciation and amortization excludes amortization of deferred debt issuance costs, which are included in interest expense, net.

(10)

Includes capital expenditures resulting from the relocation of our San Carlos, California facility to Palo Alto, California and Mountain View, California of \$13.1 million for fiscal year 2005, and \$0.8 and \$2.2 million for the quarters ended December 31, 2004 and December 30, 2005, respectively.

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Risk factors

Before you invest in our common stock, you should carefully consider the following risks as well as other information set forth in this prospectus. If any of the following risks actually occurs, our business, financial condition or results of operations may suffer. As a result, the trading price of our common stock could decline, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We face competition in the markets in which we sell our products.

The U.S. and foreign markets in which we sell our products are competitive. Our ability to compete in these markets depends on our ability to provide high quality products with short lead times at competitive prices, as well our ability to create innovative new products. In addition, our competitors could introduce new products with greater capabilities, which could have a material adverse effect on our business. Certain of our competitors are owned by companies that have substantially greater financial resources than we do. Also, our foreign competitors are not subject to U.S. Government export restrictions, which may make it easier in certain circumstances for them to sell to foreign customers. If we are unable to compete successfully against our current or future competitors, our business and sales will be harmed.

The end markets in which we operate are subject to technological change, and changes in technology could adversely affect our sales.

Both our defense and commercial end markets are subject to technological change. Advances in existing technology, or the development of new technology, could adversely affect our business and results of operations. Historically, we have relied on a combination of internal research and development and customer-funded research activities. To succeed in the future, we must continually engage in effective and timely research and development efforts in order to introduce innovative new products for technologically sophisticated customers and end markets and benefit from activities of our customers. We may not be able to continue to allocate sufficient financial and other resources to our research and development activities or receive customer funding for research and development. If we fail to adapt successfully to technological changes or fail to obtain access to important technologies, our sales could suffer.

If we are unable to retain key management and other personnel, our business and results of operations could be adversely affected.

Our business and future performance depends on the continued contributions of key management personnel. Our current management team has an average of 25 years experience with us in various capacities. Since assuming their current leadership roles in 2002, this team has increased our sales, reduced our costs and grown our business. The unanticipated departure of any key member of our management team could have an adverse effect on our business and our results of operations. In addition, some of our technical personnel, such as our key engineers, could be difficult to replace.

A significant portion of our sales is, and is expected to continue to be, from contracts with the U.S. Government, and any significant reduction in the U.S. defense budget or any disruption or decline in U.S. Government expenditures could negatively affect our results of operations and cash flows.

Over 31%, 37% and 34% of our sales in the 2005, 2004 and 2003 fiscal years, respectively, were made to the U.S. Government either directly or indirectly through prime contractors or subcontractors. Because U.S. Government contracts are dependent on the U.S. defense budget, any significant disruption or decline in U.S. Government expenditures in the future, changes in U.S. Government spending priorities, other legislative changes, or a change in our relationship with the U.S. Government could result in the loss of some or all of our government contracts, which, in turn would result in a decrease in our earnings and cash flow.

In addition, U.S. Government contracts are also conditioned upon continuing congressional approval and the appropriation of necessary funds. Congress usually appropriates funds for a given program each fiscal year even

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though contract periods of performance may exceed one year. Consequently, at the outset of a major program, multi-year contracts are usually funded for only the first year, and additional monies are normally committed to the contract by the procuring agency only as Congress makes appropriations for future fiscal years. We cannot ensure that any of our government contracts will continue to be funded from year to year. If such contracts are not funded, our sales may decline, which could negatively affect our results of operations and result in decreased cash flows.

We are subject to risks particular to companies supplying defense-related equipment and services to the U.S. Government. The occurrence of any of these risks could cause a loss of or decline in our sales to the U.S. Government.

U.S. Government contracts contain termination provisions and are subject to audit and modification.

The U.S. Government has the ability unilaterally to:

terminate existing contracts, including for the convenience of the government or because of a default in our performance of the contract;

reduce the value of existing contracts;

cancel multi-year contracts or programs;

audit our contract related costs and fees, including allocated indirect costs;

suspend or debar us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations; and

control and potentially prohibit the export of our products, technology or other data.

All of our U.S. Government contracts can be terminated by the U.S. Government either for its convenience or if we default by failing to perform under the contract. Termination for convenience provisions provide only for our recovery of costs incurred or committed, settlement expenses and profit on the work completed prior to termination. Termination for default provisions provide for the contractor to be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source. Our contracts with foreign governments generally contain similar provisions relating to termination at the convenience of the customer.

The U.S. Government may review or audit our direct and indirect costs and performance on certain contracts, as well as our accounting and general business practices for compliance with complex statutes and regulations, including the Truth in Negotiations Act, Federal Acquisition Regulations, Cost Accounting Standards, and other administrative regulations. Like most government contractors, the U.S. Government audits our costs and performance on a continual basis, and we have outstanding audits. Based on the results of these audits, the U.S. Government may reduce our contract related costs and fees, including allocated indirect costs. In addition, under U.S. Government regulations, some of our costs, including certain financing costs, research and development costs, and marketing expenses, may not be reimbursable under U.S. Government contracts.

We are subject to laws and regulations related to our U.S. Government contracts business, which may impose additional costs on our business.

As a U.S. Government contractor, we must comply with and are affected by laws and regulations related to our performance of our government contracts and our business. These laws and regulations may impose additional costs

on our business. In addition, we are subject to audits, reviews and investigations of our compliance with these laws and regulations. If we are found to have failed to comply with these laws and regulations, then we may be fined, we may not be reimbursed for costs incurred in performing the contracts, our contracts may be terminated, and we may be unable to obtain new contracts. Any of these actions would cause our revenue to decrease. If a government review, audit, or investigation uncovers improper or illegal activities, then we may be subject to civil or criminal penalties and administrative sanctions, including forfeiture of claims and profits, suspension of payments, statutory penalties, fines, and suspension or debarment.

In addition, many of our U.S. Government contracts require our employees to maintain various levels of security clearances, and we are required to maintain certain facility clearances. Complex regulations and requirements

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apply to obtaining and maintaining security clearances and facility clearances, and obtaining such clearances can be a lengthy process. To the extent we are not able to obtain or maintain security clearances or facility clearances, we also may not be able to seek or perform future classified contracts. If we are unable to do any of the foregoing, we will not be able to maintain or grow our business, and our revenue may decline.

As a result of our U.S. Government business, we may be subject to false claim suits, and a judgment against us in any of these suits could cause us to be liable for substantial damages.

Our business with the U.S. Government, subjects us to "qui tam," or whistle blower, suits brought by private plaintiffs in the name of the U.S. Government upon the allegation that we submitted a false claim to the U.S. Government, as well as to false claim suits brought by the U.S. Government. A judgment against us in a qui tam or false claim suit could cause us to be liable for substantial damages (including treble damages and monetary penalties) and could carry penalties of suspension or debarment, which would make us ineligible to receive any U.S. Government contracts for a period of up to three years. Any material judgment, or any suspension or debarment, could result in increased costs, which could negatively affect our results of operations. In addition, any of the foregoing could cause a loss of customer confidence and could negatively harm our business and our future prospects.

Some of our sole-provider business from the U.S. Government in the future may be subject to competitive bidding.

Some of the business that we will seek from the U.S. Government in the future may be awarded through a competitive bidding process. Competitive bidding on government contracts presents risks that are not common to certain commercial contracts, such as:

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the need to bid on programs in advance of contract performance, which may result in unforeseen performance issues and costs; and

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the expense and delay that may arise if our competitors protest or challenge the award made to us, which could result in a procurement, modified contract, or reduced work.

If we fail to win competitively bid contracts, or fail to perform these contracts in a profitable manner, our sales and results of operations will suffer.

We generate sales from contracts with foreign governments, and significant changes in policies or to appropriations of those governments could have an adverse effect on our business, results of operations and financial condition.

Approximately 19% of our fiscal year 2005 sales were made directly or indirectly to foreign governments. Significant changes to appropriations or national defense policies, disruptions of our relationships with foreign governments or terminations of our foreign government contracts could have an adverse effect on our business, results of operations and financial condition.

Our international operations subject us to the social, political and economic risks of doing business in foreign countries.

We conduct a substantial portion of our business, employ a substantial number of employees, and use external sales organizations, in Canada and in other countries outside of the United States. Direct sales to customers located outside the United States were 33%, 30% and 34% in fiscal years 2005, 2004 and 2003, respectively. As a result, we are subject to risks of doing business internationally. Circumstances and developments related to international operations that could negatively affect our business, results of operations and financial condition include the following:

difficulties and costs of staffing and managing international operations;

currency restrictions, which may prevent the transfer of capital and profits to the United States;

changes in currency rates with respect to the U.S. dollar;

changes in regulatory requirements;

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U.S. and foreign government policies;

potentially adverse tax consequences;

restrictions imposed by the U.S. Government on the export of certain products and technology;

the responsibility of complying with multiple and potentially conflicting laws;

the impact of regional or country specific business cycles and economic instability; and

geopolitical developments and conditions, including international hostilities, acts of terrorism and governmental reactions, trade relationships and military and political alliances.

Limitations on imports, currency exchange control regulations, transfer pricing regulations and tax laws and regulations could adversely affect our international operations, including the ability of our non-U.S. subsidiaries to declare dividends or otherwise transfer cash among our subsidiaries to pay interest and principal on our debt.

Laws and regulations restricting the sale of our products to foreign customers could impair our ability to make sales to foreign customers.

Licenses for the export of many of our products are required from government agencies in accordance with various regulations, including the United States Export Administration Regulations and the International Traffic In Arms Regulations. Under these regulations, we must obtain a license or permit from the U.S. Government before making foreign sales of certain of our products that have been designated as important for national security. These laws and regulations could adversely impact our sales and business for the following reasons:

In order to obtain the license for the sale of such a product, we are required to obtain information from the potential customer and provide it to the U.S. Government. If the U.S. Government determines that the sale presents national security risks, it may not approve the sale.

Delays caused by the requirement to obtain the required license may cause us to lose potential foreign sales to overseas competitors who may not be subject to comparable restrictions and delays.

If we make a sale in violation of these laws and regulations, we could be subject to fines or penalties.

Our business, results of operations and financial condition may be adversely affected by increased or unexpected costs incurred by us on our contracts and sales orders.

The terms of virtually all of our contracts and sales orders require us to perform the work under the contract or sales order for a predetermined fixed price. As a result, we bear the risk of increased or unexpected costs associated with a contract or sales order, which may reduce our profit or cause us to sustain losses. Future increased or unexpected costs on a significant number of our contracts and sales orders could adversely affect our results of operations and financial condition.

Environmental laws and regulations and other obligations relating to environmental matters could subject us to liability for fines, clean-ups and other damages, require us to incur significant costs to modify our operations and increase our manufacturing costs.

Environmental laws and regulations could limit our ability to operate as we are currently operating and could result in additional costs.

We are subject to a variety of U.S. federal, state and local, as well as foreign, environmental laws and regulations relating, among other things, to wastewater discharge, air emissions, handling of hazardous materials, disposal of solid and hazardous wastes, and remediation of soil and groundwater contamination. We use a number of chemicals or similar substances, and generate wastes, that are classified as hazardous. We require environmental permits to conduct many of our operations. Violations of environmental laws and regulations could result in substantial fines, penalties, and other sanctions. Changes in environmental laws or regulations (or in their enforcement) affecting or limiting, for example, our chemical uses, certain of our manufacturing processes, or our disposal practices, could restrict our ability to operate as we are currently operating or impose additional costs. In addition, we may experience releases of certain chemicals or discover existing contamination, which could cause us to incur material cleanup costs or other damages.

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We could be subject to significant liabilities if Varian Medical Systems does not satisfy the obligations associated with existing environmental contamination.

When we purchased our electron devices business in 1995, Varian Medical Systems agreed to indemnify us for various environmental liabilities relating to the business prior to the sale, with certain exceptions and limitations. Varian Medical Systems is undertaking the environmental investigation and remedial work at the remaining two of our manufacturing facilities that are known to require environmental remediation, Palo Alto, California and Beverly, Massachusetts. In addition, Varian Medical Systems has been sued or threatened with suit with respect to environmental obligations related to these manufacturing facilities. If Varian Medical Systems does not comply fully with its indemnification obligations to us or does not continue to have the financial resources to comply fully with those obligations, we could be subject to significant liabilities.

We could be subject to significant liabilities if existing environmental insurance and indemnification payments from Varian Medical Systems are not sufficient to satisfy the obligations associated with existing environmental contamination at our former San Carlos, California facility.

Our San Carlos, California facility is under contract for sale and redevelopment. This facility has preexisting soil and groundwater contamination that has been the subject of some remediation and is expected to undergo additional remediation by the purchaser after the sale closes. In connection with the pending sale of that facility, we released Varian Medical Systems from certain of its pre-existing environmental indemnity obligations related to that property, although the purchaser of the property has acquired pollution liability insurance that is intended to cover the expected remediation costs of that property. If the combination of the proceeds of this insurance and the amounts to be paid by Varian Medical Systems under its remaining indemnification obligations are not sufficient to cover the remediation costs and pollution liability associated with the San Carlos property, we could be subject to significant costs and liabilities.

We have only a limited ability to protect our intellectual property rights, which are important to our success.

Our success depends, in part, upon our ability to protect our proprietary technology and other intellectual property. We rely on a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements, and patent, copyright and trademark laws to protect our intellectual property rights. The steps we take to protect our intellectual property may not be adequate to prevent or deter infringement or other violation of our intellectual property, and we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. In addition, we cannot be certain that our processes and products do not or will not infringe or otherwise violate the intellectual property rights of others. Infringement or other violations of intellectual property rights could cause us to incur significant costs and prevent us from selling our products and could have a material adverse effect on our business, results of operations and financial condition.

Our inability to obtain certain necessary raw materials and key components could disrupt the manufacture of our products and cause our sales and results of operations to suffer.

We obtain certain raw materials and key components necessary for the manufacture of our products, such as molybdenum, cupronickel, OFHC copper, and some cathodes from a limited group of, or occasionally sole, suppliers. If any of our suppliers fails to meet our needs, we may not have readily available alternatives. Delays in component deliveries could cause delays in product shipments and require the redesign of certain products. If we are unable to obtain necessary raw materials and key components from our suppliers under favorable purchase terms and on a timely basis, or to develop alternative sources, our ability to manufacture products could be disrupted or delayed, and our sales and results of operations could suffer.

We may not be successful in implementing part of our growth strategy if we are unable to identify and acquire suitable acquisition targets or integrate acquired companies successfully.

Finding and consummating acquisitions is one of the components of our growth strategy. Our ability to grow by acquisition depends on the availability of acquisition candidates at reasonable prices and our ability to obtain additional acquisition financing on acceptable terms. We may experience competition in making acquisitions

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from larger companies with significantly greater resources. We are likely to use significant amounts of cash, issue additional equity securities or incur additional debt in connection with future acquisitions, each of which could have a material adverse effect on our business. There can be no assurance that we will be able to obtain the necessary funds to carry out acquisitions on commercially reasonable terms, or at all.

In addition, future acquisitions could place demands on our management and our operational and financial resources and could cause or result in the following:

difficulties in assimilating and integrating the operations, technologies and products acquired;

the diversion of our management's attention from other business concerns;

our operating and financial systems and controls being inadequate to deal with our growth;

our entering markets in which we have limited or no prior experience; and

the potential loss of key employees.

Our backlog is subject to modifications and terminations of orders, which could negatively impact our sales.

Backlog represents firm orders for which goods and services are yet to be provided, including with respect to government contracts that are cancelable at will. As of December 30, 2005, we had an order backlog of \$197.1 million. Although historically the amount of modifications and terminations of our orders has not been material compared to our total contract volume, customers can, and sometimes do, terminate or modify these orders. Cancellations of purchase orders or reductions of product quantities in existing contracts could substantially and materially reduce our backlog and consequently, our future revenues. Our failure to replace canceled or reduced backlog could negatively impact our sales and results of operations.

We are in the process of relocating our Eimac operating division from our San Carlos, California to our Palo Alto and Mountain View, California facilities, which could result in disruptions to our operations and unexpected costs.

In connection with the relocation of our San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities, we will have to: decommission specialized production equipment; build out our Palo Alto and Mountain View, California locations; and configure, install and test our specialized equipment in its new locations. During this process we expect that our Eimac operating division will suffer production inefficiencies, delayed product deliveries to our customers and reduced sales. In addition, the San Carlos move will negatively impact our fiscal year 2006 results of operations because we will not be able to reduce our fixed overhead costs to offset the expected reductions in sales during the periods impacted by the move.

In addition, our results of operations could be adversely affected if we incur unexpected move or buildout costs associated with the San Carlos move. Finally, any delays in product deliveries caused by the San Carlos move could affect our customer relations, which could result in lower sales after the San Carlos move is completed.

We may not be able to continue to achieve profitability in the future, and if we are not profitable, our stock price may decline.

We were profitable from fiscal years 1996 to 1998, as well as in fiscal years 2003 and 2005. However, from fiscal years 1999 to 2002, and in fiscal year 2004, we incurred net losses. We cannot ensure that we will continue to achieve profitability in the future. Future revenues and profits will depend upon various factors, including continued acceptance of our products and services in the various markets that we serve, the competitive position of our products in those markets, our ability to enhance or improve on our existing products and develop new products and our ability to continue to control the costs and expenses associated with the operation of our business, such as sales and marketing, personnel, and product development and enhancement. Our profitability could also be adversely affected by purchase accounting charges related to future acquisitions, and potential impairment charges related to goodwill and other intangible assets. If we are unable to sustain our profitability, our stock price may decline.

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As a result of being a public company, we will incur increased costs that may place a strain on our resources, and our management's attention may be diverted from other business concerns.

As a public company with listed equity securities, we will need to comply with additional laws, regulations and requirements, certain provisions of the Sarbanes-Oxley Act of 2002, related Securities and Exchange Commission regulations and requirements of The Nasdaq National Market that we did not need to comply with as a privately held company. Preparing to comply and complying with additional statutes, regulations and requirements will occupy a significant amount of the time of our board of directors, management and our officers and will increase our costs and expenses. Among other things, we will need to:

expand the roles and duties of our board of directors, our board committees and management;

institute a more comprehensive compliance program;

prepare and distribute periodic public reports in compliance with our obligations under the federal securities laws;

involve and retain to a greater degree outside counsel and accountants in the above activities;

enhance our investor relations function; and

establish new internal policies, such as those relating to disclosure controls and procedures and insider trading.

In addition, we also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

We may not be able to timely comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Beginning in fiscal year 2007, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we must perform and report our evaluation of internal controls over financial reporting, and our independent registered public accounting firm must attest to and report on the adequacy of management's evaluation and the effectiveness of such controls, on an annual basis. Our efforts to comply with Section 404 have resulted in, and are likely to continue to result in, significant costs, the commitment of time and operational resources and the diversion of management's attention. Because compliance with these requirements is complex and time consuming, there can be no assurance that we will

be able to implement the requirements of Section 404 in a timely fashion. In addition, because of the time and expense required to evaluate our internal controls, our independent registered public accounting firm may have limited time before its attestation is required, which may prevent our accountants from being able to adequately test and subsequently to report on our internal controls. If we fail to timely complete our assessment of internal controls, or if our independent registered public accounting firm cannot report on our assessment, we could suffer a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

RISKS RELATED TO OUR INDEBTEDNESS

We have a substantial amount of debt and we may incur substantial additional debt in the future, which could adversely affect our financial health and our ability to obtain financing in the future and to react to changes in our business.

We have a substantial amount of debt and may incur additional debt in the future. As of December 30, 2005, our total consolidated indebtedness was \$295 million and we had \$35.5 million of additional borrowings available under the revolver under our senior credit facilities. Pro forma, after giving effect to the expected redemption, repayment or repurchase of approximately \$44.5 million in aggregate principal amount of our

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indebtedness with the net proceeds of this offering as described in “Capitalization,” our total consolidated indebtedness as of December 30, 2005 was \$250.5 million and we had \$35.5 million of additional borrowings available under the revolver under our senior credit facilities. Our substantial amount of debt could have important consequences to us and you, including, without limitation, the following:

it will require us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, which will reduce the funds available for working capital, capital expenditures and other general corporate expenses;

it could have the effect of limiting our flexibility in planning for, or reacting to, changes in our business, the markets in which we compete and the economy at large;

it could place us at a disadvantage compared to our competitors that have proportionately less debt;

it could adversely affect our relationship with customers and suppliers;

it could limit our ability to borrow additional funds in the future, if needed, because of applicable financial and restrictive covenants of our indebtedness;

it could make it more difficult for us to satisfy our obligations to our noteholders under our outstanding notes and our senior credit facilities; and

it could make us more vulnerable to interest rate increases because a portion of our borrowings is, and will continue to be, at variable rates of interest.

A default under our debt obligations could result in the acceleration of those obligations. We may not have the ability to fund our debt obligations in the event of such a default. This may adversely affect our ability to operate our business and therefore could adversely affect our results of operations and financial condition, and consequently, the price of our common stock. In addition, we may incur substantial additional debt in the future. If current debt levels increase, the related risks that we and you now face will intensify.

The agreements and instruments governing our debt contain restrictions and limitations that could limit our flexibility in operating our business.

Our senior credit facilities and the indentures governing our outstanding notes have a number of significant covenants that, among other things, restrict our ability to:

incur additional indebtedness;

sell assets or consolidate or merge with or into other companies;

pay dividends or repurchase or redeem capital stock;

make certain investments;

issue capital stock of our subsidiaries;

incur liens; and

enter into certain types of transactions with our affiliates.

These covenants could have the effect of limiting our flexibility in planning for, or reacting to, changes in our business and the markets in which we compete.

Under our senior credit facilities, we are required to satisfy and maintain specified financial ratios and tests. Events beyond our control may affect our ability to comply with those provisions, and we may not be able to meet those ratios and tests, which would result in a default under our senior credit facilities. In addition, our senior credit facilities and the indenture governing Communications & Power Industries' 8% senior subordinated notes restrict Communications & Power Industries' ability to make distributions to us. Because we are a holding company with no operations of our own, we rely on distributions from Communications & Power Industries to satisfy our obligations under our floating rate senior notes. If Communications & Power Industries is unable make distributions to us, and we cannot obtain other funds to satisfy our obligations under our floating rate senior notes, a default under our floating rate senior notes could result.

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The breach of any covenants or obligations in our senior credit facilities and the indentures governing our outstanding notes could result in a default under the applicable debt agreement or instrument and could trigger acceleration of (or the right to accelerate) the related debt. Because of cross-default provisions in the agreements and instruments governing our indebtedness, a default under one agreement or instrument could result in a default under, and the acceleration of, our other indebtedness. In addition, the lenders under our senior credit facilities could proceed against the collateral securing that indebtedness. If any of our indebtedness were to be accelerated, it could adversely affect our ability to operate our business or we may be unable to repay such debt, and therefore such acceleration could adversely affect our results of operations and financial condition, and consequently, the price of our common stock.

Our ability to generate the significant amount of cash needed to service our debt and to fund capital expenditures or other liquidity needs depends on many factors beyond our control.

Our ability to service our debt and to fund our planned capital expenditures and ongoing operations will depend on our ability to generate cash and to obtain financing in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors affecting our industry that are beyond our control. If we do not generate sufficient cash flow from operations, and sufficient future borrowings are not available under our senior credit facilities or from other sources of financing, we may not be able to repay our debt or fund capital expenditures or our other liquidity needs. As of December 30, 2005, on a consolidated basis, we had principal repayment obligations of \$0 in each of fiscal years 2006, 2007 and 2008, \$19 million in fiscal year 2009, \$71 million in fiscal year 2010 and \$205 million thereafter. Based on our debt obligations and interest rates at December 30, 2005, our current annual debt service costs are approximately \$24 million per year.

Our outstanding notes and our senior credit facilities are subject to change of control provisions. We may not have the ability to raise funds necessary to fulfill our obligations under our debt following a change of control, which would place us in default thereunder.

We may not have the ability to raise the funds necessary to fulfill our obligations under our outstanding notes and our senior credit facilities following a change of control. Under the indentures governing our notes, upon the occurrence of specified change of control events, we are required to offer to repurchase the notes. However, we may not have sufficient funds at the time of the change of control event to make the required repurchase of our notes. In addition, a

change of control under our senior credit facilities would result in an event of default thereunder and permit the acceleration of the outstanding obligations under the senior credit facilities.

RISKS RELATED TO OUR COMMON STOCK AND THIS OFFERING

Before this offering, there has been no public market for our common stock. This may cause volatility in the trading price of our common stock, which could negatively affect the value of your investment.

Before this offering, there has been no public market for our common stock. The initial public offering price of our common stock will be determined by negotiations between us and the underwriters and may not be indicative of the market price for our common stock after this offering. It is possible that an active trading market for our common stock will not develop or be sustained after the offering to provide you with adequate liquidity. Even if a trading market develops, the market price of our common stock may fluctuate widely as a result of various factors, such as period-to-period fluctuations in our actual or anticipated operating results, sales of our common stock by our existing equity investors, developments in our industry, the failure of securities analysts to cover our common stock after this offering or changes in financial estimates by analysts, failure to meet financial estimates by analysts, competitive factors, general economic and securities market conditions and other external factors. Also, securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic or market conditions, and market conditions affecting the stock of companies in our industry in particular, could reduce the market price of our common stock in spite of our operating performance. You may be unable to resell your shares of our common stock at or above the initial public offering price or at all.

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If our share price is volatile, we may be the target of securities litigation, which is costly and time-consuming to defend.

In the past, following periods of market volatility in the price of a company's securities, securityholders have often instituted class action litigation. If the market value of our common stock experiences adverse fluctuations and we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs and our management's attention could be diverted from the operation of our business, causing our business to suffer.

Future sales of shares of our common stock in the public market could depress our stock price and make it difficult for you to recover the full value of your investment.

We cannot predict the effect, if any, that market sales of shares of common stock or the availability of shares of common stock for sale will have on the market price of our common stock prevailing from time to time. Future sales, or the perception or availability for sale in the public market, of substantial amounts of our common stock could adversely affect the market price of our common stock.

Upon consummation of this offering, there will be 16,020,154 shares of our common stock outstanding. The shares of common stock sold by us and the selling stockholders in this offering will be freely transferable without restriction or further registration under the Securities Act of 1933, or the Securities Act, except for shares that are purchased by our affiliates. The remaining shares of common stock owned by our existing stockholders will be "restricted securities" under the Securities Act, but will be eligible for resale subject to applicable volume, manner of sale, holding period and other limitations of Rule 144 under the Securities Act. We, our executive officers and directors, the selling stockholders and the holders of options to purchase our common stock have entered into lock-up agreements with the

underwriters. Under these agreements, we and each of these persons may not, without the prior written approval of UBS Securities LLC and Bear, Stearns & Co. Inc., offer, sell, offer to sell, contract or agree to sell, hypothecate, hedge, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, any of our common stock or any securities convertible into or exercisable or exchangeable for our common stock, or warrants or other rights to purchase our common stock. These restrictions will be in effect for a period of 180 days after the date of this prospectus. At any time and without public notice, UBS Securities LLC and Bear, Stearns & Co. Inc. may in their sole discretion release some or all of the securities from these lock-up agreements. However, after the lock-up agreements pertaining to this offering expire, holders of 8,886,511 shares of our common stock have the right to require us to register under the Securities Act all or a portion of their shares as well as “piggyback” registration rights.

In addition, as of December 30, 2005 we had options outstanding to purchase 2,895,432 shares of our common stock under our 2000 Stock Option Plan and our 2004 Stock Incentive Plan, of which 2,188,562 were exercisable as of such date. In addition our 2006 Equity and Performance Incentive Plan and 2006 Employee Stock Purchase Plan provide for the issuance of up to 2,160,000 shares of our common stock to officers, directors and consultants. Following the consummation of this offering, we intend to file one or more registration statements on Form S-8 under the Securities Act to register all shares of common stock issuable under our various incentive plans. After expiration of any applicable resale restrictions imposed by the lock-up agreements, the shares covered by these registration statements will be eligible for sale in the public markets.

The controlling position of Cypress will limit your ability to influence corporate matters.

Cypress owns over 99% of our outstanding shares of common stock prior to this offering and is expected to own 55.5% of our outstanding shares of common stock after this offering. Accordingly, following this offering, Cypress will have significant influence over our management and affairs and over most matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. Cypress will also be able to deter any attempted change of control. This concentrated control will limit your ability to influence corporate matters and, as a result, we may take actions that some of our stockholders do not view as beneficial. Accordingly, the market price of our common stock could be adversely affected.

Because Cypress will own more than 50% of our stockholder voting power after the consummation of this offering, we will be deemed a “controlled company” under Nasdaq National Market Rule 4350(c). As a result,

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Risk factors

we will qualify for the “controlled company” exception of Rule 4350(c), which provides that so long as Cypress continues to own more than 50% of our stockholder voting power, we will be exempt from the rules that would otherwise require that our board of directors consist of a majority of “independent directors,” as defined under Nasdaq National Market rules, and that our compensation committee and nominating committee consist of only “independent directors.” We intend to avail ourselves of the “controlled company” exception for so long as Cypress continues to own more than 50% of our stockholder voting power. In the event that Cypress' voting power falls below 50%, we intend to comply with the Nasdaq National Market's majority independent director and compensation and nominating committee requirements. Because the “controlled company” exception does not modify the independence requirements for the audit committee, we intend to comply with the requirements that our audit committee be composed of three independent directors within the transition period provided by Securities and Exchange Commission rules and Nasdaq National Market rules.

Our anti-takeover provisions could prevent or delay a change in control of our company, even if such change of control would be beneficial to our stockholders.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws as well as provisions of Delaware law could discourage, delay or prevent a merger, acquisition or other change in control of our company. These provisions include:

a board of directors that is classified such that only one-third of directors are elected each year;

authorizing the issuance of “blank check” preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;

limitations on the ability of stockholders to call special meetings of stockholders;

prohibiting stockholder action by written consent and requiring all stockholder actions to be taken at a meeting of our stockholders;

establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and

requiring that the affirmative vote of the holders of at least two thirds (66 2/3%) of the voting power of our issued and outstanding capital stock entitled to vote in the election of directors is required to amend certain provisions of our amended and restated certificate of incorporation.

In addition, Section 203 of the Delaware General Corporation Law, which will apply to us after Cypress ceases to own at least 15% of the total voting power of our common stock, limits business combination transactions with 15% stockholders that have not been approved by the board of directors. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. These provisions may apply even if the transaction may be considered beneficial by some stockholders.

If you purchase shares of our common stock in this offering, you will experience substantial and immediate dilution.

We expect the initial public offering price of our shares to be substantially higher than the book value per share of our outstanding common stock. Accordingly:

investors who purchase shares of common stock in this offering will pay a price that substantially exceeds the per share value of our assets, after subtracting our liabilities; and

investors who purchase shares of common stock in this offering from us will contribute approximately 33% of the total amount of our equity funding to date, but will only own a total of approximately 18% of our shares outstanding.

To the extent outstanding stock options or the underwriters' over-allotment option are exercised after this offering, there will be further dilution to new investors.

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Risk factors

The failure to maintain a minimum share price of \$1.00 per share of common stock could result in delisting of our shares on the Nasdaq National Market, which would harm the market price of our common stock.

In order to retain our listing on the Nasdaq National Market we are required to maintain a minimum bid price of \$1.00 per share. If the bid price falls below the \$1.00 minimum for more than 30 consecutive trading days, we will have 180 days to satisfy the \$1.00 minimum bid price for a period of at least 10 trading days. If we are unable to take action to increase the bid price per share (either by reverse stock split or otherwise), we could be subject to delisting from the Nasdaq National Market.

The failure to maintain our listing on the Nasdaq National Market would harm the liquidity of our common stock and would have an adverse effect on the market price of our common stock. As a result, the liquidity of our common stock would be impaired, not only in the number of shares that could be bought or sold, but also through delays in the timing of transactions, reduction in security analysts' and news media's coverage and lower prices for our common stock than might otherwise be attained. In addition, our common stock would become subject to the "penny stock" rules that impose additional sales practice requirements on broker-dealers who sell such securities.

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Special note regarding forward-looking statements

This prospectus contains forward-looking statements. Forward-looking statements provide our current expectations or forecasts of future events. Forward-looking statements include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. Words or phrases such as "anticipate," "believe," "continue," "ongoing," "estimate," "expect," "intend," "may," "plan," "potential," "predict," or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Our actual results could differ materially from those anticipated in forward-looking statements for many reasons, including the factors described in the section entitled "Risk factors" in this prospectus. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this prospectus. We undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or

events after the date of this prospectus or to reflect the occurrence of unanticipated events.

Trademarks

We own or have rights to trademarks, service marks, copyrights and tradenames that we use in the operation of our business, including Communications & Power Industries® and CPI®.

Market data

Market data and other statistical information used throughout this prospectus are based on independent industry publications, government publications, reports by market research firms or other published independent sources. Some data are also based on our good faith estimates, which are derived from our review of internal data and information, as well as the other sources listed above. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness.

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Use of proceeds

We expect to receive approximately \$44.5 million in net proceeds from this offering based on the sale of 2,941,200 shares at an initial offering price of \$17.00 per share (which represents the midpoint of the range on the cover of this prospectus) after deducting estimated underwriting discounts and commissions and approximately \$2.0 million to pay fees and expenses associated with this offering and the related transactions. If the underwriters exercise their over-allotment option in full, we expect to receive approximately \$51.5 million in net proceeds from this offering based on the sale of 3,382,380 shares at an initial offering price of \$17.00 per share after deducting estimated underwriting discounts and commissions and approximately \$2.0 million to pay fees and expenses associated with this offering and the related transactions.

We intend to use the net proceeds from this offering to redeem, repurchase or repay our indebtedness and satisfy associated premium costs, accrued interest and transaction costs. We used a portion of our indebtedness to fund \$92.8 million in cash dividends to Cypress. We intend to use the net proceeds of this offering to reduce our indebtedness by:

repaying term loan amounts under our senior credit facilities;

redeeming or repurchasing a portion of our floating rate senior notes;

redeeming or repurchasing a portion of our 8% senior subordinated notes; or

combining two or more of the above transactions.

The aggregate principal balance outstanding under the term loan under our senior credit facilities was approximately \$90 million as of December 30, 2005. This balance includes \$10 million in additional borrowings under our term loan made during December 2005, which we used to partially fund a distribution to our stockholders. No prepayment penalty or premium would apply if we were to use all or part of the net proceeds of this offering to repay term loan amounts under our senior credit facilities.

The underwriters for this offering are affiliated with certain of the lenders under our senior credit facilities.

We issued \$125 million aggregate principal amount of our 8% senior subordinated notes in January 2004 in connection with the merger. We used the net proceeds of these notes to refinance the indebtedness of our predecessor company. We have the right to redeem up to \$43.75 million aggregate principal amount of our 8% senior subordinated notes with the net cash proceeds of this offering so long as at least \$81.25 million aggregate principal amount of our 8% senior subordinated notes remains outstanding immediately after the redemption and the redemption occurs within 90 days after the closing date of this offering. The redemption price would be equal to 108% of the principal amount of the 8% senior subordinated notes to be redeemed, plus accrued and unpaid interest to the date of redemption. If we were to repurchase, rather than redeem, our 8% senior subordinated notes, we expect that the purchase price would depend on prevailing market prices, negotiated terms or other factors.

We issued \$80 million aggregate principal amount of our floating rate senior notes in February 2005. We used the net proceeds of that offering to make a distribution to our stockholders. We have the right to redeem our floating rate senior notes in whole or in part for a price equal to 100% plus a premium based on the present value of certain future redemption and interest payments under the floating rate senior notes, plus accrued and unpaid interest to the date of redemption. Based on interest rates in effect as of December 30, 2005, the premium that would apply to such a redemption would be equal to approximately 8%.

In addition, we have the right to redeem up to \$28 million aggregate principal amount of our floating rate senior notes with the net cash proceeds of this offering so long as at least \$52 million aggregate principal amount of the floating rate senior notes remains outstanding immediately after the redemption and the redemption occurs within 90 days after the closing date of this offering. The redemption price would be equal to 100% of the principal amount of the floating rate senior notes to be redeemed, plus a premium equal to the interest rate per annum on the floating rate senior notes applicable on the date on which we give the notice of redemption, plus accrued and unpaid interest to the date of redemption. The interest rate per annum on these

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Use of proceeds

notes as of December 30, 2005 was approximately 9.7%. If we were to repurchase, rather than redeem, our floating rate senior notes, we expect that the purchase price would depend on prevailing market prices, negotiated terms or other factors.

For a description of the interest rate, maturity and other material terms of our senior credit facilities, 8% senior subordinated notes and floating rate senior notes, see "Description of certain indebtedness—Senior Credit Facilities of Communications & Power Industries," "—8% Senior Subordinated Notes of Communications & Power Industries" and "—Floating Rate Senior Notes due 2015 of CPI International."

In order to maximize our flexibility, we have not determined which portions of our indebtedness will be redeemed, repurchased or repaid with the net proceeds of this offering. Whether we redeem, repurchase or repay any particular tranche of debt will be determined by the cost of redeeming, repurchasing or repaying that debt, the expected interest

savings from the redemption, repurchase or repayment of that debt and other factors, including the amount of time necessary to accomplish the transaction.

An increase (or decrease) in the initial public offering price from the assumed initial public offering price of \$17.00 per share by \$1.00 would increase (or decrease) the net proceeds to us from this offering by approximately \$2.7 million, after deducting estimated underwriting discounts and commissions and estimated fees and expenses associated with this offering and the related transactions payable by us, assuming no exercise of the underwriters' over-allotment option and no other change to the number of shares offered by us as set forth on the cover page of this prospectus. An increase (or decrease) of 1,000,000 shares from the expected number of shares to be sold in the offering by us, assuming no change in the assumed initial public offering price, would increase (or decrease) the net proceeds to us from this offering by approximately \$15.8 million, after deducting estimated underwriting discounts and commissions and estimated fees and expenses associated with this offering and the related transactions payable by us. Any such increase (or decrease) would increase (or decrease) the amount of our indebtedness that is redeemed, repurchased or repaid out of the proceeds of this offering.

We will not receive any of the proceeds from the selling stockholders' sale of shares of common stock in the offering.

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Dividend policy

We paid special cash dividends of approximately \$75.8 million and \$17.0 million to holders of our common stock in February 2005 and December 2005, respectively. We currently expect to retain any future earnings for use in the operation and expansion of our business and do not anticipate paying any additional cash dividends on our common stock in the foreseeable future. Any payment of cash dividends on our common stock will be dependent upon the ability of Communications & Power Industries, Inc., our wholly-owned subsidiary, to pay dividends or make cash payments or advances to us. The indenture governing Communications & Power Industries' 8% senior subordinated notes imposes restrictions on Communications & Power Industries' ability to make distributions to us, and the agreements governing our senior credit facilities generally do not permit Communications & Power Industries to make distributions to us for the purpose of paying dividends to our stockholders. In addition, the indenture governing CPI International's floating rate senior notes also imposes restrictions on CPI International's ability to pay dividends or make distributions to its stockholders. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by our board of directors, including the Delaware General Corporation Law, which provides that dividends are only payable out of surplus or current net profits.

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Capitalization

The following table sets forth our capitalization as of December 30, 2005:

on an actual basis; and

on a pro forma basis after giving effect to the following transactions as if they had occurred as of December 30, 2005: (1) the sale of 2,941,200 shares of our common stock in this offering at an initial public offering price of \$17.00 per share; and (2) the repayment of \$44.5 million of the outstanding principal amount of the term loan under our senior credit facilities.

This table should be read together with “Selected financial data,” “Management's discussion and analysis of financial condition and results of operations” and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Actual as of December 30, 2005	Pro Forma as of December 30, 2005
	(dollars in thousands)	
Cash:		
Cash and cash equivalents	\$16,761	\$16,761
Debt:		
Subsidiary debt		
Senior credit facilities—term loan ⁽¹⁾⁽²⁾⁽³⁾	\$90,000	\$45,500
Communications & Power Industries 8% senior subordinated notes ⁽²⁾⁽⁴⁾	125,000	125,000
CPI International debt		
Floating rate senior notes ⁽²⁾⁽⁵⁾	79,244	79,244
Total debt ⁽³⁾	294,244	249,744
Stockholders' equity:		
Common stock (actual, \$0.01 par value, 16,824,500 shares authorized, 13,078,954 shares issued and outstanding; pro forma, \$0.01 par value, 90,000,000 shares authorized, 16,020,154 shares issued and outstanding)	131	160
Additional paid-in-capital ⁽³⁾	17,596	62,067
Accumulated other comprehensive income	1,438	1,438
Retained earnings	18,535	18,535
Total stockholders' equity ⁽³⁾	37,700	82,200
Total capitalization	\$331,944	\$331,944

(1)

As of December 30, 2005, our senior credit facilities consist of a revolving credit facility with \$40 million of available borrowing capacity (of which \$4.5 million has been used for letters of credit) for working capital and other general corporate purposes and a term loan of \$90 million. Under the agreements governing our indebtedness, we are permitted to use the entire net proceeds of this offering to repay amounts owing under our term loan. For a description of the interest rate applicable to, and additional information about, our senior credit facilities. See “Description of certain indebtedness—Senior Credit Facilities of Communications & Power Industries.”

(2)

It is possible that we will use all or a portion of the net proceeds of this offering to repurchase or redeem our floating rate senior notes and/or our 8% senior subordinated notes instead of applying the net proceeds to repay the term loan under our senior credit facilities. See "Use of proceeds." Under the agreements governing our indebtedness, we are permitted to use all of the net proceeds of this offering to repurchase or redeem our floating rate senior notes or our 8% senior subordinated notes.

(3)

To the extent we change the number of shares of common stock we sell in this offering from the 2,941,200 shares we expect to sell or we change the initial public offering price from the \$17.00 per share assumed initial public offering price, or any combination of these events occurs, our net proceeds from this offering, pro forma term loan balance, pro forma total debt, pro forma additional paid-in capital and pro forma total stockholders equity may increase or decrease. An increase (or decrease) of \$1.00 from the assumed initial public offering price, assuming no change in the number of shares of common stock to be sold and no exercise of the underwriters' over-allotment option, would increase (or decrease) our net proceeds from this offering and our pro forma additional paid-in capital and pro forma total stockholders' equity by approximately \$2.7 million and decrease (or increase) our pro forma term loan balance and pro forma total debt by approximately \$2.7 million. An increase (or decrease) of 1,000,000 shares from the expected number of shares to be sold in the offering by us, assuming no change in the assumed initial public offering price and no exercise of the

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Capitalization

underwriters' over-allotment option, would increase (or decrease) our net proceeds from this offering, our pro forma additional paid-in capital and our pro-forma total stockholders equity by approximately \$15.8 million and decrease (or increase) our pro forma term loan balance and pro forma total debt by approximately \$15.8 million.

(4)

We have the right to redeem up to \$43.75 million aggregate principal amount of our 8% senior subordinated notes with the net cash proceeds of this offering so long as at least \$81.25 million aggregate principal amount of our 8% senior subordinated notes remains outstanding immediately after the redemption and the redemption occurs within 90 days after the closing date of this offering. The redemption price would be equal to 108% of the principal amount of the 8% senior subordinated notes to be redeemed, plus accrued and unpaid interest to the date of redemption. If we were to repurchase, rather than redeem, our 8% senior subordinated notes, we expect that the purchase price would depend on prevailing market prices, negotiated terms or other factors. For a description of the interest rate, maturity, redemption and other material terms of our 8% senior subordinated notes see "Description of certain indebtedness—8% Senior Subordinated Notes of Communications & Power Industries."

(5)

Net of unamortized issue discount of \$756 for actual and \$756 for pro forma. We have the right to redeem our floating rate senior notes in whole or in part for a price equal to 100% plus a premium based on the present value of certain future redemption and interest payments under the floating rate senior notes, plus accrued and unpaid interest to the date of redemption. Based on interest rates in effect as of December 30, 2005, the premium that would apply to such a redemption would be equal to approximately 8%.

In addition, we have the right to redeem up to \$28 million aggregate principal amount of our floating rate senior notes with the net cash proceeds of this offering so long as at least \$52 million aggregate principal amount of the floating rate senior notes remains outstanding immediately after the redemption and the redemption occurs within 90 days after the closing date of this offering. The redemption price would be equal to 100% of the principal amount of the floating rate senior notes to be redeemed, plus a premium equal to the interest rate per annum on the floating rate senior notes applicable on the date on which we give the notice of redemption, plus accrued and unpaid interest to the date of redemption. The interest rate per annum on these notes as of December 30, 2005 was approximately 9.7%. If we were to repurchase, rather than redeem, our floating rate senior notes, we expect that the purchase price would depend on prevailing market prices, negotiated terms or other factors. For a description of the interest rate, maturity, redemption and other material terms of our floating rate senior notes see “Description of certain indebtedness—Floating Rate Senior Notes due 2015 of CPI International.”

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Dilution

If you invest in our common stock, you will experience dilution to the extent of the difference between the public offering price per share you pay in this offering and the pro forma net tangible book value per share of our common stock immediately after this offering.

Our net tangible book value as of December 30, 2005 was negative \$185.1 million, or approximately negative \$14.15 per share of common stock. Net tangible book value per share is equal to our total tangible assets minus total liabilities all divided by the number of shares of common stock outstanding as of December 30, 2005.

After giving effect to the sale of the 2,941,200 shares of common stock we are offering at an assumed initial public offering price of \$17.00 per share, and after deducting underwriting discounts and commissions and our estimated offering expenses, our pro forma as adjusted net tangible book value would have been approximately negative \$140.6 million, or approximately negative \$8.78 per share of common stock. This represents an immediate increase in net tangible book value of approximately \$5.37 per share to existing stockholders and an immediate dilution of approximately \$25.78 per share to new investors. The following table illustrates this calculation on a per share basis:

Assumed initial public offering price per share	\$ 17.00
Net tangible book value per share as of December 30, 2005	\$(14.15)
Increase per share attributable to the offering	5.37
Pro forma as adjusted net tangible book value per share after this offering	(8.78)
Dilution per share to new investors	\$25.78

If the underwriters exercise their over-allotment option in full, pro forma as adjusted net tangible book value would increase to approximately negative \$8.12 per share, representing an increase to existing stockholders of approximately \$6.03 per share, and there would be an immediate dilution of approximately \$25.12 per share to new investors.

An increase (or decrease) in the initial public offering price from the assumed initial public offering price of \$17.00 per share by \$1.00 would increase (or decrease) our pro forma as adjusted net tangible book value after giving effect to this offering by approximately \$2.7 million, our pro forma as adjusted net tangible book value per share after giving effect to this offering by \$0.18 per share and the dilution in net tangible book value per share to new investors in this

offering by \$0.82 per share, after deducting the estimated underwriting discounts and commissions and estimated aggregate offering expenses payable by us and assuming no exercise of the underwriters' over-allotment option and no other change to the number of shares offered by us as set forth on the cover page of this prospectus. An increase of 1,000,000 shares from the expected number of shares to be sold in the offering by us, assuming no change in the initial public offering price per share from the price assumed above, would increase our pro forma as adjusted net tangible book value after giving effect to this offering by approximately \$15.8 million and our pro forma as adjusted net tangible book value per share after giving effect to this offering by \$1.45 per share and would decrease the dilution in net tangible book value per share to new investors in this offering by \$1.45 per share, after deducting the estimated underwriting discounts and commissions and estimated aggregate offering expenses payable by us and assuming no exercise of the underwriters' over-allotment option. A decrease of 1,000,000 shares from the expected number of shares to be sold in the offering by us, assuming no change in the initial public offering price per share from the price assumed above, would decrease our pro forma as adjusted net tangible book value after giving effect to this offering by approximately \$15.8 million and our pro forma as adjusted net tangible book value per share after giving effect to this offering by \$1.63 per share and would increase the dilution in net tangible book value per share to new investors in this offering by \$1.63 per share, after deducting the estimated underwriting discounts and commissions and estimated aggregate offering expenses payable by us and assuming no exercise of the underwriters' over-allotment option.

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Dilution

The following table summarizes, on a pro forma as adjusted basis as of December 30, 2005, after giving effect to this offering, the total number of shares of our common stock purchased from us and the total consideration and average price per share paid to us by existing stockholders and by new investors:

	Shares Purchased		Total Consideration Amount		Average Price Per Share
	Number	%	(in thousands)	Percent	
Existing stockholders ⁽¹⁾	13,078,954	81.6 %	\$ 100,575	66.8 %	\$ 7.69
New investors purchasing stock from us in this offering	2,941,200	18.4	50,000	33.2	\$ 17.00
Total	16,020,154	100.0%	\$ 150,575	100.0%	\$ 9.40

(1) Includes shares offered by existing stockholders in this offering. Total consideration and average price per share for existing stockholders do not reflect the special cash dividends of \$75.8 million, or \$5.80 per share, and \$17.0 million, or \$1.30 per share, paid to existing stockholders in fiscal years 2005 and 2006, respectively.

An increase (or decrease) in the initial public offering price from the assumed initial public offering price of \$17.00 per share by \$1.00 would increase (or decrease) total consideration paid by new investors purchasing stock from us in this offering, total consideration paid by all investors described above and the total average price per share paid to us by all investors by \$2.9 million, \$2.9 million and \$0.18, respectively, assuming no change to the number of shares offered by us as set forth on the cover page of this prospectus and without deducting underwriting discounts and commissions and other expenses of this offering. An increase (or decrease) of 1,000,000 shares from the expected number of shares to be sold in the offering by us, assuming no change in the initial public offering price per share from the price assumed above, would increase (or decrease) total consideration paid by new investors purchasing stock from us in this offering, total consideration paid to us by all investors described above and the total average price per share paid to us by all investors by \$17.0 million, \$17.0 million and \$0.45 (\$0.51), respectively, without

deducting underwriting discounts and commissions and other expenses of this offering.

The tables and calculations above are based on shares outstanding as of December 30, 2005 and exclude:

2,895,432 shares of our common stock issuable upon exercise of options outstanding as of December 30, 2005, at a weighted average exercise price of \$3.13 per share, of which options to purchase 2,188,562 shares were exercisable as of that date; and

2,160,000 shares of our common stock available for future grant under our 2006 Equity and Performance Incentive Plan and future purchase under our 2006 Employee Stock Purchase Plan.

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Selected financial data

In January 2004, CPI International, Inc. acquired the business of Communications & Power Industries Holding Corporation and became the successor to Communications & Power Industries Holding Corporation for financial reporting purposes (see "Management's discussion and analysis of financial condition and results of operations—The Merger").

The selected consolidated financial and other data for CPI International and subsidiaries as of September 30, 2005 and October 1, 2004, and for the year ended September 30, 2005 and for the 36-week period ended October 1, 2004, and of Communications & Power Industries Holding Corporation, our predecessor, and subsidiaries for the 16-week period ended January 22, 2004 and the year ended October 3, 2003, have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated financial and other data for Communications & Power Industries Holding Corporation as of October 3, 2003 and for the fiscal years ended September 28, 2001 and September 27, 2002 and as of the end of each such fiscal years, has been derived from our audited consolidated financial statements not included elsewhere in this prospectus. The audited consolidated financial statements as of the dates and periods noted above have been audited by KPMG LLP, an independent registered public accounting firm.

The selected consolidated financial data as of, and for the quarters ended, December 30, 2005 and December 31, 2004 has been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The unaudited condensed consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements. The results for any interim period are not necessarily indicative of the results that may be expected for a full year.

You should read the following data in conjunction with "Management's discussion and analysis of financial condition and results of operations" and the consolidated financial statements and the related notes included elsewhere in this prospectus.

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Selected financial data

	Year Ended September 28, 2001 (Predecessor)	Year Ended September 27, 2002 (Predecessor)	Year Ended October 3, 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-Week Period Ended October 1, 2004 (Successor)	Year Ended September 30, 2005 (Successor)	Quarter Ended December 31, 2004 (Successor)	Quarter Ended December 2005 (Successor)
	(dollars in thousands, except per share data)						(unaudited)	
Statement of Operations Data:								
Sales	\$272,521	\$251,245	\$265,434	\$79,919	\$202,266	\$320,732	\$73,733	\$82,333
Cost of sales ⁽¹⁾	223,332	192,189	183,957	56,189	141,172	216,031	50,029	57,111
Gross profit	49,189	59,056	81,477	23,730	61,094	104,701	23,704	25,222
Operating costs and expenses:								
Research and development	5,767	5,873	6,860	2,200	5,253	7,218	1,448	1,911
Selling and marketing	17,544	16,073	15,650	4,352	11,082	18,547	4,068	5,022
General and administrative	21,833	19,590	17,847	6,026	12,499	27,883	3,969	7,300
Merger expenses ⁽²⁾	—	—	—	6,374	—	—	—	—
Amortization of acquisition-related intangible assets ⁽²⁾	—	—	—	—	13,498	7,487	4,906	548
Acquired-in-process research and development ⁽²⁾	—	—	—	—	2,500	—	—	—
Net (gain) loss on the disposition of assets	(792)	187	92	7	197	446	56	65
Loss (gain) on sale of Solid State Products Division ⁽³⁾	—	3,004	(136)	—	—	—	—	—
Total operating costs and expenses	44,352	44,727	40,313	18,959	45,029	61,581	14,447	14,880
Operating income	4,837	14,329	41,164	4,771	16,065	43,120	9,257	10,342
Interest expense, net	20,734	16,508	14,540	8,902	10,518	20,310	4,080	6,060
Income tax expense	2,950	4,554	10,076	439	2,899	9,138	2,079	2,080
Net income (loss)	\$(18,847)	\$(6,733)	\$16,548	\$(4,570)	\$2,648	\$13,672	\$3,098	\$2,212
Net income per share ⁽⁴⁾ :								
Basic	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	\$0.20	\$1.05	\$0.24	\$0.17
Diluted	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	\$0.19	\$0.98	\$0.23	\$0.15
Pro forma	—	—	—	—	\$—	\$0.73	\$—	\$0.11

Shares used to
calculate net
income per share:

Basic	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	13,062,753	13,078,954	13,078,954	13,078,954	13,078,954	13,078,954	13,078,954	13,078,954
Diluted	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	13,700,182	13,973,727	13,727,997	13,727,997	13,727,997	13,727,997	13,727,997	13,727,997
Pro forma	—	—	—	—	—	18,628,845	—	—	—	—	—	—
Cash dividend per share ⁽⁶⁾	—	—	—	—	\$—	\$5.80	\$—	\$—	\$—	\$—	\$—	\$1.30
Other Financial Data:												
EBITDA ⁽⁷⁾	\$18,183	\$25,633	\$47,457	\$6,549	\$32,816	\$57,297	\$15,476	\$15,476	\$15,476	\$15,476	\$15,476	\$12,500
EBITDA margin ⁽⁸⁾	6.7 %	10.2 %	17.9 %	8.2 %	16.2 %	17.9 %	21.0 %	21.0 %	21.0 %	21.0 %	21.0 %	15.2 %
Operating income margin ⁽⁹⁾	1.8 %	5.7 %	15.5 %	6.0 %	7.9 %	13.4 %	12.6 %	12.6 %	12.6 %	12.6 %	12.6 %	12.6 %
Net income (loss) margin ⁽¹⁰⁾	(6.9 %) %	(2.7 %) %	6.2 %	(5.7 %) %	1.3 %	4.3 %	4.2 %	4.2 %	4.2 %	4.2 %	4.2 %	2.7 %
Depreciation and amortization ⁽¹¹⁾	\$13,346	\$11,304	\$6,293	\$1,778	\$16,751	\$14,177	\$6,219	\$6,219	\$6,219	\$6,219	\$6,219	\$2,150
Capital expenditures ⁽¹²⁾	5,788	3,378	3,067	459	3,317	17,131	1,194	1,194	1,194	1,194	1,194	2,940
Ratio of earnings to fixed charges ⁽¹³⁾	—	—	2.78x	—	1.51x	2.10x	2.23x	2.23x	2.23x	2.23x	2.23x	1.69x
Net cash provided by operating activities	\$6,513	\$44,020	\$34,482	\$6,574	\$12,203	\$31,349	\$10,233	\$10,233	\$10,233	\$10,233	\$10,233	\$198,000
Balance Sheet Data (at period end):												
Working capital	\$22,048	\$1,101	\$17,241	—	\$72,385	\$65,400	—	—	—	—	—	\$57,300
Total assets	204,067	156,189	181,968	—	\$431,207	454,544	—	—	—	—	—	447,000
Long-term debt and redeemable preferred stock	148,569	128,693	128,907	—	210,606	284,231	—	—	—	—	—	294,000
Total stockholders' (deficit) equity	(57,608)	(73,104)	(65,445)	—	107,594	52,667	—	—	—	—	—	37,700

(1)

Includes charges of \$5,500 for the amortization of inventory write-up incurred during the 36-week period ended October 1, 2004 in connection with our January 2004 merger and \$351 of charges for the amortization of inventory write-up incurred in connection with the Econco acquisition for fiscal year 2005 and the quarter ended December 31, 2004.

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Selected financial data

(2)

As a result of our January 2004 merger, we incurred charges for merger expenses during the 16-week period ended January 22, 2004, and charges for the amortization of intangible assets and a write off of in-process research and development during the 36-week period ended October 1, 2004. In fiscal year 2005, and in the quarter ended December 30, 2005, we incurred charges for the amortization of intangible assets as a result of our January 2004 merger and in connection with the Econco acquisition.

(3)

On September 26, 2002, we sold our Solid State Products Division. The net pretax loss of \$3,004 included approximately \$2,525 for the write-off of goodwill.

(4)

Basic net income per share represents net income divided by weighted average common shares outstanding, and diluted net income per share represents net income divided by weighted average common and common equivalent shares outstanding. Pro forma net income per share represents net income divided by weighted average common and common equivalent shares outstanding and pro forma shares to replace capital withdrawn in excess of earnings.

(5)

Due to the significant change in capital structure at the closing date of our January 2004 merger, the predecessor amount has not been presented because it is not considered comparable to the amount for CPI International.

(6)

In February 2005 and in December 2005 we paid special cash dividends of \$75,809 and \$17,000, respectively, to stockholders of CPI International. Cash dividend per share is calculated by dividing the dollar amount of the dividend by weighted average common shares outstanding. We did not pay cash dividends on the common stock of CPI International or our predecessor, as applicable, in fiscal years 2001, 2002, 2003 or 2004.

(7)

EBITDA represents earnings before provision for income taxes, interest expense, net and depreciation and amortization. For the reasons listed below, we believe that GAAP-based financial information for highly leveraged businesses such as ours should be supplemented by EBITDA so that investors better understand our financial performance in connection with their analysis of our business:

-

EBITDA is a component of the measure used by our board of directors and management team to evaluate our operating performance;

-

our senior credit facilities contain covenants that require us to maintain certain interest expense coverage and leverage ratios that contain EBITDA as a component, and our management team uses EBITDA to monitor compliance with such covenants; see "Management's discussion and analysis of financial condition and results of operations—Liquidity and Capital Resources—Covenant compliance;"

-

EBITDA is a component of the measure used by our management team to make day-to-day operating decisions;

•

EBITDA facilitates comparisons between our operating results and those of competitors with different capital structures and therefore is a component of the measure used by the management to facilitate internal comparisons to competitors' results and our industry in general; and

•

the payment of bonuses to certain members of management is contingent upon, among other things, the satisfaction by us of certain targets that contain EBITDA as a component.

Other companies may define EBITDA differently and, as a result, our measure of EBITDA may not be directly comparable to EBITDA of other companies. Although we use EBITDA as a financial measure to assess the performance of our business, the use of EBITDA is limited because it does not include certain material costs, such as interest and taxes, necessary to operate our business. When analyzing our performance, EBITDA should be considered in addition to, and not as a substitute for, net income (loss), cash flows from operating activities or other statements of operations or statements of cash flows data prepared in accordance with GAAP.

The following table reconciles net (loss) income to EBITDA:

	Fiscal Year 2001 (Predecessor)	Fiscal Year 2002 (Predecessor)	Fiscal Year 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-week Period Ended October 1, 2004 (Successor)	Fiscal Year 2005 (Successor)	Quarter Ended December 31, 2004 (Successor)	Quarter Ended December 30, 2005 (Successor)
	(dollars in thousands)						(unaudited)	
Net (loss) income	\$(18,847)	\$(6,733)	\$ 16,548	\$(4,570)	\$ 2,648	\$ 13,672	\$ 3,098	\$ 2,215
Depreciation and amortization ⁽¹¹⁾	13,346	11,304	6,293	1,778	16,751	14,177	6,219	2,156
Interest expense, net	20,734	16,508	14,540	8,902	10,518	20,310	4,080	6,064
Income tax expense	2,950	4,554	10,076	439	2,899	9,138	2,079	2,080
EBITDA	\$ 18,183	\$ 25,633	\$ 47,457	\$ 6,549	\$ 32,816	\$ 57,297	\$ 15,476	\$ 12,515

(8)

EBITDA margin represents EBITDA divided by sales.

(9)

Operating income margin represents operating income divided by sales.

(10)

Net (loss) income margin represents net (loss) income divided by sales.

(11)

Depreciation and amortization excludes amortization of deferred debt issuance costs, which are included in interest expense, net.

(12)

Includes capital expenditures resulting from the relocation of our San Carlos, California facility to Palo Alto, California and Mountain View, California of \$13.1 million for fiscal year 2005, and \$0.8 million and \$2.2 million for the quarters ended December 31, 2004 and December 30, 2005, respectively.

(13)

For purposes of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations before income taxes and fixed charges less capitalized interest. Fixed charges consist of interest expense, including amortization of debt issuance costs and that portion of rental expenses that management considers to be a reasonable approximation of interest. Earnings were insufficient to cover fixed charges by \$4,131 for the 16-week period ended January 22, 2004, \$2,179 in fiscal year 2002, and \$15,897 in fiscal year 2001.

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Management's discussion and analysis of financial condition and results of operations

The following discussion reflects the consolidated results of our predecessor and its subsidiaries for periods ending prior to January 23, 2004 and for CPI International and its subsidiaries on or subsequent to January 23, 2004, after giving effect to our January 2004 merger. Our fiscal years are the 52- or 53-week periods that end on the Friday nearest September 30. Fiscal year 2005 comprised the 52-week successor period ending September 30, 2005; fiscal year 2004 comprised the 16-week predecessor period ended January 22, 2004 and the 36-week successor period ending October 1, 2004; and fiscal year 2003 comprised the 53-week predecessor period ended October 3, 2003. The first quarter of fiscal year 2005 comprised the 13-week period ended December 31, 2004, and the first quarter of fiscal year 2006 comprised the 13-week period ended December 30, 2005. The following discussion should be read in conjunction with the consolidated financial statements of our predecessor and CPI International, and the notes thereto, included elsewhere in this prospectus.

OVERVIEW

We are a leading provider of microwave and radio frequency products for critical defense, communications, medical, scientific and other applications. Our products include high power microwave amplifiers, satellite communications amplifiers, medical x-ray imaging subsystems, and other related products.

ECONCO ACQUISITION

On October 8, 2004, we purchased all of the outstanding stock of Econco Broadcast Service, Inc. of Woodland, California for cash consideration of approximately \$18.3 million. Econco is a provider of rebuilding service for high power microwave devices, allowing broadcasters and other users of these critical products to extend the life of their devices at a cost that is lower than buying a new device.

THE MERGER

On January 23, 2004, CPI International acquired Communications & Power Industries Holding Corporation, our predecessor, in a merger. At that time, substantially all of the common stock of CPI International was owned by Cypress. The merger did not impact our underlying operations. In connection with the merger, Cypress made a \$100 million capital contribution to CPI International in exchange for the shares of common stock currently owned by Cypress, our predecessor and Communications & Power Industries (which was, at such time, the direct wholly-owned subsidiary of our predecessor) refinanced all of their outstanding indebtedness and Communications & Power Industries redeemed all of its outstanding preferred stock. As a result of the merger, the assets acquired and liabilities assumed were adjusted to reflect fair value, and the excess of the purchase price over the fair value was recorded as goodwill. The revised fair values impacted our results of operations subsequent to the merger and their comparability to the results of operations of the predecessor.

SUMMARY OF ORDERS AND BACKLOG

Orders

Our orders recorded during fiscal year 2005 increased compared to fiscal year 2004, and our orders recorded in the first quarter of fiscal year 2006 were stable as compared to the first quarter of fiscal year 2005. Our customer sales contracts are recorded as orders when we accept written customer purchase orders or contracts. Customer purchase orders with an undefined delivery schedule, or blanket purchase orders, are not reported as orders until the delivery date is determined. Our government sales contracts are not reported as orders until we have been notified that the contract has been funded. Total orders for a fiscal year represent the total dollar amount of customer orders recorded by us during the fiscal year, reduced by the dollar amount of any order cancellations or terminations during the fiscal year. Total orders for a fiscal quarter represent the total dollar amount of customer orders recorded by us during the fiscal quarter, reduced by the dollar amount of any order cancellations or terminations during the fiscal quarter.

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Management's discussion and analysis of financial condition and results of operations

First quarter of fiscal year 2006 compared to first quarter of fiscal year 2005

Our orders by market for the first quarter of fiscal years 2006 and 2005 are summarized as follows (dollars in millions):

	Quarter Ended December 30, 2005			Quarter Ended December 31, 2004			Percentage Increase (Decrease)		
	Amount	Percentage of Total Orders		Amount	Percentage of Total Orders		Amount	Percentage	
Radar	\$36.4	42 %		\$31.4	36 %		\$5.0	16 %	
Electronic Warfare	4.7	5 %		11.1	13 %		(6.4)	(58 %)	
Medical	10.5	12 %		8.1	9 %		2.4	30 %	
Communications	28.8	34 %		28.3	33 %		0.5	2 %	
Industrial	4.7	5 %		5.1	6 %		(0.4)	(8 %)	
Scientific	1.3	2 %		2.2	3 %		(0.9)	(41 %)	
Total orders	\$86.4	100 %		\$86.2	100 %		\$0.2	0 %	

Explanations for the order increase or decrease by market from the first quarter of fiscal year 2005 to the first quarter of fiscal year 2006 are as follows:

Radar. The increase in radar orders was due to both increased order levels and the timing of order receipts for several programs. The increase in order levels includes a \$1.9 million increase for high power microwave devices that are used on the TPQ-37 Firefinder Artillery Locating Radar program.

Electronic Warfare. The decrease in electronic warfare orders was primarily due to the timing of order levels on certain programs that did not repeat in the first quarter of fiscal year 2006. In the first quarter of fiscal year 2005, we recorded a multi-year delivery order of \$3.4 million for the ALQ-187 Electronic Countermeasure System program. While this order is not expected to repeat in the current fiscal year, we are expecting follow-on orders at lower levels for this program.

In the first quarter of fiscal year 2005, we recorded orders totaling \$1.5 million for two different Active Denial development programs. On one of the programs we entered into a \$7 million contract, with additional options of \$4.5 million, for which we recorded orders of \$0.9 million based on the amount of contract funding that we received in the first quarter of fiscal year 2005. Since the first quarter of fiscal year 2005, we have received incremental funding on this program and recorded additional orders of \$1.4 million. Over the next three years, we expect to record additional orders on this program as we complete certain contract milestones and receive additional funding.

Medical. The increase in medical orders was primarily due to the continued growth in orders for x-ray generators, control systems, and power supply products used in x-ray imaging systems, including a \$1.3 million order from an original equipment manufacturer.

Communications. The increase in communications orders was attributable to strength of the direct-to-home broadcast market and a \$2.9 million military order for ground-based satellite uplink stations using our amplifiers that was received in the first quarter of fiscal year 2006, partially offset by a large order in fiscal year 2005 for terrestrial microwave relays that did not repeat in the first quarter of fiscal year 2006.

Industrial. The decrease in industrial orders was primarily attributable to the timing of order receipts. In fiscal year 2005, we received a \$0.5 million order for a multi-year development and prototyping effort for an industrial medical sterilization program that did not recur in fiscal year 2006. However, we are expecting to receive production orders for this program beginning in fiscal year 2007.

Scientific. The decrease in scientific orders was primarily attributable to the timing of two large orders in the first quarter of fiscal year 2005 that did not repeat in the first quarter of fiscal year 2006. Orders in the scientific market, our smallest market, are historically one-time projects and can fluctuate significantly from period to period.

 Management's discussion and analysis of financial condition and results of operations

Fiscal year 2005 compared to fiscal year 2004

Our orders by market for fiscal years 2005 and 2004 are summarized as follows (dollars in millions):

	Fiscal Year 2005		Fiscal Year 2004		Increase (Decrease)	
	Amount	Percentage of Total Orders	Amount	Percentage of Total Orders	Amount	Percentage
Radar	\$109.5	33%	\$102.9	36%	\$6.6	6%
Electronic Warfare	25.9	8%	30.2	11%	(4.3)	(14%)
Medical	52.0	15%	41.0	14%	11.0	27%
Communications	116.8	35%	84.2	29%	32.6	39%
Industrial	21.9	7%	18.5	6%	3.4	18%
Scientific	6.3	2%	10.0	3%	(3.7)	(37%)
Total Orders	\$332.4	100%	\$286.8	100%	\$45.6	16%

Our Econco acquisition represents \$11.8 million of the increase in our orders from fiscal year 2004 to fiscal year 2005, while the remaining \$33.8 million increase was due to growth from existing business. During fiscal year 2005, approximately \$5 million of communications, industrial and medical orders were accelerated by several customers in anticipation of planned manufacturing disruptions due to the relocation of our Eimac division from the San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities. Explanations for the order increase or decrease by market from fiscal year 2004 to fiscal year 2005 are as follows:

Radar. The increase in radar orders was primarily due to the timing of order receipts and orders for Econco products.

Electronic Warfare. The decrease in electronic warfare orders was primarily due to a large order in fiscal year 2004 for a foreign military end customer that did not recur in fiscal year 2005.

Medical. The increase in medical orders was primarily due to the continued strength in orders for high power microwave devices used in radiation therapy for the treatment of cancer and x-ray generator systems and power supply products used in x-ray imaging systems.

Communications. The increase in communications orders was attributable to the strong requirements for satellite communication products for direct-to-home broadcast applications and the international communications market, orders for Econco products, and a large order from an international customer for high power microwave devices that are used for terrestrial microwave communications.

Industrial. The increase in industrial orders was primarily attributable to orders for Econco products, partially offset by lower demand for high power microwave devices for semiconductor equipment companies.

Scientific. The decrease in scientific orders was primarily attributable to the receipt of a \$3.8 million order in fiscal year 2004 for high frequency, high power gyrotrons for fusion research that did not recur in fiscal year 2005. Orders in the scientific market, our smallest market, are historically one-time projects and can fluctuate significantly from period to period.

Incoming order levels fluctuate significantly on a quarterly or annual basis and a particular quarter or year's order rate may not be indicative of future order levels. In addition, our sales are highly dependent upon manufacturing scheduling and performance and, accordingly, it is not possible to accurately predict when orders will be recognized as sales.

Backlog

As of December 30, 2005, we had an order backlog of \$197.1 million compared to an order backlog of \$193.2 million as of December 31, 2004. Backlog represents the cumulative balance, at a given point in time, of recorded customer sales orders that have not yet been shipped or recognized as sales. Backlog is increased when

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Management's discussion and analysis of financial condition and results of operations

an order is received, and backlog is reduced when we recognize sales. We believe backlog and orders information is helpful to investors because this information may be indicative of future sales results. Although backlog consists of firm orders for which goods and services are yet to be provided, customers can, and sometimes do, terminate or modify these orders. However, historically the amount of modifications and terminations has not been material compared to total contract volume.

RESULTS OF OPERATIONS

We derive our revenue primarily from the sale of microwave and radio frequency products, including high power microwave amplifiers, satellite communications amplifiers, medical x-ray imaging subsystems, and other related products. Our products generally have selling prices ranging from \$2,000 to \$100,000, with certain limited products priced up to \$1,000,000.

Cost of goods sold generally includes costs for raw materials, manufacturing costs, including allocation of overhead and other indirect costs, charges for reserves for excess and obsolete inventory, warranty claims and losses on fixed price contracts. Operating expenses generally consist of research and development, selling and marketing and general and administrative expenses.

As a result of purchase accounting charges in connection with our January 2004 merger, our results of operations are based on a different cost basis as compared to the results of operations of Communications & Power Industries Holding Corporation, our predecessor. However, our sales were not impacted by purchase accounting and are on the same basis for both us and our predecessor. In addition, our January 2004 merger did not result in any change in the

management team or in the underlying operations of our predecessor, nor did it result in customer losses, headcount reductions, restructurings, or any other changes to the ongoing business operations.

For purposes of the following discussion and analysis of results of operations, sales discussed below for the 2004 fiscal year represent the unaudited consolidated combined sales of CPI International, Inc. for the 36-week period ended October 1, 2004 and our predecessor, Communications & Power Industries Holding Corporation, for the 16-week period ended January 22, 2004. Although this approach is not consistent with generally accepted accounting principles, we believe this presentation facilitates the ability of our investors to more meaningfully compare our sales for fiscal year 2004 with other fiscal years.

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Management's discussion and analysis of financial condition and results of operations

The following table sets forth our historical results of operations for each of the periods indicated (dollars in thousands):

	Fiscal Year 2005 (Successor)		36-Week Period Ending October 1, 2004 (Successor)		16-Week Period Ending January 22, 2004 (Predecessor)		Fiscal Year 2003 (Predecessor)		Quarter Ended December 30, 2005 (Successor)		Quarter Decemb 2004 (Success
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount
Sales	\$320,732	100.0%	\$202,266	100.0%	\$79,919	100.0%	\$265,434	100.0%	\$82,379	100.0%	\$73,733
Cost of sales ^{(a)(b)}	216,031	67.4	141,172	69.8	56,189	70.3	183,957	69.3	57,171	69.4	50,029
Gross profit	104,701	32.6	61,094	30.2	23,730	29.7	81,477	30.7	25,208	30.6	23,704
Research and development	7,218	2.3	5,253	2.6	2,200	2.8	6,860	2.6	1,910	2.3	1,448
Selling and marketing ^(b)	18,547	5.8	11,082	5.5	4,352	5.4	15,650	5.9	5,024	6.1	4,068
General and administrative ^(b)	27,883	8.7	12,499	6.2	6,026	7.5	17,847	6.8	7,302	8.9	3,969
Merger expenses	—	—	—	—	6,374	8.0	—	—	—	—	—
Amortization of acquisition-related intangible assets	7,487	2.3	13,498	6.7	—	—	—	—	548	0.6	4,906
Acquired in-process research and development	—	—	2,500	1.2	—	—	—	—	—	—	—
Net loss on the disposition of assets	446	0.1	197	0.1	7	—	92	—	65	0.1	56
Gain on sale of Solid State Products Division	—	—	—	—	—	—	(136)	(0.1)	—	—	—
Operating income	43,120	13.4	16,065	7.9	4,771	6.0	41,164	15.5	10,359	12.6	9,257
	20,310	6.3	10,518	5.2	8,902	11.2	14,540	5.5	6,064	7.4	4,080

Interest expense,
net

Income before taxes	22,810	7.1		5,547	2.7		(4,131)	(5.2)	26,624	10.0	4,295	5.2	5,177			
Income tax expense	9,138	2.8		2,899	1.4		439	0.5	10,076	3.8	2,080	2.5	2,079			
Net income (loss)	13,672	4.3	%	2,648	1.3	%	(4,570)	(5.7)%	16,548	6.2	%	2,215	2.7	%	3,098	
Other Data:																
EBITDA ^(c)	\$57,297	17.9	%	\$32,816	16.2	%	\$6,549	8.2	%	\$47,457	17.9	%	\$12,515	15.2	%	\$15,476

(a)

Includes charges of \$5,500 for the amortization of inventory write-up incurred for the 36-week period ended October 1, 2004 in connection with our January 2004 merger and \$351 of charges for the amortization of inventory write-up incurred in fiscal year 2005 and during the quarter ended December 31, 2004 in connection with the Econco acquisition.

(b)

Includes a special bonus expense, described under "—Special Bonus" below, of \$2.7 million for General and administrative, \$0.3 million for Cost of sales and \$0.2 million for Selling and marketing for the quarter ended December 30, 2005.

(c)

EBITDA represents earnings before provision for income taxes, interest expense, net and depreciation and amortization. For the reasons listed below, we believe that GAAP-based financial information for highly leveraged businesses such as ours should be supplemented by EBITDA so that investors better understand our financial performance in connection with their analysis of our business:

-

EBITDA is a component of the measure used by our board of directors and management team to evaluate our operating performance;

-

our senior credit facilities contain covenants that require us to maintain certain interest expense coverage and leverage ratios that contain EBITDA as a component, and our management team uses EBITDA to monitor compliance with such covenants; see "—Liquidity and Capital Resources—Covenant compliance;"

-

EBITDA is a component of the measure used by our management team to make day-to-day operating decisions;

-

EBITDA facilitates comparisons between our operating results and those of competitors with different capital structures and therefore is a component of the measure used by the management to facilitate internal comparisons to competitors' results and our industry in general; and

the payment of bonuses to certain members of management is contingent upon, among other things, the satisfaction by us of certain targets that contain EBITDA as a component.

Other companies may define EBITDA differently and, as a result, our measure of EBITDA may not be directly comparable to EBITDA of other companies. Although we use EBITDA as a financial measure to assess the performance of our business, the use of EBITDA is limited because it does not include certain material costs, such as interest and taxes, necessary to operate our business. When analyzing our performance, EBITDA should be considered in addition to, and not as a substitute for, net income (loss), cash flows from operating activities or other statements of operations or statements of cash flows data prepared in accordance with GAAP. For a reconciliation of net income (loss) to EBITDA, see footnote 7 in "Selected financial data."

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Management's discussion and analysis of financial condition and results of operations

Our January 2004 merger had a significant effect on the successor's balance sheet as a result of the purchase accounting for the merger. However, the purchase accounting adjustments made in connection with the merger did not have a significant impact on the annualized combined results of operations for the predecessor and the successor, with the exception of the following: (a) the amortization of acquisition-related intangible assets and interest expense, both of which are presented as separate line items in the Results of Operations table above and discussed in our year-to-year comparisons below, (b) the impact of amortization of inventory write-up on cost of sales, which is disclosed as a footnote in the Results of Operations table above and discussed in our year-to-year analysis of gross profit below, and (c) additional depreciation expense from the revaluation of our property, plant and equipment which is discussed in our year-to-year analysis of gross profit below. Sales and other operating expenses were not materially impacted by the merger, as the merger did not result in customer losses, headcount reductions, restructurings, or other changes in the ongoing business of our predecessor.

For a presentation of financial data for the 16-week period ended January 22, 2004 and the successor financial data for 36-week period ended October 1, 2004, see "Selected Financial Data."

First quarter of fiscal year 2006 compared to first quarter of fiscal year 2005

Sales. The following table compares total sales by market for the first quarter of fiscal years 2006 and 2005 (dollars in millions):

	Quarter Ended December 30, 2005			Quarter Ended December 31, 2004			Percentage Increase (Decrease)		
	Amount	Percentage of Total Orders		Amount	Percentage of Total Orders		Amount	Percentage	
Radar	\$27.6	33 %		\$27.0	37 %		\$0.6	2 %	
Electronic Warfare	5.8	7 %		5.9	8 %		(0.1)	(2 %)	
Medical	13.2	16 %		11.8	16 %		1.4	12 %	
Communications	30.1	37 %		21.1	29 %		9.0	43 %	
Industrial	4.4	5 %		5.4	7 %		(1.0)	(19 %)	
Scientific	1.3	2 %		2.5	3 %		(1.2)	(48 %)	

Total sales \$82.4 100 % \$73.7 100 % \$8.7 12 %

Sales for the first quarter of fiscal year 2006 of \$82.4 million were \$8.7 million, or 12%, higher than the comparable period of fiscal year 2005. The sales increase was primarily related to increases in the communications and medical markets. The communications sales increase was due to increased shipments of amplifiers for direct-to-home broadcast and other satellite communication applications. The medical market increase was due to increased shipments of x-ray generators for diagnostic imaging. All other sales increases or decreases by market were primarily due to the timing of product shipments based on sales order commitments and manufacturing scheduling.

Our sales during the first quarter of fiscal year 2006 were negatively impacted by manufacturing disruptions due to the relocation of our Eimac division from our San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities. These disruptions stem from the decommissioning of our custom production equipment in San Carlos and the required configuration, installation and testing of this equipment prior to production readiness in Palo Alto. These disruptions had an approximately \$3 million negative impact on the sales for our Eimac division in the first quarter of fiscal year 2006, as we were required to reschedule certain shipments, primarily to the communications and industrial markets, to the second half of fiscal year 2006. During the second quarter of fiscal year 2006, we expect sales will be negatively impacted by approximately \$4 million due to the required rescheduling of shipments to the second half of fiscal year 2006. We expect our Eimac division to complete the relocation and be back to full production by the end of the third quarter of fiscal year 2006, and expect that sales in the third and fourth quarter of fiscal year 2006 will be positively impacted as we deliver the rescheduled shipments.

Gross Profit. Gross profit of \$25.2 million, or 30.6% of sales, for the first quarter of fiscal year 2006 was \$1.5 million higher than the prior year's level of \$23.7 million, or 32.2% of sales. The increase in gross profit was primarily due to higher sales volume in the first quarter of fiscal year 2006, offset by \$0.8 million of

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expenses associated with the relocation of our Eimac division from the San Carlos, California facility to our Palo Alto, California and Mountain View, California, facilities, \$0.3 million of special bonus expenses (see "—Special Bonus" below) and \$0.7 million of unfavorable overhead cost variances at our Eimac division. We expect expenses associated with the relocation to be approximately \$1.0 million for the second quarter of fiscal year 2006 and approximately \$0.6 million for the third quarter of fiscal year 2006. The unfavorable overhead cost variances at our Eimac division resulted from having similar overhead cost structures in the first quarter of fiscal years 2005 and 2006, which when combined with approximately 25% lower sales volume for that division resulted in lower inventory cost absorption in the first quarter of fiscal year 2006. We expect overhead cost variances in the second quarter of fiscal year 2006 to be approximately the same as for the first quarter of fiscal year 2006. The lower sales volume in the first quarter of fiscal year 2006 is due to manufacturing disruptions caused by the relocation of our Eimac division to our Palo Alto, California and Mountain View, California facilities. We expect that these manufacturing disruptions will continue in the second quarter of fiscal year 2006. After completion of the relocation, which we expect will occur in the second half of fiscal year 2006, we expect to realize operational savings from the consolidation of production facilities in Palo Alto, California and Mountain View, California, which we believe will improve our gross profit percentage.

Research and Development. Research and development expenses of \$1.9 million, or 2.3% of sales, for the first quarter of fiscal year 2006 was \$0.5 million higher than the first quarter of fiscal year 2005. The increase in research and development expense was due to additional engineering efforts on research and development projects in the first quarter of fiscal year 2006 compared to the first quarter of fiscal year 2005, in which a larger portion of engineering efforts were spent on customer-funded development contracts, which costs are classified as cost of sales. Total

spending on research and development, including company-sponsored amounts charged to research and development, and customer-sponsored amounts charged to cost of sales, increased from \$2.9 million, or 3.9% of sales, in the first quarter of fiscal year 2005 to \$3.6 million, or 4.4% of sales, in the first quarter of fiscal year 2006.

Selling and Marketing. Selling and marketing expenses of \$5.0 million, or 6.1% of sales, for the first quarter of fiscal year 2006 increased from \$4.1 million, or 5.6% of sales, for the first quarter of fiscal year 2005. The increase in selling and marketing expenses in the first quarter of fiscal year 2006 was primarily due to additional selling costs to support the increase in sales volume in the first quarter of fiscal year 2006 and \$0.2 million for the special bonus, described below.

General and Administrative. General and administrative expenses of \$7.3 million, or 8.9% of sales, for the first quarter of the fiscal year 2006 were \$3.3 million higher than the \$4.0 million, or 5.4% of sales, for the first quarter of fiscal year 2005. The first quarter of fiscal year 2006 included \$2.7 million for the special bonus described below. In addition, the first quarter of fiscal year 2006 included \$0.3 for expenses incurred in connection with the relocation of our San Carlos, California facility to our Palo Alto, California and Mountain View, California, facilities, compared to \$0.1 million in the first quarter of fiscal year 2005.

Special Bonus. On December 15, 2005, our board of directors approved the payment of \$3.25 million in bonuses to our employees and directors (other than directors who are employees or affiliates of Cypress) to reward them for the increase in company value. The special bonus was not paid pursuant to our management incentive plan, our 2006 Equity and Performance Incentive Plan or any of our other formal compensation plans. The bonus amount was not determined based on a formula, but was instead an amount determined by our board of directors to be reasonable compensation for the increase in company value. The special bonus was charged to the Condensed Consolidated Statement of Operations and Comprehensive Income in the same lines as cash compensation paid to the same employees and directors, as follows: \$2.7 million to General and administrative, \$0.3 million to Cost of sales, and \$0.2 million to Selling and marketing.

Amortization of Acquisition-Related Intangibles. Amortization of acquisition-related intangibles of \$0.5 million for the first quarter of the fiscal year 2006 was \$4.4 million lower than the first quarter of fiscal year 2005. Amortization of acquisition-related intangibles consists of purchase accounting charges, primarily for customer backlog and other intangible assets. The first quarter of fiscal year 2005 included \$4.4 million for the amortization of customer backlog, which was fully amortized in January 2005. Acquisition-related intangible assets will continue to be amortized over periods of up to 50 years.

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Interest Expense, net. Interest expense, net of \$6.1 million, or 7.4% of sales, for the first quarter of fiscal year 2006 was \$2.0 million higher than the \$4.1 million, or 5.6% of sales, for the first quarter of fiscal year 2005. The increase in interest expense in the first quarter of fiscal year 2006 was primarily due to additional interest expense for our floating rate senior notes issued on February 22, 2005.

Income Tax Expense. We recorded income tax expense of \$2.1 million for the first quarter of fiscal years 2006 and 2005. The effective tax rates were approximately 48% and 40% for the first quarter of fiscal years 2006 and 2005, respectively. Income tax expense for the first quarter of fiscal year 2006 includes a \$315,000 charge attributable to the fourth quarter of fiscal year 2005, consisting of \$505,000 to correct the overstatement of tax benefits recorded in the fourth quarter of fiscal year 2005 for stock-based compensation expense that is not deductible for income tax purposes in a foreign tax jurisdiction, offset by reversal of a \$190,000 tax contingency reserve that is no longer

considered necessary. Without these corrections, our effective tax rate for the first quarter of fiscal year 2006 would have been 41%.

Net Income. Net income of \$2.2 million for the first quarter of fiscal year 2006 was \$0.9 million lower than the first quarter of fiscal year 2005 primarily due to the special bonus expense of \$3.25 million, higher expenses in the first quarter of fiscal year 2006 related to the relocation of our San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities, unfavorable overhead cost variances at our Eimac division and higher interest expense, partially offset by lower amortization of acquisition-related intangibles and higher gross profit due to higher sales in the first quarter of fiscal year 2006.

We expect that net income during our second quarter of fiscal year 2006 as compared to the corresponding quarter of fiscal year 2005, and to a lesser degree the third quarter of fiscal year 2006 as compared to the corresponding quarter of fiscal year 2005, will be negatively impacted by lower expected sales at our Eimac division in fiscal year 2006 due to manufacturing disruptions caused by the relocation of our Eimac operations, combined with higher than normal sales in the comparable periods in fiscal year 2005 due to accelerated shipments in advance of the relocation.

EBITDA. EBITDA for the first quarter of fiscal year 2006 was \$12.5 million, a decrease of \$3.0 million compared to \$15.5 million for the first quarter of fiscal year 2005. The decrease in EBITDA from the first quarter of fiscal year 2005 to the first quarter of fiscal year 2006 resulted primarily from the \$3.25 million special bonus expense in the first quarter of fiscal year 2006, \$1.0 million higher expenses in the first quarter of fiscal year 2006 related to the relocation of our San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities and unfavorable overhead cost variances of \$0.7 million at our Eimac division, partially offset by higher gross profit due to higher sales in the first quarter of fiscal year 2006.

We expect that EBITDA during our second quarter of fiscal year 2006 as compared to the corresponding quarter of fiscal year 2005, and to a lesser degree the third quarter of fiscal year 2006 as compared to the corresponding quarter of fiscal year 2005, will be negatively impacted by lower expected sales at our Eimac division in fiscal year 2006 due to manufacturing disruptions caused by the relocation of our Eimac operations, combined with higher than normal sales in fiscal year 2005 due to accelerated shipments in advance of the relocation.

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Our results for fiscal year 2005 compared to our results for the 36-week period ended October 1, 2004 and the results of our predecessor for the 16-week period ended January 22, 2004

Sales. The following table compares total sales by market for fiscal years 2005 and 2004 (dollars in millions):

	Fiscal Year 2005		Fiscal Year 2004		Increase (Decrease)	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
		of Total		of Total		
		Sales		Sales		
Radar	\$109.4	34%	\$112.1	40%	\$(2.7)	(2%)
Electronic Warfare	27.7	9%	23.8	8%	3.9	16%
Medical	50.7	16%	41.6	15%	9.1	22%
Communications	101.4	31%	74.8	27%	26.6	36%
Industrial	23.1	7%	20.2	7%	2.9	14%
Scientific	8.4	3%	9.7	3%	(1.3)	(13%)

Total Sales	\$320.7	100%	\$282.2	100%	\$38.5	14%
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Total sales for fiscal year 2005 of \$320.7 million were \$38.5 million, or 14%, higher than fiscal year 2004 sales of \$282.2 million. Fiscal year 2004 sales include predecessor sales of \$79.9 million for the 16-week period ended January 22, 2004 and successor sales of \$202.3 million for the 36-week period ended October 1, 2004. The Econco acquisition represents \$12.2 million of the sales increase in fiscal year 2005, while the remaining increase of \$26.3 million was due to growth from our existing business. During fiscal year 2005, approximately \$5 million of communications, industrial and medical sales were accelerated by several customers in anticipation of planned manufacturing disruptions due to the relocation of our Eimac division from the San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities.

Radar. Sales in the radar market of \$109.4 million for fiscal year 2005 were \$2.7 million, or 2%, less than fiscal year 2004 sales of \$112.1 million in this market. Econco represented \$2.1 million of fiscal year 2005 sales in the radar market. Our sales in the radar market have grown since 2002 due primarily to the U.S. Department of Defense's (DoD) emphasis on addressing terrorism and homeland security, which has had a favorable impact on radar systems, including new system development and upgrade and replenishment programs, and increased demand for spare and replacement products. This growth stabilized in fiscal years 2004 and 2005. We believe the small decrease in our sales in fiscal year 2005 resulted from our customers having built up additional inventories of spare parts in prior years. We expect radar market sales will be stable over the foreseeable future.

Electronic Warfare. Sales in the electronic warfare market of \$27.7 million for fiscal year 2005 were \$3.9 million, or 16%, higher than fiscal year 2004 sales of \$23.8 million in this market. Our sales in the electronic warfare market have grown since 2002 due primarily to the DoD's increased emphasis on protection of valuable military assets, resulting in the continuing funding of new, upgrade and replenishment programs in the electronic warfare market. We expect the electronic warfare market to continue to grow as the military continues to place emphasis on protection of personnel and assets and increases its use of devices and subsystems for high power microwave applications, including systems to disable and destroy road-side bombs and other improvised explosive devices (IEDs) and Active Denial systems.

Medical. Sales in the medical market of \$50.7 million for fiscal year 2005 were \$9.1 million, or 22%, higher than fiscal year 2004 sales of \$41.6 million in this market. Our sales in the medical market have shown steady growth in the past three years, averaging 20% growth per year. Our sales grew in the diagnostic x-ray imaging part of the medical market as a result of:

worldwide growth in demand for diagnostic x-ray imaging products;

the addition to our product portfolio of new lower-cost products with fewer features;

the addition to our product portfolio of new high-end products with additional features; and

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the outsourcing by certain major x-ray system original equipment manufacturers of a portion of their manufacturing to us.

In the radiation therapy part of the medical market we have been, and expect to continue to be, the sole supplier of high power microwave devices to Varian Medical System Inc.'s high energy radiation therapy machines. Our annual growth in this portion of the market in the past three years has averaged in excess of 15%, driven largely by growth in demand from Varian Medical Systems.

Communications. After several years of declining sales attributable to the global communications industry downturn, our fiscal year 2005 sales in the communications market of \$101.4 million were \$26.6 million, or 36%, higher than fiscal year 2004 sales of \$74.8 million in this market. Econco represented \$4.4 million of fiscal year 2005 sales in the communications market. The majority of our communications products are sold into the satellite communications market where we experienced a decrease in sales in the three fiscal years prior to fiscal year 2004. We believe this decrease was due, in part, to the large overcapacity that was built up in the late 1990s in anticipation of the need for a rapid expansion of telecommunications infrastructure to support overly-optimistic forecasts for growth of the internet. As of fiscal year 2005, this overcapacity has subsided, as demand from both military and commercial customers has increased, with a resulting increase in utilization of satellite communication systems and a resulting increase in demand for our satellite amplifiers and products. In fiscal year 2005 we saw an increase in demand for all of our satellite communication products, and in particular, products used by direct-to-home television providers, which are continuing to add capacity as they introduce service into new geographic markets and add new services such as high-definition television and satellite access to the internet. We expect continued growth in this market into fiscal year 2006 as infrastructure for commercial satellite applications continues to be added, and as we introduce more products directed at the military communications market. The U.S. military has made increasing use of commercially available satellite communications capacity as its needs have grown and exceeded the capacity of the dedicated communications systems traditionally used by defense forces.

Industrial. The \$2.9 million, or 14%, increase in sales for fiscal year 2005 was due to the addition of Econco industrial sales of \$5.6 million, offset primarily by decreases of \$2.7 million from the semiconductor market. Sales in the industrial market have generally fluctuated because of the volatile demand in the semiconductor equipment market.

Scientific. Sales in the scientific market of \$8.4 million for fiscal year 2005 were \$1.3 million, or 13%, lower than fiscal year 2004 sales of \$9.7 million in this market. Sales in the scientific market, our smallest market, are historically for one-time projects and can fluctuate significantly from period to period.

Gross Profit. Gross profit was \$104.7 million, or 32.6% of sales, for fiscal year 2005, \$23.7 million, or 29.7% of sales, for the 16-week period ended January 22, 2004 and \$61.1 million, or 30.2% of sales, for the 36-week period ended October 1, 2004. The increase in gross profit as a percentage of sales in fiscal year 2005 was primarily due to higher sales volume in fiscal year 2005 and purchase accounting charges related to our January 2004 merger of \$5.5 million for amortization of acquisition-related inventory write-up for the 36-week period ended October 1, 2004. Cost of sales for fiscal year 2005 includes \$0.8 million of expenses associated with the relocation of our San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities.

The majority of our depreciation expense is charged to cost of sales, impacting gross margins. At the time of our January 2004 merger, we revalued our property, plant and equipment based on fair value as required by purchase accounting, which increased our cost basis in these assets compared to the predecessor's cost basis. At the same time, we increased the useful lives of these assets to match their expected lives. The net effect of the change in estimates of valuation and useful lives was an increase in annual depreciation expense of approximately \$1.0 million in fiscal year 2005 and \$0.8 million for the 36-week period ended October 1, 2004.

Research and Development. Research and development expenses were \$7.2 million, or 2.3% of sales, in fiscal year 2005, \$2.2 million, or 2.8% of sales, for the 16-week period ended January 22, 2004 and \$5.3 million, or 2.6% of sales, for the 36-week period ended October 1, 2004. The decrease in research and development expenses as a percentage of sales in fiscal year 2005 was due primarily to more development engineering costs

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being charged to customer-sponsored research and development, which increased sales and cost of sales. Total spending on research and development of \$13.1 million in fiscal year 2005, which includes company-sponsored amounts charged to research and development, and customer-sponsored amounts charged to cost of sales, is higher than the prior year's spending of \$3.3 million for the 16-week period ended January 22, 2004 and \$7.6 million for the 36-week period ended October 1, 2004. We expect total expenditures on research and development (including customer-sponsored expenditures) will remain consistent with historical levels as a percentage of sales.

Selling and Marketing. Selling and marketing expenses were \$18.5 million, or 5.8% of sales, for fiscal year 2005, \$4.4 million, or 5.4% of sales, for the 16-week period ended January 22, 2004 and \$11.1 million, or 5.5% of sales, for the 36-week period ended October 1, 2004. The increase in selling and marketing expenses as a percentage of sales in fiscal year 2005 was primarily due to additional selling costs to support the increase in sales volume. Incremental selling and marketing expenses for the Econco operation in fiscal year 2005 were \$1.1 million.

General and Administrative. General and administrative expenses were \$27.9 million, or 8.7% of sales, for fiscal year 2005, \$6.0 million, or 7.5% of sales, for the 16-week period ended January 22, 2004 and \$12.5 million, or 6.2% of sales for the 36-week period ended October 1, 2004. During fiscal year 2005, we incurred stock-based compensation expense of \$7.0 million, incremental costs for the Econco operation of \$1.1 million, and moving costs of \$1.0 million associated with the relocation of our San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities.

Fiscal year 2005 includes \$7.0 million of stock-based compensation expense for performance stock options and the 16-week period ended January 22, 2004 includes \$1.3 million of stock-based compensation expense for stock options issued at a value that was subsequently determined to be less than fair value. In September 2005, the Compensation Committee of our Board of Directors approved the acceleration of vesting of all outstanding performance options. The purpose of the acceleration was to reward management for its performance. Fiscal year 2005 stock-based compensation expense includes \$2.8 million from the acceleration of vesting of performance stock options that were expected to vest in fiscal years 2006, 2007 and 2008 assuming that the performance criteria would have been achieved.

We expect general and administrative expenses to increase after we become a public company by approximately \$1.2 million to \$1.7 million, due to higher directors and officers insurance premiums, higher legal and accounting expenses and other expenses associated with being a public company.

Merger Expenses. Merger expenses of \$6.4 million for the 16-week period ended January 22, 2004 were primarily made up of investment banking fees, legal expenses, transaction bonuses, and transaction fees paid pursuant to the management services agreement with Leonard Green & Partners, L.P., an affiliate of the former holder of substantially all of the common stock of our predecessor.

Amortization of Acquisition-Related Intangibles. Amortization of acquisition-related intangibles of \$7.5 million for fiscal year 2005 was \$6.0 million lower than for the 36-week period ended October 1, 2004. Amortization of acquisition-related intangibles consists of purchase accounting charges, primarily for customer backlog and other intangible assets. Customer backlog was fully amortized in January 2005 while the other acquisition-related intangible assets will continue to be amortized over periods of up to 50 years. Fiscal year 2006 expenses for amortization of acquisition-related intangibles are expected to be \$2.2 million.

Acquired In-Process Research and Development. Acquired in-process research and development expense of \$2.5 million for the 36-week period ended October 1, 2004 represents the estimated fair value of acquired in-process research and development projects that had not yet reached technological feasibility and had no alternative future use as of the closing date of our January 2004 merger.

Interest Expense, net. Interest expense, net for fiscal year 2005, the 36-week period ended October 1, 2004 and the 16-week period ended January 22, 2004 was as follows (dollars in millions):

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	Fiscal year 2005	36-Week Period Ended October 1, 2004	16-Week Period Ended January 22, 2004
Merger-related interest expense	\$—	—	\$ 4.6
Floating rate senior notes interest expense	4.6	—	—
Other interest expense, net	15.7	\$ 10.5	4.3
Total interest expense, net	\$20.3	\$ 10.5	\$ 8.9

Merger-related interest expense for the 16-week period ended January 22, 2004 was associated with the early redemption of the predecessor's 12% senior subordinated notes and the write-off of capitalized debt issue costs related to the predecessor's outstanding debt at the time of our merger. Our floating rate senior notes were issued in February 2005, and the \$4.6 million of interest expense for fiscal year 2005 represents approximately 7 months of interest. Fiscal year 2006 interest expense for our floating rate senior notes is expected to be approximately \$8.1 million. Other interest expense increased due primarily to increases in interest rates on the variable rate term loan under our senior credit facilities.

As we intend to use the net proceeds of this offering to redeem, retire or repay a portion of our existing debt, we expect that interest expense will decrease accordingly. See "—Liquidity and Capital Resources—Effect of this offering and related transactions on results of operations, liquidity and capital resources; impact of future acquisitions."

Income Tax Expense. We recorded income tax expense of \$9.1 million for fiscal year 2005, \$0.4 million for the 16-week period ended January 22, 2004 and \$2.9 million for the 36-week period ended October 1, 2004. The effective income tax rates were 40% for fiscal year 2005, negative 11% for the 16-week period ended January 22, 2004 and 52% for the 36-week period ended October 1, 2004. The increase in income tax expense in fiscal year 2005 is primarily due to higher taxable income. The lower effective income tax rate for the 16-week period ended January 22, 2004 was due to a tax benefit from the pretax loss offset by an increase in valuation allowance. The higher effective income tax rate for the 36-week period ended October 1, 2004 was due to non-deductible acquired in-process research and development and other purchase accounting charges related to our January 2004 merger.

Net Income (Loss). We recorded net income of \$13.7 million for fiscal year 2005, net loss of \$4.6 million for the 16-week period ended January 22, 2004 and net income of \$2.6 million for the 36-week period ended October 1, 2004. Higher net income for fiscal year 2005 is primarily due to higher gross profit due to increased sales volume and lower amortization of acquisition-related intangible assets in fiscal year 2005, partially offset by higher income tax expense and stock-based compensation expense in fiscal year 2005. In addition, there were no merger expenses in fiscal year 2005.

EBITDA. EBITDA was \$57.3 million, or 17.9% of sales, for fiscal year 2005, \$6.5 million, or 8.2% of sales, for the 16-week period ended January 22, 2004 and \$32.8 million, or 16.2% of sales, for the 36-week period ended October 1, 2004. The increase in EBITDA as a percentage of sales for fiscal year 2005 resulted primarily from higher gross profit from higher sales volume in fiscal year 2005, merger expenses for the 16-week period ended January 22, 2004 that did not recur in fiscal year 2005, and the write-off of acquired in-process research and development for the 36-week period ended October 1, 2004 that did not recur in fiscal year 2005.

Calculation of Management Bonuses. Management bonuses were \$3.9 million in fiscal year 2005 compared to \$3.2 million in fiscal year 2004. For fiscal year 2004, management bonuses were calculated taking into account the combined operating results of the 16-week predecessor period ended January 22, 2004 and the 36-week successor period ended October 1, 2004. Management bonuses for fiscal years 2005 and 2004 were calculated pursuant to our management incentive plan and were based on three factors: (1) EBITDA as adjusted for purposes of calculating management bonuses; (2) a measure of cash generated by operations; and (3) individual goals that were customized for each participating member of management. The weight given to each of these factors varied for each person. Generally, for our officers, equal weight was given to the first two factors, and the third factor was not applicable. For our other members of management, equal weight was given to each of the three factors described above. Management bonuses for fiscal years 2005 and 2004 were not based on

profitability as measured by net income and therefore the management bonus for fiscal year 2004 was payable even though we had a \$4.6 million net loss for the 16-week period ended January 22, 2004. Management bonuses for fiscal years 2005 and 2004 were paid in cash. EBITDA as adjusted for purposes of calculating management bonuses is equal to EBITDA for the fiscal year adjusted to exclude the impact of certain non-recurring or non-cash charges as determined in our management incentive plan for the fiscal year. EBITDA for purposes of calculating management bonuses for fiscal year 2005 was \$66.4 million compared to \$55.0 million in fiscal year 2004. For each of these fiscal years the non-recurring or non-cash charges that were excluded are the same as the items described in footnote 5 in "Summary financial data." We are presenting EBITDA as adjusted for purposes of calculating management bonuses here to help investors understand how our management bonuses were calculated, and not as a measure to be used by investors to evaluate our operating results or liquidity.

Our results for the 36-week period ended October 1, 2004 and the results of our predecessor for the 16-week period ended January 22, 2004 compared to the results of our predecessor for fiscal year 2003

Sales. The following table compares total sales by market for fiscal years 2004 and 2003 (dollars in millions):