CPI INTERNATIONAL, INC.
Form 10-K
December 12, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

(Mark One)

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

For the fiscal year ended September 28, 2007

OR

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

For the transition period from to
Commission file number: 000-51928

CPI International, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**75-3142681** (I.R.S. Employer Identification No.)
811 Hansen Way **Palo Alto, California 94303** (Address of Principal Executive Offices and Zip Code)	**(650) 846-2900** (Registrant's telephone number, including area code)

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

Title of each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer ý Non-Accelerated Filer o

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

The aggregate market value of common stock held by non-affiliates of the registrant as of March 30, 2007 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $141 million, based on the closing sale price of $19.22 per share of common stock as reported on the Nasdaq Stock Market.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 16,382,656 shares of the registrant's common stock, par value $0.01 per share, were outstanding at November 29, 2007.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive 2008 proxy statement, anticipated to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

CPI INTERNATIONAL, INC.

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Cautionary Statements Regarding Forward-Looking Statements

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

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

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

PART I

Item 1. Business

Background

We are a provider of microwave and radio frequency ("RF"), power and control products for critical defense, communications, medical, scientific and other applications. We develop, manufacture and distribute products used to generate, amplify and transmit high-power/high-frequency microwave and RF signals and/or provide power and control for various applications.

Approximately half of our product sales for fiscal year 2007 were for U.S. and foreign government and military end use, particularly for radar and electronic warfare applications. We are one of three companies in the U.S. that have the facilities and expertise to produce a broad range of high-power microwave products to the demanding specifications required for advanced military applications. Our products are critical elements of high-priority U.S. and foreign military programs and platforms, including numerous planes, ships and ground-based platforms. Defense applications of our products include transmitting and receiving radar signals for locating and tracking threats, weapons guidance and navigation, as well as transmitting decoy and jamming signals for electronic warfare and transmitting signals for satellite communications. The U.S. Government is our only customer that accounted for more than 10% of our sales in the last three fiscal years.

In addition to our strong presence in defense applications, we have successfully applied our key technologies to commercial end markets, including communications, medical, industrial and scientific applications, which provides us with a diversified base of sales. Approximately half of our product sales for fiscal year 2007 were for commercial applications.

We continue to develop higher-power, wider-bandwidth and higher-frequency microwave products that enable significant technological advances for our defense and commercial customers. In fiscal year 2007, we generated approximately 60% of our total sales from products for which we believe that we are the sole provider to our customers, enhancing our reputation and the stability of our business.

Many of our products "wear out," having average lives of between three and seven years, and require replacement after that time. We estimate that approximately 47% of our total sales for fiscal year 2007 were generated from recurring sales of replacements, spares and repairs, including upgraded replacements for existing products, providing us with a stable, predictable business that is partially insulated from dramatic shifts in market conditions. We regularly work with our customers to create upgraded products with enhanced bandwidth, power and reliability. We estimate that our products are installed in over 125 U.S. defense systems in addition to over 180 commercial systems. This installed base and our sole-provider positioning on high-profile U.S. military and commercial programs provide us with a reputation and market visibility that we believe will help us generate profitable future sales growth.

In 1948, Russell and Sigurd Varian, the historical founders of our business and the inventors of the klystron, founded Varian Associates, Inc. and introduced the klystron as their first commercial product. The klystron is still a foundation of modern high-power microwave applications and makes possible the generation, amplification and transmission of high-fidelity electronic signals at high-power levels and high frequencies. Varian Associates' first products became the progenitors of our current product lines. Over time, Varian Associates, through internal development and acquisition, developed new devices and new uses for its products, including applications for the radar, electronic warfare, communications, medical, industrial and scientific markets.

In 1995, a private equity fund, together with members of management, purchased the electron device business from Varian Associates and formed Communications & Power Industries Holding Corporation, our predecessor, which was the parent company of Communications and Power

Industries, Inc. 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 ("Cypress"). In January 2004, CPI Acquisition Corp. acquired the predecessor in a merger and changed its name from CPI Acquisition Corp. to CPI Holdco, Inc. In January 2006, CPI Holdco, Inc. changed its name to CPI International, Inc. On May 3, 2006, we completed the initial public offering of the common stock of CPI International.

Unless otherwise noted or dictated by context, (1) "CPI International" or "successor" means CPI International, Inc., (2) "predecessor" means Communications & Power Industries Holding Corporation, the predecessor to CPI International, (3) "Communications & Power Industries" means Communications & Power Industries, Inc., the direct, wholly owned operating subsidiary of CPI International and (4) "merger" or the "January 2004 merger" means the January 23, 2004 merger pursuant to which CPI International acquired the predecessor. The terms "we," "us," and "our" refer to CPI International and its direct and indirect subsidiaries on a consolidated basis after the merger, or to the predecessor and its direct and indirect subsidiaries on a consolidated basis prior to the merger, as applicable.

We are organized into six operating divisions: Microwave Power Products Division (Palo Alto, California), Beverly Microwave Division (Beverly, Massachusetts), Satcom Division and Communications & Medical Products Division (both in Ontario, Canada), Econco Division (Woodland, California) and Malibu Division (Camarillo, California). In fiscal year 2006, we moved the operations of our Eimac business ("Eimac"), which was formerly a separate division, from San Carlos, California into our facility in nearby Palo Alto, California, and integrated those operations into our Microwave Power Products Division in order to realize increased efficiencies and achieve additional cost savings.

In August 2007, we purchased all outstanding common stock of Malibu Research Associates, Inc. ("Malibu"), a privately held company, in order to expand our product offering to both new and existing customers in the radar, electronic warfare and communications markets, and as a result of this acquisition, we formed the Malibu Division.

Markets

We develop, manufacture and distribute products used to generate, amplify and transmit high-power/high-frequency microwave and RF signals and/or provide power and control for various applications in defense and commercial markets. We serve six end markets: the radar, electronic warfare, communications, medical, industrial and scientific markets. Certain of our products are sold in more than one end market depending on the specific power and frequency requirements of the application and the physical operating conditions of the end product. End-use applications of these systems include:

- the transmission of radar signals for navigation and location;
- the transmission of deception signals for electronic countermeasures;
- the transmission and amplification of voice, data and video signals for broadcasting, data links, Internet and other types of commercial and military communications;
- providing power and control for medical diagnostic imaging;
- generating microwave energy for radiation therapy in the treatment of cancer; and
- generating microwave energy for various industrial and scientific applications.

Our end markets are described below.

Radar Market

We supply products used in various types of military radar systems, including search, fire control, tracking and weather radar systems. In radar systems, our products are used to generate or amplify electromagnetic energy pulses, which are transmitted via the radar system's antenna through the air until they strike a target. The return "echo" is read and analyzed by the receiving portion of the radar system, which then enables the user to locate and identify the target. Our products have been an integral element of radar systems for over five decades. Our sales in the radar market were $120.3 million, $119.9 million and $109.4 million in fiscal years 2007, 2006 and 2005, respectively. We believe that, on average, well over 50% of our sales in the radar market are generated from recurring sales of replacements, spares and repairs, including upgraded replacements for existing products.

Our radar products include microwave and power grid sources, microwave amplifiers, receiver protectors, multifunction integrated microwave assemblies, as well as complete transmitter subsystems consisting of the microwave amplifier, power supply and control system. With our acquisition of Malibu, our product offering in the radar market has expanded to include advanced antenna systems for radar and radar simulators. Our products are used in airborne, unmanned aerial vehicles ("UAVs"), ground and shipboard radar systems. We believe that we are a leading provider of power grid and microwave power sources for government radar applications, with an installed base of products on more than 125 systems and a sole provider position in numerous landmark programs.

Electronic Warfare Market

We supply microwave power amplifiers to the electronic warfare market. Electronic warfare systems provide protection for ships, aircraft and high-value land targets against radar-guided weapons by interfering with, deceiving or disabling the threats. Electronic warfare systems include onboard electronic equipment, pods that attach under aircraft wings and expendable decoys. Within an electronic warfare system, our components amplify low-level incoming signals received from enemy radar or enemy communications systems and amplify or modify those signals to enable the electronic warfare system either to jam or deceive the threat. We believe that we are a leading provider of microwave power sources for the electronic warfare market, having sold thousands of devices into the market, and we believe that we have a sole provider position in products for high-power phased array systems and expendable decoys. The electronic warfare market also includes devices and subsystems being developed or supplied for high-power microwave applications, such as systems to disable and destroy improvised explosive devices ("IEDs") and Active Denial (a new system, currently in testing, that uses microwave energy to deter unfriendly personnel). Our sales in the electronic warfare market were $25.4 million, $26.8 million, and $27.7 million in fiscal years 2007, 2006 and 2005, respectively. Many of the electronic warfare programs on which we are a qualified supplier are well-entrenched current programs for which we believe that there is ongoing demand.

Medical Market

Within the medical market, we focus on diagnostic and treatment applications. For diagnostic applications, we provide products for medical imaging applications, such as x-ray imaging, positron emission tomography ("PET") and magnetic resonance imaging ("MRI"). For these applications, we provide x-ray generators, subsystems, software and user interfaces, including state-of-the-art, high-efficiency, compact power supplies and modern microprocessor-based controls and operator consoles for diagnostic imaging. X-ray generators are used to generate and control the electrical energy being supplied to an x-ray vacuum electron device ("VED") and, therefore, control the dose of radiation delivered to the patient during an x-ray imaging procedure. In addition, these x-ray generators include a user interface to control the operation of the equipment, including exposure times and the selection of the anatomic region of the body to be examined. These generators are interfaced with, and often power and control, auxiliary devices such as patient positioners, cameras and automatic exposure controls to synchronize the x-ray examination with this other equipment. We also provide Power Grid devices for PET Isotope production systems. These systems are linac-based proton accelerators used in the detection of cancer and other diseases.

For treatment applications, we provide klystron VEDs and electron guns for high-end radiation therapy machines. Klystrons provide the microwave energy to accelerate a beam of energy toward a cancerous tumor.

Sales in the medical market were $67.6 million, $57.6 million and $50.7 million in fiscal years 2007, 2006 and 2005, respectively.

Since 1995, when Varian Associates sold its electron devices business to us, we have been the sole provider of klystron high-power microwave devices to Varian Medical Systems Inc.'s oncology systems division for use in its High Energy Clinac® radiation therapy machines for the treatment of cancer, and we expect this relationship to continue. We also provide x-ray generators for use on the On-Board Imager accessory for the Clinac and Trilogy medical linear accelerators. This automated system for image-guided radiation therapy uses high-resolution x-ray images to pinpoint tumor sites. Approximately over 4,700 of Varian Medical Systems' Clinac and Trilogy medical linear accelerators for cancer radiotherapy are in service around the world, delivering more than 30 million cancer treatments each year.

The market for our x-ray generators and associated products is broad, ranging from dealers who buy only a few generators per year, up to large original equipment manufacturers ("OEMs") who buy hundreds per year. We sell our x-ray generators and associated equipment worldwide and have been growing both our geographic presence and our product portfolio. We believe that we are a leading independent supplier of x-ray generators in the world, and we believe that this market provides continued growth opportunities for us.

We have traditionally focused on hospital, or "mid- to high-end" applications, and have become a premier supplier to this part of the market. However, there exists substantial demand for private clinic, or "lower-end" applications, and we have introduced new families of products that allow us to participate more fully in this part of the market.

Communications Market

In the communications market, we provide microwave amplifiers for communications links for broadcast, video, voice and data transmission. We divide the communications market into satellite, terrestrial broadcast, data link and over-the-horizon communications applications. Our sales in the communications market were $110.8 million, $106.7 million and $101.4 million in fiscal years 2007, 2006 and 2005, respectively. The communications market is the most volatile of our end markets, and sales can vary significantly from quarter to quarter due, in part, to the size of our shipments for direct-to-home satellite communications applications during a particular quarter. Historically, we have focused on commercial communications applications, but we have recently expanded our focus to include military communications applications, as we believe that there is a significant and growing market for our products for these applications.

In each of the satellite, terrestrial broadcast, data link and over-the-horizon communications markets, our products amplify and transmit signals within an overall communications system. Ground-based satellite communications transmission systems use our products to enable the transmission of microwave signals, carrying either analog or digital information, from a ground-based station to the transponders on an orbiting satellite by boosting the power of the low-level original signal to desired power levels for transmission over hundreds or thousands of miles to the satellite. The signal is received by the satellite transponder, converted to the downlink frequency and retransmitted to a ground-based receiving station. Terrestrial broadcast systems use our products to amplify and transmit signals, including television and radio signals at very high ("VHF") and ultra high ("UHF") frequencies, or other signals at a variety of frequencies. Over-the-horizon (also referred to as "troposcatter") systems use our amplifiers to send a signal through the atmosphere, bouncing the signal off the troposphere, the lowest atmospheric layer, and enabling receipt of the signal tens of miles to hundreds of miles away. With our acquisition of Malibu, our product offering in the communications market has expanded to include the airborne and ground nodes of the tactical common data link ("TCDL") network for various platforms, including UAVs. TCDL is a high-bandwidth digital data link that transmits and receives real-time command and control, intelligence, surveillance and reconnaissance data between manned and unmanned airborne platforms and their associated ground-based and ship-based terminals.

Satellite Communications

The majority of our communications products are sold into the satellite communications market. We believe that we are a leading producer of power amplifiers, amplifier subsystems and high-power microwave devices for satellite uplinks. We believe that we have a worldwide installed base of over 19,000 amplifiers. We believe that we offer one of the industry's most comprehensive lines of satellite communications amplifiers, with offerings for virtually every currently applicable frequency and power requirement for both fixed and mobile satellite communications applications in the military and commercial arena. Our technological expertise, our well-established worldwide service network and our ability to design and manufacture both the fully integrated amplifier and either the associated high-power microwave device or the solid-state RF device allows us to provide a superior overall service to our customers.

We believe that we are well equipped to participate in the newest growth areas, including: amplifiers for the 30 gigahertz (GHz) band (Ka-band), which is projected to be one of the major new satellite communications growth areas for both commercial and military applications; the growing application for direct-to-home satellite broadcast of conventional and high-definition television; the use of satellite communications for broadband data communications; and specialized amplifiers for the military communications market, such as multi-band amplifiers that operate at multiple discrete frequency bands.

Terrestrial Broadcast Communications

We serve the AM, FM and shortwave radio and VHF and UHF television broadcast market with high-quality, reliable and efficient high-power microwave and RF devices. Eimac, which is part of our Microwave Power Products Division, supplies these products to transmitter OEMs directly, and offers immediate delivery of products to the end users through our distributors. Our Econco Division, which we acquired in our October 2004 acquisition of Econco Broadcast Service, Inc., is a provider of rebuilding services for high-power power grid devices, allowing broadcasters to extend the life of their devices at a cost that is lower than buying a new device. Although the terrestrial broadcast industry is considered a mature market, we believe that emerging shortwave digital radio technology will provide new opportunity for our high-power products. Through the years, we have established a customer base of several thousand customers in the broadcast market, which provides us with opportunities for replacement, spares, upgrade and rebuilding business.

Data Link Communications

Data link applications use our products to transmit signals from an airborne platform to the ground or other airborne satellite platforms, or vice versa.

Over-the-horizon Communications

We provide high-power amplifiers for over-the-horizon, or troposcatter, communications applications. The over-the-horizon communications market involves over-the-horizon, microwave-based communication systems. These systems transmit voice, video and data signals for several hundred miles by bouncing the signals off the troposphere, the lowest atmospheric layer, which is approximately six miles above the earth's surface. Since no satellite is required, these systems can provide an easy-to-install, relocatable and cost-efficient alternative to satellite-based communications.

Industrial Market

The industrial market includes applications for a wide range of systems used for material processing, instrumentation and voltage generation. We offer a number of specialized product lines to address this diverse market. We produce fully integrated amplifiers that include the associated high-power microwave devices that are used in instrumentation applications for electromagnetic interference and compatibility testing. Our products are also installed in the power supply modules of industrial equipment to perform pipe and plastic welding using RF energy, textile drying and semiconductor wafer fabrication. We have a line of industrial RF generators that use high-power microwave technology for various industrial heating and material processing applications. Our sales in the industrial market were $20.5 million, $22.1 million and $23.1 million in fiscal years 2007, 2006 and 2005, respectively.

Scientific Market

The scientific market consists primarily of equipment used in reactor fusion programs and accelerators for the study of high-energy particle physics, referred to as "Big Science." Generally, in scientific applications, our products are used to generate high levels of microwave or RF energy. Our sales in the scientific market were $6.5 million, $6.6 million and $8.4 million in fiscal years 2007, 2006 and 2005, respectively.

In these scientific applications, our products are used to generate microwave and RF energy to create a beam of electrons in order to study the atom and its elementary particles. Our products are also used in research related to the generation of electricity from fusion reactions.

Geographic Markets

We sell our products in more than 90 countries. In fiscal year 2007, the United States, Europe and Asia accounted for approximately 59%, 22% and 16% of our sales, respectively. No country other than the United States accounted for more than 10% of our sales in fiscal year 2007. See "Sales, Marketing and Service." For financial information about geographic areas, see Note 12 to the accompanying audited consolidated financial statements.

Products

We have an extensive portfolio of over 4,500 products that includes a wide range of microwave and power grid VEDs, in addition to products such as:

- satellite communications amplifier subsystems;
- radar and electronic warfare subsystems;
- specialized antenna subsystems;
- solid-state integrated microwave assemblies;
- medical x-ray generators and control systems;
- modulators and transmitters; and
- various electronic power supply and control equipment and devices.

Additionally, we have developed complementary, more highly integrated, subsystems that contain additional integrated components for medical imaging and for satellite communications applications. These integrated subsystems generally sell for higher prices.

Generally, our products are used to:

- generate or amplify (multiply) various forms of electromagnetic energy (these products are generally referred to as VEDs, vacuum electron devices, or simply as devices);
- transmit, direct, measure and control electromagnetic energy;
- provide the voltages and currents to power and control devices that generate electromagnetic energy; or
- provide some combination of the above functions.

VEDs were initially developed for defense applications but have since been applied to many commercial markets. We use tailored variations of this key technology to address the different frequency and power requirements in each of our target markets. Generally our VED products derive from, or are enhancements to, the original VED technology on which our company was founded. Most of our other products were natural offshoots of the original VED technology and were developed in response to the opportunities and requirements in the market for more fully integrated products and services. The type of device selected for a specific application is based on the operating parameters required by the system. Our products generally have selling prices ranging from $2,000 to $100,000, with certain, limited products priced up to $1,000,000.

We sell several categories of VEDs, including:

- Klystrons and gyrotrons: Klystrons are typically high-power VEDs that operate over a narrow range of frequencies, with power output ranges from hundreds of watts to megawatts and frequencies from 500 kilohertz to over 30 gigahertz. We produce and manufacture klystrons for a variety of radar, communications, medical, industrial and scientific applications.

Gyrotron oscillators and amplifiers operate at very high-power and very high frequencies. Power output of one megawatt has been achieved at frequencies greater than 100 gigahertz. These devices are used in areas such as fusion research, electronic warfare and high-resolution radar.

Helix traveling wave tubes: Helix traveling wave tubes are VEDs that operate over a wide range of frequencies at moderate output power levels (tens of watts to thousands of watts). These devices are ideal for terrestrial and satellite communications and electronic warfare applications.

Coupled cavity traveling wave tubes: Coupled cavity traveling wave tubes are VEDs that combine some of the power generating capability of a klystron with some of the increased bandwidth (wider frequency range) properties of a helix traveling wave tube. These amplifiers are medium bandwidth, high-power devices, since power output levels can be as high as one megawatt. These devices are used primarily for high-power and multi-function radars, including front line radar systems.

Magnetrons: Magnetron oscillators are VEDs capable of generating high-power output at relatively low cost. Magnetrons generate power levels as high as 20 megawatts and cover frequencies up to the 40 gigahertz range. We design and manufacture magnetrons for radar, electronic warfare and missile programs within the defense market. Shipboard platforms include search and air traffic control radar on most aircraft carriers, cruisers and destroyers of NATO-country naval fleets. Ground-based installations include various military and civil search and air traffic control radar systems. We are also a supplier of magnetrons for use in commercial weather radar. Potential new uses for magnetrons include high-power microwave systems for disruption of enemy electronic equipment and the disabling or destruction of road-side bombs and other IEDs.

Cross-field amplifiers: Cross-field amplifiers are VEDs used for high-power radar applications because they have power output capability as high as 10 megawatts. Our cross-field amplifiers are primarily used to support the Aegis radar system used by the U.S. Navy and selected foreign naval vessels. We supply units for both new ships and replacements.

Power grid devices: Power grid devices are lower frequency VEDs that are used to generate, amplify and control electromagnetic energy. These devices are used in commercial and defense communications systems and radio and television broadcasting. We also supply power grid devices for the shortwave broadcast market. Our products are also widely used in equipment that serves the industrial markets such as textile drying, pipe welding and semiconductor wafer fabrication.

In addition to VEDs, we also sell:

Microwave transmitter subsystems: Our microwave transmitter subsystems are integrated assemblies generally built around our VED products. These subsystems incorporate specialized high-voltage power supplies to power the VED, plus cooling and control systems that are uniquely designed to work in conjunction with our devices to maximize life, performance and reliability. Microwave transmitter subsystems are used in a variety of defense and commercial applications. Our transmitter subsystems are available at frequencies ranging from one gigahertz all the way up to frequencies of 100 gigahertz and beyond.

Satellite communications amplifiers: Satellite communications amplifiers provide integrated power amplification for the transmission of voice, broadcast, data, internet and other communications signals from ground stations to satellites in all frequency bands. We provide a broad line of complete, integrated satellite communications amplifiers that consist of a VED or solid-state microwave amplifier, a power supply to power the device, radio frequency conditioning circuitry, cooling equipment, electronics to control the amplifier and enable it to interface with the satellite ground station, and a cabinet. These amplifiers are often combined in sub-system configurations with other components to meet specific customer requirements. We offer amplifiers for both defense and commercial applications. Our products include amplifiers based on traveling wave tubes, klystrons, solid-state devices and millimeter wave devices.

Receiver protectors and control components: Receiver protectors are used in the defense market in radar systems to protect sensitive receivers from extraneous high-power signals, thereby preventing damage to the receiver. Our business has been designing and manufacturing receiver protector products for over 50 years. We believe that we are the world's largest manufacturer of receiver protectors and the only manufacturer offering the full range of available technologies. We also manufacture a wide range of other components used to control the RF energy in the customer's system. Our receiver protectors and control components are integrated into prominent fielded military programs. As radar systems have evolved to improve performance and reduce size and weight, we have invested in solid-state technology to develop the microwave control components to allow us to offer more fully integrated products, referred to as multifunction assemblies, as required by modern radar systems.

Medical x-ray imaging systems: We design and manufacture x-ray generators for medical imaging applications. These consist of power supplies, cooling, control and display subsystems that drive the x-ray equipment used by healthcare providers for medical imaging. The energy in an x-ray imaging system is generated by an x-ray tube which is another version of a VED operating in a different region of the electromagnetic spectrum. These generators use the high-voltage and control systems expertise originally developed by us while designing power systems to drive our other VEDs. We also provide the electronics and software subsystems that control and tie together much of the other ancillary equipment in a typical x-ray imaging system.

Antenna systems: We design and manufacture antenna systems for a variety of applications, including, radar, electronic warfare, communications and telemetry. Along with a variety of antenna types, including phased array, edge and tilt scanning antennas, conformal electronic scanning antennas, stabilized shipboard tracking antennas and our trademark FLAPS (Flat Parabolic Surface) antennas, the antenna systems also include the highly efficient harmonic drive pedestals used to support them. The antenna systems used on airborne, shipboard and ground-based platforms are designed to enable high performance, high data rate transmission at frequencies ranging from 1 to 100GHz.

Backlog

As of September 28, 2007, we had an order backlog of $196.4 million compared to an order backlog of $187.4 million as of September 29, 2006. 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 an order is received, and backlog is reduced when we recognize sales. We believe that 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. Historically, however, the amount of modifications and terminations has not been material compared to total contract volume. Approximately 90% of our backlog as of September 28, 2007 is expected to be filled within fiscal year 2008.

Sales, Marketing and Service

Our global distribution system provides us with the capability to introduce, sell and service our products worldwide. Our distribution system primarily uses our direct sales professionals throughout the world. We have direct sales offices throughout North America and Europe, as well as in India, Singapore, China and Australia. As of September 28, 2007, we had 135 direct sales, marketing and technical support individuals on staff. Our wide-ranging distribution capabilities enable us to serve our growing international markets, which accounted for approximately 40% of our sales in fiscal year 2007.

Our sales professionals receive extensive technical training and focus exclusively on our products. As a result, they are able to provide knowledgeable assistance to our customers regarding product applications, the introduction and implementation of new technology and at the same time provide local technical support.

In addition to our direct sales force, we use over 55 external sales organizations and one significant stocking distributor, Richardson Electronics, Ltd., to service the needs of customers in certain markets. The majority of the third-party sales organizations that we use are located outside the United States and Europe and focus primarily on customers in South America, Southeast Asia, the Middle East, Africa and Eastern Europe. Through the use of third-party sales organizations, we are better able to meet the needs of our foreign customers by establishing a local presence in lower volume markets. Using both our direct sales force and our largest distributor, Richardson Electronics, Ltd., we are able to market our products to both end users and system integrators around the world and are able to deliver our products with short turn-around times.

Given the complexity of our products, their critical function in customers' systems and the unacceptably high costs to our customers of system failure and downtime, we believe that our customers view our product breadth, reliability and superior responsive service as key points of differentiation. We offer comprehensive customer support, with direct technical support provided by 18 strategically located service centers, primarily serving satellite communications and medical customers. These service centers are located in the United States (California and New Jersey), Canada (Georgetown, Ontario), Brazil, China (two), India (three), Indonesia, Italy, Japan, Peru, Russia, Singapore, South Africa, Taiwan, and The Netherlands. The service centers enable us to provide extensive technical support and rapid response to customers' critical spare parts and service requirements throughout the world. In addition, we offer on-site installation assistance, on-site service contracts, a 24-hour technical support hotline and complete product training at our facilities, our service centers or customer sites. We believe that many of our customers specify our products in competitive bids due to our responsive global support and product quality.

Competition

The industries and markets in which we operate are competitive. We encounter competition in most of our business areas from numerous other companies, including L-3 Communications, e2v technologies plc, the Xicom Division of Radyne Corporation, and Thales Electron Devices. Some of our competitors have parent entities that have resources substantially greater than ours. In certain markets, some of these competitors are also our customers and/or our suppliers, particularly for products for satellite communications applications. Our ability to compete in our markets depends to a significant extent on our ability to provide high-quality products with shorter lead times at competitive prices and our readiness in facilities, equipment and personnel.

We also continually engage in research and development efforts in order to introduce innovative new products for technologically sophisticated customers and markets. There is an inherent risk that advances in existing technology, or the development of new technology, could adversely affect our market position and financial condition. We provide both VED and solid-state alternatives to our customers. Solid-state devices are generally best suited for low-power applications, while only VEDs currently serve higher-power and higher-frequency demands. Because of the small dimensions of solid- state components, solid-state devices have challenges in dissipating the significant amount of excess heat energy that is generated in high-power, high-frequency applications. As a result, we believe that for the foreseeable future, solid-state devices will be unable to compete on a cost-effective basis in the high-power/high-frequency markets that represent the majority of our business. The extreme operating parameters of these applications necessitate heat dissipation capabilities that are best satisfied by our VED products. We believe that VED and solid-state technology currently each serves its own specialized market without significant overlap in most applications.

Research and Development

Total research and development spending was $16.3 million, $14.8 million and $13.1 million during fiscal years 2007, 2006 and 2005, respectively, consisting of company-sponsored research and development expense of $8.6 million, $8.6 million and $7.2 million during fiscal years 2007, 2006 and 2005, respectively, and customer-sponsored research and development of $7.7 million, $6.2 million and $5.9 million during fiscal years 2007, 2006 and 2005, respectively. Customer-sponsored research and development costs are charged to cost of sales to match revenue recognized.

Manufacturing

We manufacture our products at six manufacturing facilities in five locations in North America. We have implemented modern manufacturing methodologies based upon a continuous improvement philosophy, including just in time materials handling, demand flow technology, statistical process control and value managed relationships with suppliers and customers. We obtain certain materials necessary for the manufacture of our products, such as molybdenum, cupronickel, oxygen-free high conductivity ("OFHC") copper and some cathodes, from a limited group of, or occasionally sole, suppliers. Four of our facilities have achieved the ISO 9001 international certification standard.

Generally, each of our manufacturing divisions uses similar processes consisting of product development, procurement of components and/or sub-assemblies, high-level assembly and testing. For satellite communications equipment, the process is primarily one of integration, and we use contract manufacturers to provide sub-assemblies whenever possible. Satellite communications equipment uses both VED and solid-state technology, and the Satcom Division procures certain of the critical components that it incorporates into its subsystems from our other manufacturing divisions.

Intellectual Property

Our business is dependent, in part, on our intellectual property rights, including trade secrets, patents and trademarks. We rely on a combination of nondisclosure and other contractual arrangements as well as upon trade secret, patent, trademark and copyright laws to protect our intellectual property rights. We do not believe that any single patent or other intellectual property right or license is material to our success as a whole.

On occasion, we have entered into agreements pursuant to which we license intellectual property from third parties for use in our business, and we also license intellectual property to third parties. As a result of contracts with the U.S. Government, some of which contain patent and/or data rights clauses, the U.S. Government has acquired royalty-free licenses or other rights in inventions and technology resulting from certain work done by us on behalf of the U.S. Government.

U.S. Government Contracts and Regulations

We deal with numerous U.S. Government agencies and entities, including the Department of Defense, and, accordingly, we must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. Government contracts. Similar government authorities exist with respect to our international business.

U.S. Government contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds on a fiscal year basis even though contract performance may extend over many years. Therefore long-term government contracts and related orders are subject to cancellation if appropriations for subsequent performance periods are not approved.

In addition, our U.S. Government contracts may span one or more base years and multiple option years. The U.S. Government generally has the right not to exercise option periods and may not exercise an option period if the applicable U.S. Government agency does not receive funding or is not satisfied with our performance of the contract. All of our government contracts and most of our government subcontracts can be terminated by the U.S. Government, or another relevant government, either for its convenience or if we default by failing to perform under the contract. Upon termination for convenience of a fixed-price contract, we normally are entitled to receive the purchase price for delivered items, reimbursement for allowable costs for work-in-process and an allowance for profit on the work performed. Upon termination for convenience of a cost reimbursement contract, we normally are entitled to reimbursement of allowable costs plus a portion of the fee. The amount of the fee recovered, if any, is related to the portion of the work accomplished prior to termination.

Environmental Matters

We are subject to a variety of U.S. federal, state and local, as well as foreign, environmental laws and regulations relating to, among other things, wastewater discharge, air emissions, handling of hazardous materials, disposal of 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, and we require environmental permits to conduct certain of our operations. Violation of such laws and regulations can result in fines, penalties and other sanctions.

In connection with the sale of Varian Associates, Inc.'s electron devices business to us in 1995, Varian Medical Systems, Inc. (as successor to Varian Associates) agreed to indemnify us for various environmental liabilities relating to Varian Associates' electron devices business prior to August 1995. We are generally not indemnified by Varian Medical Systems with respect to liabilities resulting from our operations after August 1995. Pursuant to this agreement, Varian Medical Systems is undertaking environmental investigation and remedial work at our two manufacturing facilities in Palo Alto, California and Beverly, Massachusetts, that are known to require remediation.

To date, Varian Medical Systems has, generally at its expense, conducted required investigation and remediation work at our facilities and responded to environmental claims arising from Varian Medical Systems (or its predecessor's) prior operations of the electron devices business.

We believe that we have been and are in substantial compliance with environmental laws and regulations, and we do not expect to incur material costs relating to environmental compliance.

Employees

As of September 28, 2007, we had approximately 1,700 employees, of which 460 are located outside the United States (including approximately 430 in Canada). None of our employees is subject to a collective bargaining agreement although a limited number of our sales force members located in Europe are members of work councils or unions. We have not experienced any work stoppages and believe that we have good relations with our employees.

Financial Information About Segments

For financial information about our segments, see Note 12 to the accompanying audited consolidated financial statements.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are accessible at no cost on our Web site at www.cpii.com as soon as reasonably practicable after they are filed or furnished to the Securities and Exchange Commission (the "SEC"). They are also available by contacting our Investor Relations at investor.relations@cpii.com and are also accessible on the SEC's Web site at www.sec.gov.

Our Web site and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K or our other filings with the SEC.

Item 1A. Risk Factors

Investors should carefully consider the following risks and other information in this report and our other filings with the SEC before deciding to invest in us or to maintain or increase any investment. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties may also adversely impact and impair our business. If any of the following risks actually occur, our business, results of operations, or financial condition would likely suffer. In such case, the trading price of our securities could decline and investors might lose all or part of their 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 may not be 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.

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 32%, 33% and 31% of our sales in our 2007, 2006 and 2005 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 changes in our relationship with the U.S. Government could result in the loss of some or all of our government contracts, which, in turn, could result in a decrease in our sales 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 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 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 may 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. In the event that we are found to have failed to comply with these laws and regulations, 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. If a government review, audit or investigation uncovers improper or illegal activities, 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 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 such as:

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

- the expense and delay that may arise if our competitors protest or challenge the award made to us, which could result in a reprocurement, 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 could suffer.

Laws and regulations governing the export of our products could adversely impact our business.

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 ("ITAR"). Under these regulations, we must obtain a license or permit from the U.S. Government before transferring export controlled technical data to a foreign person or exporting certain of our products that have been designated as important for national security. These laws and regulations could adversely impact our sales and business in the following scenarios:

- 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 a required license or other authorization may cause delays in our production, sales and export activities, and may cause us to lose potential sales.

- If we violate these laws and regulations, we could be subject to fines or penalties, including debarment as an exporter and/or a government contractor.

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

We estimate that approximately 15% of our fiscal year 2007 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 41%, 37% and 33% in fiscal years 2007, 2006 and 2005, 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:

- changes in currency rates with respect to the U.S. dollar;
- changes in regulatory requirements;
- potentially adverse tax consequences;
- U.S. and foreign government policies;
- currency restrictions, which may prevent the transfer of capital and profits to the United States;
- 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;
- difficulties and costs of staffing and managing international operations;
- 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.

We are subject to risks of currency fluctuations and related hedging operations.

A portion of our business is conducted in currencies other than the U.S. dollar. In particular, we incur significant expenses in Canadian dollars in connection with our Canadian operations, but do not receive significant revenues in Canadian dollars. Changes in exchange rates among other currencies, such as the Canadian dollar and the U.S. dollar, will affect our cost of sales, operating margins and revenues. Specifically, if the Canadian dollar strengthens relative to the U.S. dollar, our expenses will increase, and our results of operations will suffer. We use financial instruments, primarily Canadian dollar forward contracts, to hedge a portion of the Canadian dollar denominated costs for our manufacturing operation in Canada. If these hedging activities are not successful or we change or reduce these hedging activities in the future, we may experience significant unexpected expenses from fluctuations in exchange rates.

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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 business, results of operations and financial condition.

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 and development 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 to benefit from the activities of our customers. If we fail to adapt successfully to technological changes or fail to obtain access to important technologies, our sales could suffer.

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/or 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, storage and 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.

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 our manufacturing facilities that are known to require environmental remediation. 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 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 violations 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, prevent us from selling our products and 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/or 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.

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 over 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.

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. In making acquisitions, we may experience competition from larger companies with significantly greater resources. We are likely to use significant amounts of cash, issue additional equity securities and/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, acquisitions, such as our recent acquisition of Malibu, could place demands on our management and/or 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; and
- the potential loss of key employees.

Future acquisitions of companies may also provide us with challenges in implementing the required processes, procedures and controls in our acquired operations. Acquired companies may not have disclosure controls and procedures or internal control over financial reporting that are as thorough or effective as those required by securities law in the United States.

Goodwill and other intangibles resulting from our acquisitions could become impaired.

As of September 28, 2007, our goodwill, developed and core technology and other intangibles amounted to $243.3 million, net of accumulated amortization. We will amortize approximately $3.3 million in fiscal year 2008, $2.8 million in fiscal years 2009, 2010, 2011 and 2012, and $59.7 million thereafter. To the extent we do not generate sufficient cash flows to recover the net amount of any investment in goodwill and other intangibles recorded, the investment could be considered impaired and subject to write-off. We expect to record further goodwill and other intangible assets as a result of any future acquisitions we may complete. Future amortization of such other intangible assets or impairments, if any, of goodwill would adversely affect our results of operations in any given period.

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 September 28, 2007, we had an order backlog of $196.4 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 sales. Our failure to replace canceled or reduced backlog could negatively impact our sales and results of operations.

Fluctuations in our operating results, including quarterly net orders and sales, may result in volatility in our stock price, which could cause losses to our stockholders.

We have experienced and, in the future, expect to experience fluctuations in our quarterly operating results, including net orders and sales. The timing of customers' order placement and customers' willingness to commit to purchase products at any particular time are inherently difficult to predict or forecast. Once orders are received, factors that may affect whether these orders become sales and translate into revenues in a particular quarter include:

- delay in shipments due to various factors, including cancellations by a customer, delays in a customer's own production schedules, natural disasters or manufacturing difficulties;
- delay in a customer's acceptance of a product; or
- a change in a customer's financial condition or ability to obtain financing.

Our quarterly operating results may also be affected by a number of other factors, including:

- changes or anticipated changes in third-party reimbursement amounts or policies applicable to treatments using our products;
- revenues becoming affected by seasonal influences;

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- changes in foreign currency exchange rates;
- changes in the relative portion of our revenues represented by our various products;
- timing of the announcement, introduction and delivery of new products or product enhancements by us and by our competitors;
- disruptions in the supply or changes in the costs of raw materials, labor, product components or transportation services;
- changes in the general economic conditions in the regions in which we do business;
- the impact of changing levels of sales to sole purchasers of certain of our products; and
- unfavorable outcome of any litigation.

Changes in our effective tax rate may have an adverse effect on our results of operations.

Our future effective tax rates may be adversely affected by a number of factors including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes;
- changes in available tax credits;
- changes in share-based compensation expense;
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles; and/or
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes.

Any significant increase in our future effective tax rates could adversely impact net income for future periods.

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, our ability to obtain financing in the future and our ability to react to changes in our business.

We have a substantial amount of debt and may incur additional debt in the future. As of September 28, 2007, our total consolidated indebtedness was $246.6 million and we had $56.3 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 our stockholders, including, without limitation, the following:

- it will require us to dedicate a substantial portion of our cash flow from operations, in the near term, to make interest payments on our indebtedness, and in the longer term, to repay the outstanding principal amount of our indebtedness, each of which will reduce the funds available for working capital, capital expenditures and other general corporate expenses;

- it could limit 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 limit our ability to borrow additional funds in the future, if needed, because of applicable financial and restrictive covenants of our indebtedness; 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 additional debt in the future. If debt levels increase, the related risks that we and our stockholders face could 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 customary 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 CPI International. Because we are a holding company with no operations of our own, we rely on distributions from Communications & Power Industries, our wholly owned subsidiary, 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.

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, financial condition and, consequently, the price of our common stock.

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 could place us in default.

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

The price of our common stock may fluctuate, which could negatively affect the value of stockholders' investments.

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 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 common stock of companies in our industry in particular, could reduce the market price of our common stock in spite of our operating performance. Stockholders may be unable to resell their shares of our common stock at or above the purchase price for their shares or at all.

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 sometimes 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 stockholders to recover the full value of their 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.

In addition, we may issue a substantial number of shares of our common stock under our stock incentive and stock purchase plans. As of September 28, 2007, we had options outstanding to purchase 3,171,081 shares of our common stock under our 2000 Stock Option Plan, our 2004 Stock Incentive Plan and our 2006 Equity and Performance Incentive Plan, of which 2,259,528 were exercisable as of such date. In addition, as of September 28, 2007, our 2006 Equity and Performance Incentive Plan and 2006 Employee Stock Purchase Plan provide for the issuance of up to an additional 1,498,046 shares of our common stock to employees, directors and consultants. The issuance of significant additional shares of our common stock upon the exercise of outstanding options or otherwise pursuant to these stock plans could have a material adverse effect on the market price of our common stock and could significantly dilute the interests of other stockholders.

The controlling position of Cypress will limit other stockholders' ability to influence corporate matters.

As of September 28, 2007, entities affiliated with Cypress collectively own approximately 54% of our outstanding shares of common stock. Accordingly, the entities affiliated with Cypress have significant influence over our management, affairs and most matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. The entities affiliated with Cypress will also be able to deter any attempted change of control. This concentrated control will limit other stockholders' ability to influence corporate matters and, as a result, we may take actions that some of our stockholders may not view as beneficial. Accordingly, the market price of our common stock could be adversely affected.

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;
- "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 (66.7%) of the voting power of our issued and outstanding capital stock entitled to vote in the election of directors be obtained 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 affiliates of Cypress collectively cease 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own, lease or sublease manufacturing, assembly, warehouse, service and office properties having an aggregate floor space of approximately 938,000 square feet, of which approximately 1,080 square feet are leased or subleased to a third party. The table that follows provides summary information regarding principal properties owned or leased by us:

	Square Footage		
Location	Owned	Leased/ Subleased	Segment Using the Property
Beverly, Massachusetts	169,400(a)		VED
Georgetown, Ontario, Canada	184,500(b)	22,000	VED and satcom equipment
Woodland, California	36,900	9,900	VED
Palo Alto, California		418,300(c)	VED and satcom equipment
Mountain View, California		42,500	VED
Camarillo, California		37,700	Other
Various other locations		16,800(d)	VED and satcom equipment

(a) The Beverly, Massachusetts square footage also includes approximately 1,080 square feet leased to a tenant.

(b) Includes a facility expansion completed in fiscal year 2007 that added approximately 58,500 square feet.

(c) Includes 49,100 square feet that are subleased from Varian, Inc. Varian, Inc. subleases the land from Varian Medical Systems, Inc. and Varian Medical Systems subleases the land from Stanford University.

(d) Leased facilities occupied by our field sales and service organizations.

The lenders under our senior credit facilities have a security interest in certain of our interests in the real property that we own and lease. Our headquarters and one principal complex, including one of our manufacturing facilities, located in Palo Alto, California, are subleased from Varian Medical Systems or one of its affiliates or former affiliates. Therefore, our occupancy rights are dependent on our sublessor's fulfillment of its responsibilities to the master lessor, including its obligation to continue environmental remediation activities under a consent order with the California Environmental Protection Agency. The consequences of the loss by us of such occupancy rights could include the loss of valuable improvements and favorable lease terms, the incurrence of substantial relocation expenses and the disruption of our business operations.

Item 3. Legal Proceedings

We may be involved from time to time in various legal proceedings and various cost accounting and other government pricing claims. We do not expect that the legal proceedings and government pricing claims in which we are currently involved will individually or in the aggregate have a significant impact on our business, financial condition, results of operation or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal year 2007.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock, par value $0.01 per share, has traded on the Nasdaq Stock Market LLC under the symbol "CPII" since April 28, 2006. Prior to April 28, 2006, there was no established public trading market for our stock. The following table sets forth the high and low closing sale prices for our common stock as reported by The Nasdaq Stock Market from July 1, 2006, through September 28, 2007.

	High	Low
Fiscal Year 2006		
Fourth fiscal quarter (July 1, 2006 to September 29, 2006)	$ 14.92	$ 11.30
Fiscal Year 2007		
First fiscal quarter (September 30, 2006 to December 29, 2006)	$ 15.46	$ 13.04
Second fiscal quarter (December 30, 2006 to March 30, 2007)	$ 19.76	$ 14.96
Third fiscal quarter (March 31, 2007 to June 29, 2007)	$ 21.11	$ 18.81
Fourth fiscal quarter (June 30, 2007 to September 28, 2007)	$ 20.72	$ 16.20

As of November 29, 2007, there were 15 stockholders of record of our common stock and 16,382,656 shares of common stock outstanding.

No dividends were paid in fiscal year 2007. In fiscal year 2006, we paid a special cash dividend of approximately $17.0 million, in the aggregate, to holders of our common stock. 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, 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 our floating rate senior notes due 2015 also imposes restrictions on our ability to pay dividends or make distributions to our 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.

The disclosure required by Item 201(d) of Regulation S-K is incorporated by reference to the definitive proxy statement for our 2008 Annual Meeting of Stockholders anticipated to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report under the heading "*Equity Compensation Plan Information.*"

Stock Performance Graph

The following graph shows the value of an investment of $100 on April 28, 2006 (the first day our common stock was traded) in each of our common stock, The Nasdaq Composite Index and the Nasdaq Electronic Components Stocks Index for the period from April 28, 2006 to September 28, 2007. All values assume reinvestment of the pre-tax value of dividends.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

The information contained under the heading "Stock Performance Graph" above shall not be deemed to be "soliciting material" or to be filed with the SEC or subject to Regulations 14A or 14C or to the liabilities of the Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference in any filing of CPI International under the Securities Act, of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

In July 2007, the Nasdaq Stock Market segmented Nasdaq-listed companies into new listing tiers. As a result of these changes, we have replaced the Nasdaq Stock Market (U.S.) Index with The Nasdaq Composite Index in our stock performance graph.

Item 6. Selected Financial Data

The selected consolidated financial and other data for CPI International and subsidiaries as of September 28, 2007 and September 29, 2006, and for the fiscal years ended September 28, 2007, September 29, 2006 and September 30, 2005 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated financial and other data for CPI International and subsidiaries as of September 30, 2005 and October 1, 2004 and for the 36-week period ended October 1, 2004, and for Communications & Power Industries Holding Corporation, our predecessor, and subsidiaries as of October 3, 2003 and for the 16-week period ended January 22, 2004, and the fiscal year ended October 3, 2003 have been derived from our audited consolidated financial statements not included elsewhere in this Annual Report. 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.

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 Annual Report.

FIVE-YEAR SELECTED FINANCIAL DATA
(in thousands, except share and per share amounts)

	Year Ended September 28, 2007 (Successor)	Year Ended September 29, 2006 (Successor)	Year Ended September 30, 2005 (Successor)	36-Week Period Ended October 1, 2004 (Successor)	16-Week Period Ended January 22, 2004 (Predecessor)	Year Ended October 3, 2003 (Predecessor)
Statement of Operations Data:						
Sales	$ 351,090	$ 339,717	$ 320,732	$ 202,266	$ 79,919	$ 265,434
Cost of sales(1)	237,789	236,063	216,031	141,172	56,189	183,957
Gross profit	113,301	103,654	104,701	61,094	23,730	81,477
Research and development	8,558	8,550	7,218	5,253	2,200	6,860
Selling and marketing	19,258	19,827	18,547	11,082	4,352	15,650
General and administrative	21,519	22,418	27,883	12,499	6,026	17,847
Merger expenses(2)					6,374	
Amortization of acquisition-related intangible assets	2,316	2,190	7,487	13,498		
Acquired in-process research and development(2)				2,500		
Net loss on disposition of fixed assets	129	586	446	197	7	92
Gain on sale of Solid-State Products Division						(136)
Total operating costs and expenses	51,780	53,571	61,581	45,029	18,959	40,313
Operating income	61,521	50,083	43,120	16,065	4,771	41,164
Interest expense, net	20,939	23,806	20,310	10,518	8,902	14,540
Loss on debt extinguishment(3)	6,331					
Income tax expense	11,748	9,058	9,138	2,899	439	10,076
Net income (loss)	$ 22,503	$ 17,219	$ 13,672	$ 2,648	$ (4,570)	$ 16,548
Earnings per share(4)						
Basic	$ 1.39	$ 1.20	$ 1.05	$ 0.20	N/A(5)	N/A(5)
Diluted	$ 1.27	$ 1.09	$ 0.98	$ 0.19	N/A(5)	N/A(5)
Shares used to calculate net earnings per share(6)						
Basic	16,241,955	14,311,367	13,078,954	13,062,753	N/A(5)	N/A(5)
Diluted	17,720,592	15,788,711	13,973,727	13,700,182	N/A(5)	N/A(5)
Cash dividend per share(7)	$	$ 1.19	$ 5.80	$	$	$
Other Financial Data:						
EBITDA(8)	$ 64,288	$ 59,096	$ 57,297	$ 32,816	$ 6,549	$ 47,457
EBITDA margin(9)	18.3%	17.4%	17.9%	16.2%	8.2%	17.9%
Operating income margin(10)	17.5%	14.7%	13.4%	7.9%	6.0%	15.5%
Net income (loss) margin(11)	6.4%	5.1%	4.3%	1.3%	(5.7)%	6.2%
Depreciation and amortization(12)	$ 9,098	$ 9,013	$ 14,177	$ 16,751	$ 1,778	$ 6,293

Capital expenditures(13)	$ 8,169	$ 10,913	$ 17,131	$ 3,317	$ 459	$ 3,067
Ratio of earnings to fixed charges(14)	2.59x	2.08x	2.10x	1.51x		2.78x
Net cash provided by operating activities	$ 21,659	$ 10,897	$ 31,349	$ 12,203	$ 6,574	$ 34,482
Balance Sheet Data:						
Working capital	$ 81,547	$ 77,113	$ 65,400	$ 72,385	$	$ 17,241
Total assets	$ 476,222	$ 441,759	$ 454,544	$ 431,207	$	$ 181,968
Long-term debt and redeemable preferred stock	$ 245,567	$ 245,067	$ 284,231	$ 210,606	$	$ 128,907
Total stockholders' equity (deficit)	$ 125,906	$ 99,673	$ 52,667	$ 107,594	$	$ (65,445)

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

(2) Includes a write off of in-process research and development of $2,500 during the 36-week period ended October 1, 2004, and charges for merger expenses of $6,374 during the 16-week period ended January 22, 2004, resulting from our January 2004 merger.

(3) Resulted from early repayment of our previous senior credit facilities in connection with the amendment and restatement of such facilities and early extinguishment of $58 million of our floating rates senior notes in fiscal year 2007. The amount of loss includes non-cash write-offs of $4.7 million of unamortized debt issue costs and issue discount costs and $1.9 million in cash payments for call premiums, partially offset by $0.3 million of cash proceeds from the early termination of the related interest rate swap agreement.

(4) Basic earnings per share represents net income divided by weighted average common shares outstanding, and diluted earnings per share represents net income divided by weighted average common and common equivalent shares outstanding.

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

(6) On April 7, 2006, in connection with the amendment and restatement of the certificate of incorporation of CPI International, we effected a 3.059-to-1 stock split of the outstanding shares of common stock of CPI International as of such date. All share and per share amounts for Successor periods herein have been retroactively restated to reflect the stock split.

(7) 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.

(8) 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 a covenant that requires us to maintain a senior secured leverage ratio that contains EBITDA as a component, and our management team uses EBITDA to monitor compliance with this covenant; 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 income (loss) to EBITDA:

	Year Ended September 28, 2007 (Successor)	Year Ended September 29, 2006 (Successor)	Year Ended September 30, 2005 (Successor)	36-Week Period Ended October 1, 2004 (Successor)	16-Week Period Ended January 22, 2004 (Predecessor)	Year Ended October 3, 2003 (Predecessor)
Net income (loss)	$ 22,503	$ 17,219	$ 13,672	$ 2,648	$ (4,570)	$ 16,548
Depreciation and amortization(12)	9,098	9,013	14,177	16,751	1,778	6,293
Interest expense, net	20,939	23,806	20,310	10,518	8,902	14,540
Income tax expense	11,748	9,058	9,138	2,899	439	10,076
EBITDA	$ 64,288	$ 59,096	$ 57,297	$ 32,816	$ 6,549	$ 47,457

(9) EBITDA margin represents EBITDA divided by sales.

(10) Operating income margin represents operating income divided by sales.

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

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

(13) Fiscal years 2007 and 2006 include $4.1 million and $2.3 million, respectively, of capital expenditures for the expansion of our building in Georgetown, Ontario, Canada. Fiscal years 2006 and 2005 include capital expenditures of $4.7 million and $13.1 million, respectively, resulting from the relocation of our San Carlos, California facility to Palo Alto, California and Mountain View, California.

(14) 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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our fiscal years are the 52- or 53-week periods that end on the Friday nearest September 30. Fiscal year 2007 comprised the 52-week period ending September 28, 2007; fiscal year 2006 comprised the 52-week period ended September 29, 2006; and fiscal year 2005 comprised the 52-week period ended September 30, 2005. The following discussion should be read in conjunction with the consolidated financial statements, and the notes thereto, of our predecessor and CPI International included elsewhere in this Annual Report.

Overview

CPI International, headquartered in Palo Alto, California, is the parent company of Communications & Power Industries, a provider of microwave, radio frequency, power and control solutions for critical defense, communications, medical, scientific and other applications. Communications & Power Industries develops, manufactures and distributes products used to generate, amplify and transmit high-power/high-frequency microwave and radio frequency signals and/or provide power and control for various applications. End-use applications of these systems include the transmission of radar signals for navigation and location; transmission of deception signals for electronic countermeasures; transmission and amplification of voice, data and video signals for broadcasting, Internet and other types of commercial and military communications; providing power and control for medical diagnostic imaging; and generating microwave energy for radiation therapy in the treatment of cancer and for various industrial and scientific applications.

Acquisition of Malibu Research Associates, Inc.

On August 10, 2007, we completed the acquisition of all of the outstanding common stock of Malibu. Malibu, headquartered in Camarillo, California, is a designer, manufacturer and integrator of advanced antenna systems for radar, radar simulators and telemetry systems, as well as for data links used in ground, airborne, unmanned aerial vehicles ("UAV") and shipboard systems. Under the terms of the purchase agreement, we paid cash of approximately $22.4 million, which included $2.3 million and $1.0 million placed into indemnity and working capital escrow accounts, respectively. The indemnity escrow amount was provided to ensure funds are available to satisfy potential indemnification claims asserted prior to January 1, 2009, and the working capital escrow amount was provided to satisfy any negative differences between the target working capital amount and the actual working capital amount at the acquisition closing date. We expect that the working capital calculations will be finalized during fiscal year 2008.

Additionally, we may be required to pay a potential earnout to the former stockholders of Malibu of up to $14.0 million, which is primarily contingent upon the achievement of certain financial objectives over the three years following the acquisition; and a discretionary earnout of up to $1.0 million contingent upon achievement of certain succession planning goals.

Eimac Relocation

After relocating Eimac from our former facility in San Carlos, California to Palo Alto, California in fiscal year 2006, we made organizational changes and consolidated Eimac into our Microwave Power Products division, located in Palo Alto, California, in June 2006. The Eimac integration was completed in January 2007. As part of this relocation and integration, Eimac experienced planned manufacturing disruptions stemming from the decommissioning of our production equipment in San Carlos and the required reconfiguration, installation and testing of that equipment prior to production readiness in Palo Alto. During fiscal year 2005, in anticipation of these planned disruptions, customers accelerated the placement of orders with Eimac. This order acceleration in fiscal year 2005, and the subsequent acceleration of product shipments, caused a reduction of customers' demand requirements from Eimac during fiscal year 2006, particularly in our medical, communications and industrial markets.

Eimac orders and sales for fiscal year 2006 reflected the negative impact of the Eimac relocation and integration. In addition, during fiscal year 2006, we incurred move-related expenses and Eimac experienced unfavorable overhead absorption and manufacturing variances due to the reduction in sales volume and relocation disruptions. By the first quarter of fiscal year 2007, orders and sales rates for Eimac had recovered to near their historical levels.

Orders

We sell our products into six end markets: radar, electronic warfare, medical, communications, industrial and scientific.

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 period represent the total dollar amount of customer orders recorded by us during the fiscal period, reduced by the dollar amount of any order cancellations or terminations during the fiscal period.

Our orders by market for fiscal years 2007 and 2006 are summarized as follows (dollars in millions):

	Fiscal Year Ended					
	September 28, 2007		September 29, 2006		Increase (Decrease)	
	Amount	% of Orders	Amount	% of Orders	Amount	Percent
Radar	$ 116.9	34%	$ 115.3	35%	$ 1.6	1%
Electronic Warfare	21.7	7	24.6	7	(2.9)	(12)
Medical	66.3	19	68.1	20	(1.8)	(3)
Communications	106.3	31	94.6	29	11.7	12
Industrial	21.8	6	22.9	7	(1.1)	(5)
Scientific	10.7	3	5.7	2	5.0	88
Total	$ 343.7	100%	$ 331.2	100%	$ 12.5	4%

Explanations for the order increase or decrease by market for fiscal year 2007 compared to fiscal year 2006 are as follows:

Radar and Electronic Warfare: The majority of our sales in the radar and electronic warfare markets are for products for domestic and international defense and government end uses. Orders in these markets are characterized by many smaller orders in the $0.5 million to $3.0 million range by product or program, with no significant products or programs by themselves explaining the annual change. Timing of these orders may vary from year to year. Orders for these markets decreased approximately 1% from $139.9 million in fiscal year 2006 to $138.6 million in fiscal year 2007. Management believes that, on a combined basis, these markets will experience low single digit percentage average long-term annual growth.

Medical: Orders for our medical products consist of orders for medical imaging applications, such as x-ray imaging, PET and MRI applications, and for radiation therapy applications for the treatment of cancer. The approximately 3% decrease in medical orders from fiscal year 2006 to fiscal year 2007 was due primarily to a decrease in orders for sub-assemblies for x-ray imaging applications and for power grid products for PET nuclear medical imaging applications. We received multi-year orders for these imaging applications in fiscal year 2006, resulting in a decrease in orders for these applications in fiscal year 2007. This decrease was partially offset by a $1.2 million increase in orders for our MRI products.

Communications: The approximately 12% increase in communications orders was primarily attributable to increases in orders for satellite communications amplifiers used by international and U.S. customers for broadcast network applications, by international customers for direct-to-home applications and by international customers for news gathering and mobile applications. In addition, orders for satellite communications amplifiers for certain military satellite communications applications increased. These increases were partially offset by decreases in orders for our newer types of satellite communications amplifiers for certain programs for North American direct-to-home broadcast and certain other U.S. military satellite communications applications due to the timing of orders for these programs.

Industrial: Orders in the industrial market, one of our smallest markets, are cyclical. The decrease in industrial orders was attributable to decreases in orders for products used in industrial heating systems, electromagnetic susceptibility test programs, semiconductor applications and other industrial applications, primarily due to the timing of orders.

Scientific: Orders in the scientific market, our smallest market, are historically one-time projects and can fluctuate significantly from period to period. The increase in scientific orders was primarily the result of orders for products for the Spallation Neutron Source at Oakridge National Laboratory.
Incoming order levels fluctuate significantly on a quarterly or annual basis, and a particular quarter's 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 September 28, 2007, we had an order backlog of $196.4 million compared to an order backlog of $187.4 million as of September 29, 2006. The increase in backlog during fiscal year 2007 is due to the acquisition of Malibu. Because our orders for government end-use products generally have much longer terms than our orders for commercial business (which require quicker turn-around), our backlog is primarily composed of government orders. As a result, we expect that our total backlog will not generally grow at the same rate as our total sales, because the markets where we are expecting higher growth (*i.e.*, the medical and communications markets) are primarily commercial rather than governmental.

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 an order is received, and backlog is decreased 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.

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

	Year Ended					
	September 28, 2007		September 29, 2006		September 30, 2005	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Sales	$ 351.1	100.0%	$ 339.7	100.0%	$ 320.7	100.0%
Cost of sales(a)	237.8	67.7	236.1	69.5	216.0	67.4
Gross profit	113.3	32.3	103.7	30.5	104.7	32.6
Research and development	8.6	2.4	8.6	2.5	7.2	2.2
Selling and marketing(a)	19.3	5.5	19.8	5.8	18.5	5.8
General and administrative(a)	21.5	6.1	22.4	6.6	27.9	8.7
Amortization of acquisition-related intangibles	2.3	0.7	2.2	0.6	7.5	2.3
Net loss on disposition of assets	0.1	0.0	0.6	0.2	0.4	0.1
Operating income	61.5	17.5	50.1	14.7	43.1	13.4
Interest expense, net	20.9	6.0	23.8	7.0	20.3	6.3
Loss on debt extinguishment	6.3	1.8				
Income before taxes	34.3	9.8	26.3	7.7	22.8	7.1
Income tax expense	11.7	3.3	9.1	2.7	9.1	2.8
Net income	$ 22.5	6.4%	$ 17.2	5.1%	$ 13.7	4.3%
Other Data:						
EBITDA(b)	$ 64.3	18.3%	$ 59.1	17.4%	$ 57.3	17.9%

Note: Totals may not equal the sum of the components due to independent rounding. Percentages are calculated based on rounded dollar amounts presented.

(a) Fiscal year 2006 includes a special bonus expense (see "Special Bonus" below) of $3.25 million, allocated as follows: $0.3 million to cost of sales, $0.2 million to selling and marketing and $2.75 million to general and administrative.

(b) EBITDA represents earnings before provision for income taxes, net interest expense 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 measures used by our board of directors and management team to evaluate our operating performance;

- our senior credit facilities contain a covenant that requires us to maintain a senior secured leverage ratio that contains EBITDA as a component, and our management team uses EBITDA to monitor compliance with this covenant;

EBITDA is a component of the measures 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 measures used by the management to facilitate internal comparisons to competitors' results and our industry in general; and

the payment of management bonuses 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, 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 to EBITDA, see Note 12 of the accompanying audited consolidated financial statements.

Our results for fiscal year 2007 compared to our results for fiscal year 2006

Sales: Our sales by market for fiscal years 2007 and 2006 are summarized as follows (dollars millions):

	Year Ended					
	September 28, 2007		September 29, 2006		Increase (Decrease)	
	Amount	% of Sales	Amount	% of Sales	Amount	Percent
Radar	$ 120.3	34%	$ 119.9	35%	$ 0.4	%
Electronic Warfare	25.4	7	26.8	8	(1.4)	(5)
Medical	67.6	19	57.6	17	10.0	17
Communications	110.8	32	106.7	31	4.1	4
Industrial	20.5	6	22.1	7	(1.6)	(7)
Scientific	6.5	2	6.6	2	(0.1)	(2)
Total	$ 351.1	100%	$ 339.7	100%	$ 11.4	3%

Sales for fiscal year 2007 of $351.1 million were $11.4 million, or approximately 3%, higher than sales of $339.7 million for fiscal year 2006. Explanations for the sales increase or decrease by market for fiscal year 2007 as compared to fiscal year 2006 are as follows:

Radar and Electronic Warfare: The majority of our sales in the radar and electronic warfare markets are for products for domestic and international defense and government end uses. The timing of order receipts and subsequent shipments in these markets may vary from year to year. Sales for these markets were essentially unchanged, totaling $146.7 million in fiscal year 2006 and $145.7 million in fiscal year 2007. Management believes that, on a combined basis, these markets will experience low single digit percentage average long-term annual growth.

Medical: Sales of our medical products consist of sales for medical imaging applications, such as x-ray imaging, PET and MRI applications, and for radiation therapy applications for the treatment of cancer. The approximately 17% increase in sales of our medical imaging and radiation therapy products was primarily due to a $6.9 million increase in sales of our products used in x-ray imaging. The increase in sales of x-ray imaging products resulted from growth in our market share, as well as a $1.9 million increase in shipments for the second year of a tender

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program that supports the expansion of the Russian medical infrastructure. Sales of our products used in MRI applications also increased $2.4 million due to an increase in sales of replacement products, or spares, resulting from growth in the number of MRI systems on which we have products.

Communications: The approximately 4% increase in sales in the communications market was primarily the result of increased sales of both newer and traditional satellite communications amplifiers for foreign broadcast network and direct-to-home applications, as well as newer satellite communications amplifiers for foreign news gathering and mobile applications and U.S. military satellite communications programs. These increases were partially offset by a decrease in shipments of our traditional satellite communications products for North American direct-to-home broadcast applications.

Industrial: Sales in the industrial market, one of our smallest markets, are cyclical. The decrease in industrial sales was primarily due the timing of orders and shipments of products used in industrial heating systems, electromagnetic susceptibility test programs and other industrial applications.

Scientific: Sales in the scientific market, our smallest market, are historically one-time projects and can fluctuate significantly from period to period. Sales in this market were essentially unchanged.

Gross Profit. Gross profit was $113.3 million, or 32.3% of sales, for fiscal year 2007 as compared to $103.7 million, or 30.5% of sales, for fiscal year 2006. Fiscal year 2006 included non-recurring expenses of approximately $6.0 million for move-related expenses, including unfavorable overhead absorption and manufacturing variances, from the Eimac relocation. Fiscal year 2007, as compared to fiscal year 2006, was favorably impacted by a 3% increase in shipment volume and the shipment of products with higher gross margins and was unfavorably impacted by approximately $2.6 million due to increases in our Canadian dollar denominated manufacturing expenses resulting from the expiration of favorable foreign currency hedge contracts in March 2006 and the further weakening of the U.S. dollar. Gross profit for fiscal year 2007 includes a reduction to cost of sales of approximately $0.6 million to capitalize inventory that was improperly expensed in prior periods.

Research and Development. Research and development expenses were $8.6 million, or 2.4% of sales, for fiscal year 2007 and $8.6 million, or 2.5% of sales for fiscal year 2006. Total spending on research and development, including company-sponsored amounts charged to research and development, and customer-sponsored amounts, which are reported as cost of sales, increased to $16.3 million, or 4.6% of sales for fiscal year 2007, as compared to $14.8 million, or 4.3% of sales, in fiscal year 2006. Research and development spending was primarily directed toward additional investments in the growth of medical diagnostic imaging products, and VED products for radar, electronic warfare and certain satellite communication markets.

Selling and Marketing. Selling and marketing expenses were $19.3 million, or 5.5% of sales, for fiscal year 2007, a $0.5 million decrease from the $19.8 million, or 5.8% of sales, for fiscal year 2006. The reduction in selling and marketing expenses for fiscal year 2007 compared to fiscal year 2006 was primarily due to higher spending in fiscal year 2006 for new product introductions. Selling and marketing expenses for fiscal year 2006 included $0.2 million of the special bonus discussed below.

General and Administrative. General and administrative expenses were $21.6 million, or 6.2% of sales, for fiscal year 2007, a $0.8 million decrease from the $22.4 million, or 6.6% of sales, for fiscal year 2006. Fiscal year 2006 included $2.75 million of the special bonus, discussed below, and Eimac relocation expenses of $1.2 million. Fiscal year 2007, compared to fiscal year 2006, includes approximately $1.4 million of additional expenses associated with meeting the compliance requirements of Section 404 of the Sarbanes-Oxley Act of 2002, $0.5 million for expenses associated with the evaluation of potential acquisition candidates, $0.5 million higher stock-based compensation expenses, and additional expenses of $0.3 million as a result of becoming a publicly traded company in April 2006.

Special Bonus. In the first quarter of fiscal year 2006, our board of directors approved the payment of $3.25 million in special, one-time bonuses to our employees and directors (other than directors who are employees or affiliates of The Cypress Group) 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 consolidated statement of operations for fiscal year 2006 in the same lines as cash compensation paid to the same employees and directors, as follows: $2.75 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 consists of purchase accounting charges for technology and other intangible assets. Amortization of acquisition-related intangibles was $2.3 million for fiscal year 2007 and $2.2 million for fiscal year 2006. The $0.1 million increase in amortization of acquisition-related intangibles was due to additional amortization expenses related to the acquisition of Malibu. Fiscal year 2008 expenses for the amortization of acquisition-related intangibles are expected to be approximately $3.3 million. Amortization of amortizable acquisition-related intangible assets will continue to be amortized over periods of up to 50 years.

Interest Expense, net ("Interest Expense"). Interest Expense of $20.9 million for fiscal year 2007 was $2.9 million lower than Interest Expense of $23.8 million for fiscal year 2006. The reduction in Interest Expense for fiscal year 2007 compared to fiscal year 2006 was primarily due to lower debt levels resulting from the term loan prepayments of $5.0 million in December 2006, and $47.5 million in May 2006 using proceeds from the initial public offering of our common stock.

We estimate that the repurchase and redemption of a portion of the floating rate senior notes, as well as the amendment and restatement of our senior credit facilities as further described below, will result in annual cash interest savings of approximately $2.0 million for the 12 months following the September 5, 2007 partial redemption of our floating rate senior notes.

Loss on Debt Extinguishment. Loss on debt extinguishment of $6.3 million in fiscal year 2007 resulted from our refinancings during the year. The loss on debt extinguishment consists of $2.6 million in non-cash write-offs of deferred debt issue costs and issue discount costs and $1.9 million in cash payments for call premiums from the early retirement of $58.0 million of our floating rate senior notes, and $2.1 million in non-cash write-offs of deferred debt issue costs for the termination of our previous $130 million senior credit facilities in connection with the amendment and restatement of such facilities, partially offset by $0.3 million of cash proceeds from the early termination of our interest rate swap on our floating rate senior notes.

Income Tax Expense. We recorded an income tax expense of $11.7 million and $9.1 million for fiscal years 2007 and 2006, respectively. Our effective tax rate was approximately 34.3% for fiscal year 2007 as compared to approximately 34.5% for fiscal year 2006. The effective tax rate for fiscal year 2007 included a discrete tax benefit of $1.8 million related to the filing of amended income tax returns for prior years to reflect a change in estimate with regard to reporting Canadian income earned in the U.S., offset by a charge to deferred income tax expense of approximately $0.9 million that should have been reported during the last quarter of fiscal year 2006. Our worldwide effective income tax rate, excluding discrete tax items, is approximately 38%.

The U.S. income tax expense for fiscal year 2006 included a $1.3 million discrete tax benefit related a change in estimate with regard to reporting Canadian income earned in the U.S. for fiscal 2005 based on a determination of the character of such income. Income tax expense for fiscal year 2006 also includes a $0.3 million charge attributable to the fourth quarter of fiscal year 2005 consisting of $0.5 million 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 the reversal of a $0.2 million tax contingency reserve.

Net Income. Net income was $22.5 million, or 6.4% of sales, for fiscal year 2007 as compared to $17.2 million, or 5.1% of sales, for fiscal year 2006. The increase in net income for fiscal year 2007 was primarily due to the absence in fiscal year 2007 of non-recurring expenses for the Eimac relocation and the special bonus, and higher gross profit in fiscal year 2007 due to the increase in shipment volume which was offset by higher expenses for the extinguishment of debt, higher Canadian dollar denominated expenses and higher income tax expense.

EBITDA. EBITDA was $64.3 million, or 18.3% of sales, for fiscal year 2007 as compared to $59.1 million, or 17.4% of sales, in fiscal year 2006. The increase in EBITDA for fiscal year 2007 was primarily due to the absence in fiscal year 2007 of Eimac move-related expenses of $7.6 million, including unfavorable overhead absorption and manufacturing variances for the Eimac relocation, the absence in fiscal year 2007 of non-recurring expenses for the special bonus of $3.25 million, and higher sales volume and the shipment of products with higher gross margins in fiscal year 2007, partially offset by the loss on debt extinguishment of $6.3 million for fiscal year 2007 and increases in our Canadian dollar denominated expenses of $2.6 million resulting from the weakening of the U.S. dollar and expiration of favorable foreign currency hedge contracts in March 2006.

Calculation of Management Bonuses. Management bonuses were $2.7 million in fiscal year 2007 compared to $2.5 million in fiscal year 2006. Management bonuses for fiscal years 2007 and 2006 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 certain participating members of management. The weight given to each of these factors varied for each person. Generally, for our officers, equal weight was generally 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 are paid in cash approximately three months after the end of the fiscal year. 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 pre-determined in our management incentive plan for the fiscal year. EBITDA for purposes of calculating management bonuses for fiscal year 2007 was $71.2 million compared to $67.2 million in fiscal year 2006. The non-recurring and non-cash charges that were excluded from EBITDA in calculating management bonuses (a) for fiscal year 2007 were loss on debt extinguishment of $6.3 million, stock-based compensation expense of $1.2 million, offset by the inventory correction of $0.6 million, and (b) for fiscal year 2006 were direct costs for the Eimac relocation of $4.6 million, stock-based compensation expense of $0.3 million and the special bonus of $3.25 million. 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 fiscal year 2006 compared to our results for fiscal year 2005

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

	Year Ended					
	September 29, 2006		September 30, 2005		Increase (Decrease)	
	Amount	% of Sales	Amount	% of Sales	Amount	Percent
Radar	$ 119.9	35%	$ 109.4	34%	$ 10.5	10%
Electronic Warfare	26.8	8	27.7	9	(0.9)	(3)
Medical	57.6	17	50.7	16	6.9	14
Communications	106.7	31	101.4	31	5.3	5
Industrial	22.1	7	23.1	7	(1.0)	(4)
Scientific	6.6	2	8.4	3	(1.8)	(21)
Total	$ 339.7	100%	$ 320.7	100%	$ 19.0	6%

Sales for fiscal year 2006 of $339.7 million were $19.0 million, or 6%, higher than sales of $320.7 million for fiscal year 2005. Explanations for the sales increase or decrease by market for fiscal year 2006 as compared to fiscal year 2005 are as follows:

Radar and Electronic Warfare: The majority of our sales in the radar and electronic warfare markets are for products for domestic and international defense and government end uses. On a combined basis, sales for these two markets increased from an aggregate of $137.1 million in fiscal year 2005 to an aggregate of $146.7 million in fiscal year 2006.

In the radar market, sales increased primarily due to increased shipments of products for various U.S. Government and foreign military programs, including products that are used on the TPQ-37 Firefinder Artillery Locating Radar program, the LANTIRN navigation and targeting system, the SPN-35C Aircraft Landing System, the Aegis program and Federal Aviation Administration radar systems.

In the electronic warfare market, sales decreased primarily due to the timing of shipments for a prototype system for the Project Sheriff Active Denial System. In fiscal year 2005, we shipped $1.6 million in products for the Project Sheriff Active Denial System; these shipments did not repeat in fiscal year 2006. This decrease was partially offset by an increase in shipments for foreign military programs and products used on the SLQ-32 electronic countermeasures system, NULKA expendable decoy system and ALQ-187 electronic countermeasures system.

Medical: The increase in sales in the medical market was due to an approximately 33% increase in shipments of our x-ray generators, including $4.5 million in shipments to Russia and South America. Sales of our medical imaging and radiation therapy products increased approximately 15%. These increases were partially offset by a $3.9 million reduction in shipments from Eimac due to its relocation in fiscal year 2006.

Communications: The increase in sales in the communications market was primarily the result of a $7.5 million increase in shipments of our newer satellite communications products, including our millimeter wave amplifiers and outdoor unit amplifiers, and a $3.9 million increase in shipments of our indoor unit amplifiers. These increases were partially offset by a $6.3 million decrease in shipments of satellite communications amplifiers for direct-to-home broadcast applications. In addition, as expected, the relocation of Eimac resulted in a $5.0 million reduction in shipments of communications products in fiscal year 2006.

Industrial: The decrease in industrial sales was primarily due to a $2.4 million decrease in shipments of industrial products from Eimac as a result of the acceleration of the shipment of products into fiscal year 2005 in preparation for the relocation of Eimac in fiscal year 2006. This decrease was partially offset by an increase in demand for power supplies used in semiconductor manufacturing equipment and for an upgrade to an amplifier used in industrial heating.

Scientific: Sales in the scientific market, our smallest market, are historically one-time projects and can fluctuate significantly from period to period. The primary contributors to the decrease in scientific sales were product deliveries on programs for a European laboratory and for the Spallation Neutron Source at Oakridge National Laboratory in fiscal year 2005 that did not repeat in fiscal year 2006.

Gross Profit. Gross profit of $103.7 million, or 30.5% of sales, for fiscal year 2006 was $1.0 million lower than fiscal year 2005 gross profit of $104.7 million, or 32.6% of sales. The decrease in gross profit in fiscal year 2006 as compared to fiscal year 2005 was primarily due to: the relocation of Eimac, which negatively impacted gross margins by $5.2 million; start-up costs for and a shift in the mix to newer, lower margin satcom products, which negatively impacted fiscal year 2006 gross margins as compared to fiscal year 2005 by $2.2 million; and $2.4 million due to the impact of the weaker U.S. dollar as compared to the Canadian dollar in fiscal year 2006 and the expiration of a favorable Canadian dollar hedge in March 2006. These decreases were mostly offset by approximately $9.0 million higher gross margin related primarily to higher sales in fiscal year 2006 compared to fiscal year 2005.

Our satcom business has developed numerous new products over the past several years. The successful introduction of these new products has resulted in a gradual shift in our backlog to newer products. As we ramped up production of these new products in fiscal year 2006, we incurred start-up manufacturing costs, which contributed to lower margins in fiscal year 2006 as compared to fiscal year 2005.

Research and Development. Research and development of $8.6 million, or 2.5% of sales, for fiscal year 2006 was $1.4 million higher than fiscal year 2005 research and development of $7.2 million, or 2.2% of sales. The increase was due to increased spending as we invest for future growth in medical diagnostic imaging products and VED products for the radar, electronic warfare and satellite communication markets. 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 $13.1 million, or 4.1% of sales, in fiscal year 2005 to $14.8 million, or 4.3% of sales, in fiscal year 2006.

Selling and Marketing. Selling and marketing expenses were $19.8 million in fiscal year 2006, a $1.3 million increase from fiscal year 2005. Selling and marketing expenses were 5.8% of sales in both fiscal year 2005 and 2006. This planned increase of $1.3 million in selling and marketing expenses in fiscal year 2006 was primarily due to additional headcount, tradeshows and other selling and marketing expenses to stimulate and support the growth of our business, as well as $0.2 million for the special bonus, discussed below.

General and Administrative. General and administrative expenses were $22.4 million, or 6.6% of sales, for fiscal year 2006 as compared to $27.9 million, or 8.7% of sales, for fiscal year 2005. The following table further breaks out general and administrative expenses (in millions):

	Year Ended	
	September 29, 2006	September 30, 2005
Stock-based compensation	$ 0.2	$ 7.0
Special bonus expense	2.7	
Direct expenses for the Eimac relocation	1.2	1.0
Other general and administrative	18.3	19.9
Total	$ 22.4	$ 27.9

General and administrative expenses were lower in fiscal year 2006 due primarily to lower management bonuses (discussed under " Calculation of Management Bonuses" below), which was partially offset by an increase in directors and officers insurance premiums, legal and accounting expenses and other expenses of approximately $0.5 million associated with being a public company.

Fiscal year 2005 includes $7.0 million of stock-based compensation expense for performance-based stock options. In September 2005, the Compensation Committee of our board of directors approved the acceleration of vesting of all outstanding performance-based stock options. Fiscal year 2005 stock-based compensation expense includes $2.8 million 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.

Special Bonus. On December 15, 2005, our board of directors approved the payment of $3.25 million in special, one-time 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 consolidated statement of operations 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 $2.2 million for fiscal year 2006 was $5.3 million lower than fiscal year 2005. Amortization of acquisition-related intangibles consists of purchase accounting charges, primarily for customer backlog, technology and other intangible assets. Fiscal year 2005 included $5.3 million for the amortization of customer backlog, which was fully amortized in January 2005.

Interest Expense, net ("Interest Expense"). Interest Expense of $23.8 million for fiscal year 2006 was $3.5 million higher than fiscal year 2005 Interest Expense of $20.3 million. Interest Expense increased primarily due to the issuance of the floating rate senior notes in February 2005, resulting in approximately seven months interest expense in fiscal year 2005 and 12 months interest expense in fiscal year 2006, with approximately $3.5 million higher interest expense in fiscal year 2006. Interest Expense was also impacted by higher interest rates on our term loan in fiscal year 2006 based on a general increase in interest rates, offset by a lower average balance on our term loan in fiscal year 2006, as proceeds from our initial public offering were used to repay a portion of our term loan in May 2006.

Income Tax Expense. We recorded income tax expense of $9.1 million for fiscal years 2006 and 2005. The effective income tax rates were approximately 34% and 40% for fiscal years 2006 and 2005, respectively. The lower effective income tax rate in fiscal year 2006 is primarily due to a change in filing position that was made as a result of foreign income tax planning activities, including the related adjustment for the difference between the estimated income tax expense for fiscal year 2005 and the actual taxes paid with the 2005 tax return based on the new tax filing position. The tax benefit from this change in filing position was partially offset by an increase in tax contingency reserves based on a tax examination by the Canada Revenue Agency for tax returns filed in fiscal years 2000 through 2003.

Net Income. Net income of $17.2 million, or 5.1% of sales, for fiscal year 2006 was $3.5 million higher than net income for fiscal year 2005 of $13.7 million, or 4.3% of sales. Higher net income for fiscal year 2006 was primarily due to higher sales volume, lower amortization of acquisition-related intangible assets and lower stock-based compensation expense, partially offset by the special bonus and lower gross margins due to the relocation of Eimac in fiscal year 2006.

EBITDA. EBITDA of $59.1 million for fiscal year 2006 was $1.8 million higher than fiscal year 2005 primarily due to higher sales volume and lower stock based compensation, partially offset by lower gross margins due to the relocation of Eimac in fiscal year 2006.

Calculation of Management Bonuses. Management bonuses were $2.5 million in fiscal year 2006 compared to $3.9 million in fiscal year 2005. Management bonuses for fiscal years 2006 and 2005 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 certain participating members of management. The weight given to each of these factors varied for each person. Generally, for our officers, equal weight was generally 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 2006 and 2005 were paid in cash approximately three months after the end of the fiscal year. 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 pre-determined in our management incentive plan for the fiscal year. EBITDA for purposes of calculating management bonuses for fiscal year 2006 was $67.2 million compared to $66.4 million in fiscal year 2005. The non-recurring and non-cash charges that were excluded from EBITDA in calculating management bonuses (a) for fiscal year 2006 were direct costs for the Eimac relocation of $4.6 million, stock-based compensation expense of $0.3 million and the special bonus of $3.25 million and (b) for fiscal year 2005 were directs costs for the Eimac relocation of $1.8 million, stock-based compensation expense of $7.0 million and $0.4 million of charges for the amortization of inventory write-up in connection with the Econco acquisition. 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.

Liquidity and Capital Resources

Overview

Our liquidity is affected by many factors, some of which are based on normal ongoing operations of our business and others that are related to uncertainties in the markets in which we compete and other global economic factors. We have historically financed, and intend to continue to finance, our capital and working capital requirements including debt service and internal growth, through a combination of cash flows from our operations and borrowings under our senior credit facilities. Our primary uses of cash are cost of sales, operating expenses, debt service and capital expenditures.

We believe that we have the financial resources to meet our business requirements for the next 12 months, including capital expenditures and working capital requirements.

Cash and Working Capital

The following summarizes our cash and cash equivalents and working capital (in thousands):

	Year Ended		
	September 28, 2007	September 29, 2006	September 30, 2005
Cash and cash equivalents	$ 20,474	$ 30,153	$ 26,511
Working capital	$ 81,547	$ 77,113	$ 65,400

We invest cash balances in excess of operating requirements in overnight U.S. Government securities and money market accounts. In addition to the above cash and cash equivalents, we have restricted cash of $2.3 million as of September 28, 2007, consisting primarily of bank guarantees from customer advance payments to our international subsidiaries. The bank guarantees become unrestricted cash when performance under the sales or supply contract is complete.

The significant factors underlying the net decrease in cash and cash equivalents during fiscal year 2007 were the acquisition of Malibu for $22.2 million, net of cash acquired, and capital acquisitions of $8.2 million, partially offset by the net cash provided by our operating activities of $21.7 million.

As of September 28, 2007, we had $246.75 million in total principal amount of debt outstanding, compared to $247.5 million as of September 29, 2006. As of September 28, 2007, we had borrowing availability of $56.3 million under the revolver under our senior credit facilities.

Historical Operating, Investing and Financing Activities

Operating Activities

In fiscal years 2007, 2006 and 2005, we funded our operating activities through cash generated internally. For fiscal year 2007, net cash provided by operating activities was $21.7 million compared to $10.9 million and $31.3 million for fiscal years 2006 and 2005, respectively.

The $10.8 million increase in net cash provided by operating activities for fiscal year 2007 compared to fiscal year 2006 was primarily due to $16.0 million higher cash generated from net income, excluding non-cash charges, slightly offset by $5.2 million higher cash used for working capital in fiscal year 2007. As compared to fiscal year 2006, fiscal year 2007 had a higher net income of $5.3 million and higher total non-cash charges of $10.7 million due primarily to $4.7 million non-cash loss on debt extinguishment, deferred income taxes of $5.4 million and an increase in tax benefit from stock option exercises of $1.2 million. In fiscal year 2007, the increase in working capital was primarily due to (1) an increase in accounts receivable due to overall higher sales; (2) an increase in inventories primarily due to increasing sales volume, the timing of sales contracts, and an increase in inventory that was purchased due to sales order forecasts and to satisfy customer delivery commitments; and (3) the reduction in income taxes payable due to the timing of payments and a discrete tax benefit related to the filing of amended tax return for prior years to reflect a change in reporting Canadian income earned in the U.S.

The $20.4 million decrease in net cash provided by operating activities for fiscal year 2006 compared to fiscal year 2005 was primarily due to $10.8 million lower cash generated from net income, excluding non-cash charges, and $10.0 million higher cash used for working capital in fiscal year 2006. Although net income was $3.5 million higher in fiscal year 2006 compared to fiscal year 2005, fiscal year 2005 had higher non-cash charges of $6.7 million for stock-based compensation expense and $5.3 million for intangible amortization expense. In fiscal year 2006, the increase in working capital was primarily due to the reduction in accounts payable and accrued expenses due to the timing of payments made to our suppliers, partially offset by increases in income tax payable due to the tax gain on the sale of our San Carlos, California property and increases in tax contingency reserve requirements. The fiscal year 2006 reduction in cash generated from operating activities was also due to a reduction in advance payments from customers, primarily due to the completion of direct-to-home sale contracts.

Investing Activities

For fiscal year 2007, net cash used in investing activities was $30.3 million, compared to $0.2 million and $35.7 million for fiscal years 2006 and 2005, respectively.

Investing activities for fiscal year 2007 consisted primarily of $22.2 million for the acquisition of Malibu, net of cash acquired, and capital expenditures of $8.2 million, including $4.1 million to complete the building expansion project at our Canadian facility. We funded the acquisition of Malibu out of cash on hand generated from operations.

Investing activities for fiscal year 2006 consisted primarily of $10.9 million for capital expenditures, including $4.7 million for capital equipment, building and land lease improvements in Palo Alto, California related to the Eimac relocation and $2.3 million for a building expansion project at our Canadian facility. The capital expenditures were almost entirely offset by the net proceeds from the sale of the San Carlos, California property of $10.7 million ($11.3 million gross proceeds less expenses for the sale of $0.6 million). We generally fund ongoing capital expenditures with cash generated from operating activities. However, capital expenditures for the improvements to our Palo Alto facility were funded with proceeds from the sale of the San Carlos property.

Investing activities for fiscal year 2005 consisted primarily of $18.3 million for the purchase of Econco and $17.1 million for capital expenditures, including $13.1 million for capital equipment, building and land lease improvements related to the Eimac relocation. We funded the purchase of Econco out of cash on hand generated from operations and funded our capital expenditures out of cash flows from operations and the $13.5 million advance payment received in fiscal year 2004 in connection with the sale of the San Carlos property.

Financing Activities

Net cash used in financing activities was $1.0 million for fiscal year 2007, compared to $7.1 million and $9.6 million for fiscal years 2006 and 2005, respectively.

Net cash used in financing activities for fiscal year 2007 consisted primarily of $100.75 million repayments on the floating rate senior notes and the term loan under our senior credit facilities, and $2.5 million of debt issue costs incurred to issue our new term loan facility. Cash used in financing activities was partially offset by $100.0 million of proceeds from borrowings under our new term loan, $1.4 million of proceeds from stock option exercises and $0.8 million excess tax benefit from stock option exercises.

For fiscal year 2006, financing activities consisted primarily of the initial public offering of our common stock, which was completed on May 3, 2006, and the special cash dividend paid to stockholders of CPI International. In the initial public offering, we sold 2,941,200 shares of common stock and the selling stockholders sold 4,117,670 shares, at an initial public offering price to the public of $18.00 per share, resulting in total proceeds to us of approximately $47.3 million, net of transaction costs of approximately $5.6 million. We used the net proceeds of the initial public offering to repay $47.5 million of the term loan under our senior credit facilities. In December 2005, our board of directors declared and paid a special cash dividend of $17 million to stockholders of CPI International. This dividend was paid using the $10 million in net proceeds obtained from the additional borrowing under our senior credit facilities in connection with the December 2005 amendment thereto and available cash.

Net cash used in financing activities for fiscal year 2005 consisted primarily of a $75.8 million special cash dividend to holders of CPI International's common stock, $9.6 million repayments on the term loan under our senior credit facilities, and $3.5 million of debt issue costs incurred to issue the floating rate senior notes, partially offset by $79.2 million of proceeds from the issuance of floating rate senior notes. The term loan repayments in fiscal year 2005 included a $3.9 million required annual prepayment and an optional prepayment of $5.7 million.

If the leverage ratio under our amended and restated senior credit facilities exceeds 3.5:1 at the end of any fiscal year, then we are required to make an annual prepayment within 90 days after the end of the fiscal year based on a calculation of excess cash flow, as defined in the senior credit facilities, multiplied by a factor of 50%, less any optional prepayments made during the fiscal year. Based on a forecasted calculation of excess cash flow for fiscal year 2007, no excess cash flow payment is expected to be made for fiscal year 2007. Excess cash flow payments for fiscal years 2006 (made in fiscal year 2007) and 2005 (made in fiscal year 2006) were $1.7 million and zero, respectively.

Contractual Obligations

The following table summarizes our significant contractual obligations at September 28, 2007 and the effect that such obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	$ 8,122	$ 1,891	$ 2,342	$ 795	$ 3,094
Purchase commitments	30,100	30,100			
Debt obligations	246,750	1,000	2,000	221,750	22,000
Interest on debt obligations	84,300	17,843	36,905	23,747	5,805
Total cash obligations	$ 369,272	$ 50,834	$ 41,247	$ 246,292	$ 30,899
Standby letters of credit	$ 3,725	$ 3,725			

The amounts for debt obligations and interest on debt obligations assume (1) that the respective debt instruments will be outstanding until their scheduled maturity dates, except for the term loan under the senior credit facilities, which is assumed to mature on the earlier date of August 1, 2011 as described below under " Senior Credit Facilities," (2) that interest rates in effect on September 28, 2007 remain constant for future periods, and (3) a debt level based on mandatory repayments according to the contractual amortization schedule. The above table also excludes any optional prepayments.

The expected timing of payment amounts of the obligations in the above table is estimated based on current information; timing of payments and actual amounts paid may be different.

Leases: We are committed to minimum rentals under non-cancelable operating lease agreements, primarily for land and facility space, that expire on various dates through 2050. Certain of our leases provide for escalating lease payments.

Purchase Commitments: As of September 28, 2007, we had purchase commitments for terms of one year or less of $30.1 million, which include future purchases primarily for inventory-related items under various purchase arrangements as well as other obligations in the ordinary course of business that we cannot cancel or where we would be required to pay a termination fee in the event of cancellation.

Debt Obligations:

Long-term debt comprises the following (in thousands):

	September 28, 2007	September 29, 2006
Term loan, expiring 2010	$	$ 42,500
Term loan, expiring 2014	99,750	
8% Senior subordinated notes, due 2012	125,000	125,000
Floating rate senior notes, due 2015, net of issue discount of $183 and $719	21,817	79,281
	246,567	246,781
Less: Current portion	1,000	1,714
Long-term portion	$ 245,567	$ 245,067

Senior Credit Facilities: On August 1, 2007, Communications & Power Industries amended and restated its then existing senior credit facilities. The amended and restated senior credit facilities provide for borrowings of up to an aggregate principal amount of $160 million, consisting of a $100 million term loan facility and a $60 million revolving credit facility, with a sub-facility of $15 million for letters of credit and $5 million for swing line loans. Upon certain specified conditions, including maintaining a senior secured leverage ratio of 3.75:1 or less on a pro forma basis, Communications & Power Industries may seek commitments for a new class of term loans, not to exceed $125 million in the aggregate. Our senior credit facilities, as amended and restated, are guaranteed by CPI International and all of Communications & Power Industries' domestic subsidiaries and are secured by substantially all of the assets of CPI International, Communications & Power Industries and Communications & Power Industries' domestic subsidiaries.

Except as provided in the following sentence, the term loan will mature on August 1, 2014 and the revolver will mature on August 1, 2013. However, if, prior to August 1, 2011, Communications & Power Industries has not repaid or refinanced its $125 million 8% senior subordinated notes due 2012, both the term loan and the revolver will mature on August 1, 2011.

The senior credit facilities as amended and restated replaced Communications & Power Industries' previous senior credit facilities of $130 million. On the closing date of the amendment and restatement, Communications & Power Industries borrowed $100 million under the term loan, the proceeds of which were principally used to satisfy outstanding term loan amounts of $37.5 million under our previous senior credit facilities and to pay a dividend to CPI International to permit CPI International to repurchase and redeem $58 million aggregate principal amount of its floating rate senior notes described below. Future borrowings under our senior credit facilities may be used for general corporate purposes.

Borrowings under our senior credit facilities bear interest at a rate equal to, at Communications & Power Industries' option, LIBOR or the ABR plus the applicable margin. The ABR is the greater of the (a) the prime rate and (b) the federal funds rate plus 0.50%. For term loans, the applicable margin will be 2.00% for LIBOR borrowings and 1.00% for ABR borrowings. The applicable margins under the revolver vary depending on Communications & Power Industries' leverage ratio, as defined in the senior credit facilities, and range from 1.25% to 2.00% for LIBOR borrowings and from 0.25% to 1.00% for ABR borrowings.

In addition to customary fronting and administrative fees under the senior credit facilities, Communications & Power Industries will pay letter of credit participation fees equal to the applicable LIBOR margin per annum on the average daily amount of the letter of credit exposure, and a commitment fee on the average daily unused commitments under the revolver. The commitment fee will vary depending on the leverage ratio, as defined in the senior credit facilities, and will range from 0.25% to 0.50%.

The senior credit facilities require that Communications & Power Industries repay $250,000 of the term loan at the end of each fiscal quarter prior to the maturity date of the term loan, with the remainder due on the maturity date. Communications & Power Industries is required to prepay its outstanding loans under the senior credit facilities, subject to certain exceptions and limitations, with net cash proceeds received from certain events, including, without limitation (1) all such proceeds received from certain asset sales by CPI International, Communications & Power Industries or any of Communications & Power Industries' subsidiaries, (2) all such proceeds received from issuances of debt (other than certain specified permitted debt) or preferred stock by CPI International, Communications & Power Industries or any of Communications & Power Industries' subsidiaries, and (3) all such proceeds paid to CPI International, Communications & Power Industries or any of Communications & Power Industries' subsidiaries from casualty and condemnation events in excess of amounts applied to replace, restore or reinvest in any properties for which proceeds were paid within a specified period.

If Communications & Power Industries' leverage ratio, as defined in the senior credit facilities, exceeds 3.5:1 at the end of any fiscal year, Communications & Power Industries will also be required to make an annual prepayment within 90 days after the end of such fiscal year equal to 50% of excess cash flow, as defined in senior credit facilities, less optional prepayments made during the fiscal year. Communications & Power Industries can make optional prepayments on the outstanding loans at any time without premium or penalty, except for customary "breakage" costs with respect to LIBOR loans.

The senior credit facilities contain a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of CPI International, Communications & Power Industries or any of Communications & Power Industries' subsidiaries to: sell assets; engage in mergers and acquisitions; pay dividends and distributions or repurchase their capital stock; incur additional indebtedness or issue equity interests; make investments and loans; create liens or further negative pledges on assets; engage in certain transactions with affiliates; enter into sale and leaseback transactions; amend agreements or make prepayments relating to subordinated indebtedness; and amend or waive provisions of charter documents in a manner materially adverse to the lenders. Communications & Power Industries and its subsidiaries must comply with a maximum capital expenditure limitation and a maximum total secured leverage ratio, each calculated on a consolidated basis for Communications & Power Industries.

Communications & Power Industries made the scheduled payment of $250,000 on the term loan during the fourth quarter of fiscal year 2007, leaving a principal balance of $99.75 million as of September 28, 2007.

8% Senior subordinated notes due 2012 of Communications & Power Industries: In connection with the January 23, 2004 merger, Communications & Power Industries issued $125.0 million in aggregate principal amount of its 8% senior subordinated notes due 2012. The proceeds of the notes were used to redeem our predecessor's outstanding indebtedness and pay part of the merger consideration. The notes have no sinking fund requirements.

The 8% senior subordinated notes bear interest at the rate of 8.0% per year, payable on February 1 and August 1 of each year. The notes will mature on February 1, 2012. The notes are unsecured obligations, jointly and severally guaranteed by CPI International and each of Communications & Power Industries' domestic subsidiaries. The payment of all obligations relating to the notes are subordinated in right of payment to the prior payment in full in cash or cash equivalents of all senior debt (as defined in the indenture governing the 8% senior subordinated notes) of Communications & Power Industries, including debt under our senior credit facilities. Each guarantee of the 8% senior subordinated notes is and will be subordinated to guarantor senior debt (as defined in the indenture governing the 8% senior subordinated notes) on the same basis as the notes are subordinated to Communications & Power Industries' senior debt.

At any time or from time to time on or after February 1, 2008, Communications & Power Industries, at its option, may redeem the 8% senior subordinated notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount) set forth below, together with accrued and unpaid interest thereon, if any, to the redemption date, if redeemed during the 12-month period beginning on February 1 of the years indicated below:

Year	Optional Redemption Price
2008	104%
2009	102%
2010 and thereafter	100%

At any time on or prior to February 1, 2008, the 8% senior subordinated notes may also be redeemed or purchased (by Communications & Power Industries or any other person) in whole but not in part, at Communications & Power Industries' option, upon the occurrence of a change of control (as defined in the indenture governing the 8% senior subordinated notes) at a price equal to 100% of the principal amount of the notes, plus a "make-whole" premium (as defined in the indenture governing the 8% senior subordinated notes) to the redemption price on February 1, 2008, and accrued and unpaid interest, if any, to, the date of redemption or purchase.

Upon a change of control, Communications & Power Industries may be required to purchase all or any part of the notes for a cash price equal to 101% of the principal amount, plus accrued and unpaid interest thereon, if any, to the date of purchase.

The indenture governing the 8% senior subordinated notes contains a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of Communications & Power Industries and its restricted subsidiaries (as defined in the indenture governing the 8% senior subordinated notes) to incur additional indebtedness, sell assets, consolidate or merge with or into other companies, pay dividends or repurchase or redeem capital stock or subordinated indebtedness, make certain investments, issue capital stock of their subsidiaries, incur liens and enter into certain types of transactions with their affiliates.

Events of default under the indenture governing the 8% senior subordinated notes include: failure to make payments on the notes when due; failure to comply with covenants in the indenture governing the 8% senior subordinated notes a default under certain other indebtedness of Communications & Power Industries or any of its restricted subsidiaries that is caused by a failure to make payments on such indebtedness or that results in the acceleration of the maturity of such indebtedness; the existence of certain final judgments or orders against Communications & Power Industries or any of the restricted subsidiaries; and the occurrence of certain insolvency or bankruptcy events.

Floating rate senior notes due 2015 of CPI International: On February 22, 2005, CPI International issued $80.0 million in principal amount of its floating rate senior notes due 2015. The floating rate senior notes were issued at a 1% discount. The proceeds from the issuance of the floating rate senior notes were used during fiscal year 2005 to make a distribution to stockholders of CPI International of approximately $75.8 million and to pay fees and expenses of approximately $3.5 million associated with the issuance of the floating rate senior notes. The notes have no sinking fund requirements.

On August 2, 2007, CPI International closed its tender offer for a portion of the floating rate senior notes, with $38.2 million in aggregate principal amount of the floating rate senior notes tendered and accepted for purchase. Tendering holders were paid an aggregate of approximately $39.4 million, representing $1,032.50 per $1,000.00 principal amount of the notes tendered, plus accrued interest up to, but not including, the date of purchase.

On September 5, 2007, CPI International, completed the redemption of an additional $19.8 million in principal amount of the floating rate senior notes. The redemption price, including the call premium, paid to note holders was 103% of the principal amount of the notes. Including the call price and accrued and unpaid interest, the total cash paid was $20.6 million. The redemption price was funded from borrowings under the revolver under our newly amended and restated senior credit facilities. Following this redemption, $22.0 million aggregate principal amount of the floating rate senior notes remain outstanding.

The floating rate senior notes require interest payments at an annual interest rate, reset at the beginning of each semi-annual period, equal to the then six-month LIBOR plus 5.75%, payable semiannually on February 1 and August 1 of each year. The interest rate on the semi-annual interest payment due February 1, 2008 is approximately 11.0625% per annum. CPI International may, at its option, elect to pay interest through the issuance of additional floating rate senior notes for any interest payment date on or after August 1, 2006 and on or before February 1, 2010. If CPI International elects to pay interest through the issuance of additional floating rate senior notes, the annual interest rate on the floating rate senior notes will increase by an additional 1% step-up, with the step-up increasing by an additional 1% for each interest payment made through the issuance of additional floating rate senior notes (up to a maximum of 4%). The floating rate senior notes will mature on February 1, 2015.

The floating rate senior notes are general unsecured obligations of CPI International. The floating rate senior notes are not guaranteed by any of CPI International's subsidiaries but are structurally subordinated to all existing and future indebtedness and other liabilities of CPI International's subsidiaries. The floating rate senior notes are senior in right of payment to CPI International's existing and future indebtedness that is expressly subordinated to the floating rate senior notes.

Because CPI International is a holding company with no operations of its own, CPI International relies on distributions from Communications & Power Industries to satisfy its obligations under the floating rate senior notes. Our senior credit facilities and the indenture governing Communications & Power Industries' 8% senior subordinated notes restrict Communications & Power Industries' ability to make distributions to CPI International. Our senior credit facilities prohibit Communications & Power Industries from making distributions to CPI International unless there is no default under the senior credit facilities and Communications & Power Industries satisfies a senior secured leverage ratio of 3.75:1, and in the case of distributions to pay amounts other than interest on the floating rate senior notes, the amount of the distribution and all prior such distributions do not exceed a specified amount. The indenture governing the 8% senior subordinated notes prohibits Communications & Power Industries from making distributions to CPI International unless, among other things, there is no default under the indenture and the amount of the proposed dividend plus all previous Restricted Payments (as defined in the indenture governing the 8% senior subordinated notes) does not exceed a specified amount.

At any time or from time to time on or after February 1, 2007, CPI International, at its option, may redeem the floating rate senior notes in whole or in part at the redemption prices (expressed as percentages of principal amount) set forth below, together with accrued and unpaid interest thereon, if any, to the redemption date, if redeemed during the 12-month period beginning on February 1 of the years indicated below:

Year	Optional Redemption Price
2007	103%
2008	102%
2009	101%
2010 and thereafter	100%

Upon a change of control, as defined in the indenture governing the floating rate senior notes, CPI International may be required to purchase all or any part of the outstanding floating rate senior notes for a cash price equal to 101% of the principal amount, plus accrued and unpaid interest thereon, if any, to the date of purchase.

The indenture governing the floating rate senior notes contains certain covenants that, among other things, limit the ability of CPI International and its restricted subsidiaries (as defined in the indenture governing the floating rate senior notes) to incur additional indebtedness, sell assets, consolidate or merge with or into other companies, pay dividends or repurchase or redeem capital stock or subordinated indebtedness, make certain investments, issue capital stock of their subsidiaries, incur liens and enter into certain types of transactions with their affiliates.

Events of default under the indenture governing the floating rate senior notes include: failure to make payments on the floating rate senior notes when due; failure to comply with covenants in the indenture governing the floating rate senior notes; a default under certain other indebtedness of CPI International or any of its restricted subsidiaries that is caused by a failure to make payments on such indebtedness or that results in the acceleration of the maturity of such indebtedness; the existence of certain final judgments or orders against CPI International or any of the restricted subsidiaries; and the occurrence of certain insolvency or bankruptcy events.

Interest Rate Swaps: To hedge the interest rate exposure associated with the term loan under our senior credit facilities, on September 28, 2007, we entered into an interest rate swap contract to receive three-month USD-LIBOR-BBA (British Bankers' Association) interest and pay 4.77% fixed rate interest. Net interest positions are settled quarterly. We have structured this interest rate swap with decreasing notional amounts to match the expected pay down of the term loan. The notional value of the interest rate swap was $90.0 million at September 28, 2007 and represented approximately 90% of the aggregate term loan balance. The interest rate swap agreement is effective through June 30, 2011. There are no collateral requirements under the interest rate swap.

On August 31, 2007, we completed an early settlement of our $80.0 million interest rate swap contract associated with the floating rate senior notes, for which we received $0.4 million in cash representing the final net swap interest originally due on January 31, 2008.

Covenant Compliance: Our ability to continue to operate depends, among other things, on our continued access to capital, including credit under our senior credit facilities. These credit facilities, along with the indentures governing the floating rate senior notes and the 8% senior subordinated notes, contain certain restrictive covenants. Continued access to our senior credit facilities is subject to remaining in compliance with the covenants thereunder.

Our senior credit facilities contain a maximum total secured leverage ratio covenant of 3.75:1 for Communications & Power Industries. As of September 28, 2007, the secured leverage ratio for Communications & Power Industries was 2.83:1. The secured leverage ratio is the ratio of Consolidated Secured Indebtedness (as defined for purposes of our senior credit facilities, which generally includes total secured debt less cash and cash equivalents, of Communications & Power Industries) to

Consolidated EBITDA (as computed pursuant to the formulas set forth in our senior credit facilities). For fiscal year 2007, Consolidated Secured Indebtedness was $205.7 million and Consolidated EBITDA was $72.7 million.

Consolidated EBITDA is used to determine compliance with many of the covenants contained in our senior credit facilities. Consolidated EBITDA and all of its component elements are defined in our debt agreements and include non-GAAP measures. Consolidated EBITDA is defined as EBITDA further adjusted to exclude unusual items, non-cash items and other adjustments permitted in calculating covenant compliance under our senior credit facilities, as shown in the table below.

Consolidated EBITDA as calculated under our senior credit facilities for fiscal year 2007 is as follows (in thousands):

EBITDA(a)	$	64,288
Stock compensation expense(b)		1,239
Prior year inventory correction(c)		(571)
Proforma Malibu Research Associates(d)		1,420
Loss on debt extinguishment(e)		6,331
Consolidated EBITDA	$	72,707

(a) For a reconciliation of net income to EBITDA for fiscal year 2007, see footnote 8 in "Selected Financial Data."

(b) Represents a non-cash charge for stock compensation related to stock options, and restricted stock and the discount on our employee stock purchases plan granted in fiscal year 2007.

(c) Represents a non-cash reduction to cost of sales to correct inventory that was expensed in prior periods.

(d) Represents proforma Consolidated EBITDA for Malibu for the period September 30, 2006 through August 10, 2007 prior to our acquisition of Malibu.

(e) Represents costs associated with our debt refinancing during fiscal year 2007, which include non-cash write-offs of $4.7 million of unamortized debt issue costs and issue discount costs and $1.9 million in cash payments for call premiums, partially offset by $0.3 million of cash proceeds from the early termination of the related interest rate swap agreement.

Events beyond our control may affect our ability to comply with the covenant ratios described above as well as the other covenants in our senior credit facilities. Any breach of the covenants in our senior credit facilities could result in a default and could trigger acceleration of (or the right to accelerate) the amounts owing under our senior credit facilities. Because of cross-default provisions in the agreements and instruments governing our indebtedness, a default under our senior credit facilities 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 the indebtedness under our senior credit facilities were to be accelerated, our ability to operate our business would be materially impaired.

As of September 28, 2007 we are in compliance with the covenants under the indentures governing our floating rate senior notes, 8% senior subordinated notes and the agreements governing our senior credit facilities, and we expect to remain in compliance with those covenants throughout fiscal year 2008.

Contingent Earnout Consideration

In addition to the $22.2 million of net cash consideration paid for the Malibu acquisition, there is a potential earnout payable to the former stockholders of Malibu of up to $14.0 million, which is primarily contingent upon the achievement of certain financial objectives over the three years following the acquisition; and a discretionary earnout of up to $1.0 million contingent upon achievement of certain succession planning goals by June 30, 2010. As of September 28, 2007, we have not accrued any of these contingent earnout amounts. Any earnout consideration paid based on financial performance will be recorded as additional goodwill. Any discretionary succession earnout consideration paid will be recorded as general and administrative expense.

Dividends from Communications & Power Industries to CPI International

For fiscal years 2007, 2006 and 2005, respectively, Communications & Power Industries paid $66.3 million, $24.9 million and $4.1 million of cash dividends to CPI International. In fiscal year 2007, CPI international used $6.3 million of the cash dividends to make cash interest payments on the floating rate senior notes, $58.0 million to repurchase and redeem floating rate senior notes and $2.0 million for redemption premiums and other fees and expenses related to the repurchase and redemption of the floating rate senior notes. In fiscal year 2006, CPI International used the cash dividends from Communications & Power Industries to make cash interest payments of $7.9 million on the floating rate senior notes and to pay a special cash dividend of $17.0 million to its stockholders. In fiscal year 2005, CPI International used the cash dividends from Communications & Power Industries to make cash interest payments of $3.1 million on the floating rate senior notes and a $1.0 million deposit as collateral on a previous interest rate swap. In fiscal year 2006, a portion of the special cash dividend was paid using $10 million in net proceeds obtained from an additional borrowing under our senior credit facilities. Our future ability to make semi-annual cash interest payments on our floating rate senior notes and pay any principal and related obligations will depend on Communications & Power Industries' ability to make dividends to CPI International in the amounts necessary for such payments. Our senior credit facilities prohibit Communications & Power Industries from making distributions to CPI International unless there is no default under our senior credit facilities and we and Communications & Power Industries satisfy the leverage ratio test described above.

The indenture governing Communications & Power Industries' 8% senior subordinated notes prohibits Communications & Power Industries from making distributions to us unless:

- There is no default under the indenture.

- The ratio of Communications & Power Industries' Consolidated Cash Flow (as defined in the indenture) for the most recent four quarters to Communications & Power Industries' Consolidated Interest Expense (as defined in the indenture) for the same period is at least two to one. As of September 28, 2007, the ratio of Communications & Power Industries' Consolidated Cash Flow for the most recent four quarters to Communications & Power Industries' Consolidated Interest Expense was 4.54 to one.

- The amount of the proposed dividend plus all previous Restricted Payments (as defined in the indenture) does not exceed the aggregate contractual limit on Restricted Payments, which is based on one-half of the aggregate Consolidated Net Income of Communications & Power Industries since the date of the issuance of the 8% senior subordinated notes, the amount of certain capital contributions and certain other items. In addition, the indenture permits up to $10 million of additional Restricted Payments outside of the contractual limit described in the preceding sentence.

San Carlos Facility

In September 2006, the sale of the land and building previously used by our operations in San Carlos, California was completed for aggregate proceeds of $24.8 million, of which $13.5 million was received in advance in fiscal year 2004 and the balance was received in September 2006. The aggregate sales proceeds of $24.8 million less the related selling costs of $1.3 million, offset by the land and building's net book value of approximately $23.5 million, resulted in no gain or loss on the sale.

Capital Expenditures

Our continuing operations typically do not have large recurring capital expenditure requirements. Capital expenditures are generally made to replace existing assets, increase productivity, facilitate cost reductions or meet regulatory requirements. Total capital expenditures for fiscal year 2007 were $8.2 million, including approximately $4.1 million for the expansion of the Canadian facility to accommodate its expected growth and $4.1 million for ongoing capital expenditures. In fiscal year 2008, ongoing capital expenditures, are expected to be approximately $5.0 to $6.0 million.

Recent Accounting Pronouncements

Accounting for Income Tax Uncertainties

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48, "Accounting for Income Tax Uncertainties." FIN No. 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN No. 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. Any differences between the amounts recognized in the statements of financial position prior to the adoption of FIN No. 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. We will be required to adopt FIN No. 48 in our fiscal year 2008 commencing September 29, 2007 and are currently in the process of determining the impact, if any, of adopting the provisions of this new standard on our financial position, results of operations and liquidity.

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. In particular, disclosures are required to provide information on: the extent to which fair value is used to measure assets and liabilities; the inputs used to develop measurements; and the effect of certain of the measurements on earnings (or changes in net assets). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities and for fiscal years beginning after November 15, 2008 for non-financial assets and liabilities. Early adoption, as of the beginning of an entity's fiscal year, is also permitted, provided interim financial statements have not yet been issued. We will be required to adopt SFAS No. 157 in our fiscal year 2009 commencing October 4, 2008 for financial assets and liabilities and in our fiscal year 2010 commencing October 2, 2009 for non-financial assets and liabilities. We are currently evaluating the potential impact, if any, that the adoption of this new standard will have on our consolidated financial statements.

Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)," which requires an employer to recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in its condensed consolidated balance sheet. Under SFAS No. 158, actuarial gains and losses and prior service costs or credits that have not yet been recognized through earnings as net periodic benefit cost will be recognized in other comprehensive income, net of tax, until they are amortized as a component of net periodic benefit cost. SFAS No. 158 is effective as of the end of the fiscal year ending after December 15, 2006 and shall not be applied retrospectively. On September 28, 2007, we adopted SFAS No. 158 and recognized the funded status of our defined benefit pension plan as an asset or liability on our consolidated balance sheet accordingly. The adoption of SFAS No. 158 did not have a material impact on our financial position or results of operations and did not impact our compliance with debt covenants of our borrowing arrangements.

Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in the current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 does not change the guidance in SAB No. 99, "Materiality," when evaluating the materiality of misstatements. SAB No. 108 is applicable for fiscal years ending after November 15, 2006. Upon initial application, SAB No. 108 permits a one-time cumulative effect adjustment to beginning retained earnings. The adoption of SAB No. 108 did not materially impact our financial position or results of operations.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115." SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We will be required to adopt SFAS No. 159 in our fiscal year 2009 commencing October 4, 2008 and are currently evaluating the impact, if any, that the adoption of this new standard will have on our consolidated financial statements.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles, or GAAP, in the United States of America, which require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon various factors and information available to us at the time that these estimates, judgments and assumptions are made. These factors and information may include, but are not limited to, history and prior experience, experience of other enterprises in the same industry, new related events, current economic conditions and information from third party professionals. The estimates, judgments and assumptions we make can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected.

We believe the following critical accounting policies are the most significant to the presentation of our financial statements and require the most subjective and complex judgments. These matters, and the judgments and uncertainties affecting them, are also essential to understanding our reported and future operating results. See Note 1 to our audited consolidated financial statements for a more comprehensive discussion of our significant accounting policies.

Revenue recognition

We generally recognize revenue upon shipment of product, following receipt of written purchase orders, when the price is fixed or determinable, title has transferred and collectibility is reasonably assured. Approximately 1% of our sales for our fiscal years 2005 through 2007 are based on the percentage of completion method of accounting where the sales value is determined on the basis of costs incurred and estimates of costs at completion, which require management estimates of future costs. Changes in estimated costs at completion over time could have a material impact on our operating results.

Inventory reserves

We assess the valuation of inventory and periodically write down the value for estimated excess and obsolete inventory based upon actual usage and estimates about future demand. The excess balance determined by this analysis becomes the basis for our excess inventory charge. Management personnel play a key role in our excess inventory review process by providing updated sales forecasts, managing product rollovers and working with manufacturing to maximize recovery of excess inventory. If our estimates regarding demand are inaccurate or changes in technology affect demand for certain products in an unforeseen manner, we may incur losses or gains in excess of our established markdown reserve that could be material.

Management also reviews the carrying value of inventory for lower of cost or market on an individual product or contract basis. A loss reserve is charged to cost of sales if the estimated product cost or the contract cost at completion is in excess of net realizable value (selling price less estimated cost of disposal). If the actual contract cost at completion is different than originally estimated, then a loss or gain provision adjustment would be recorded that could have a material impact on our operating results.

Product warranty

Our products are generally warranted for a variety of periods, typically one to three years or a predetermined product usage life. A provision for estimated future costs of repair, replacement or customer accommodations is reflected in the consolidated financial statements included in this report. We assess the adequacy of our preexisting warranty liabilities and adjust the balance based on actual experience and changes in future expectations. The determination of product warranty reserves requires us to make estimates of product return rates and expected cost to repair or replace the products under warranty. If actual repair and replacement costs differ significantly from our estimates, then adjustments to recognize additional cost of sales may be required.

Business combination and related goodwill and intangibles

We account for business combinations using the purchase method of accounting pursuant to SFAS No. 141, "Business Combinations." Intangible assets acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141.

Accounting for business combinations requires the allocation of purchase price to identifiable tangible and intangible assets and liabilities based upon their fair value. The allocation of purchase price is a matter of judgment and requires the use of estimates and fair value assumptions. The allocation of purchase price to finite-lived assets can have a significant impact on operating results because finite-lived assets are depreciated or amortized over their remaining useful lives.

The values assigned to acquired identifiable intangible assets for technology were determined based on the excess earnings method of the income approach. This method determines fair market value using estimates and judgments regarding the expectations of future after-tax cash flows from those assets over their lives, including the probability of expected future contract renewals and sales, all of which are discounted to their present value.

Recoverability of long-lived assets

We account for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and identifiable intangible assets with indefinite useful lives be tested for impairment at least annually. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We amortize identifiable intangible assets on a straight-line basis over their useful lives of up to 50 years.

We assess the recoverability of the carrying value of goodwill and other intangible assets with indefinite useful lives at least annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. Recoverability of goodwill is measured at the reporting unit level (our six divisions) based on a two-step approach. First, the carrying amount of the reporting unit is compared to the fair value as estimated by the future net discounted cash flows expected to be generated by the reporting unit. To the extent that the carrying value of the reporting unit exceeds the fair value of the reporting unit, a second step is performed, wherein the reporting unit's assets and liabilities are valued. The implied fair value of goodwill is calculated as the fair value of the reporting unit in excess of the fair value of all non-goodwill assets and liabilities allocated to the reporting unit. To the extent the reporting unit's carrying value of goodwill exceeds its implied fair value, impairment exists and must be recognized. This process requires the use of discounted cash flow models that utilize estimates of future revenue and expenses as well as the selection of appropriate discount rates. There is inherent uncertainty in these estimates, and changes in these factors over time could result in an impairment charge.

At September 28, 2007 and September 29, 2006, the carrying amount of goodwill and other intangible assets, net was $243.3 million and $223.0 million, respectively. As of September 28, 2007, no significant changes in the underlying business assumptions or circumstances that drive the impairment analysis led us to believe that goodwill might have been impaired. We will continue to evaluate the need for impairment if changes in circumstances or available information indicate that impairment may have occurred, and at least annually in the fourth quarter.

At September 28, 2007 and September 29, 2006, the carrying amount of property, plant and equipment was $66.0 million and $63.9 million, respectively. We assess the recoverability of property, plant and equipment to be held and used by a comparison of the carrying amount of an asset or group of assets to the future net undiscounted cash flows expected to be generated by the asset or group of assets. If such assets are considered impaired, then the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. This process requires the use of cash flow models that utilize estimates of future revenue and expenses. There is inherent uncertainty in these estimates, and changes in these factors over time could result in an impairment charge.

A prolonged general economic downturn and, specifically, a prolonged downturn in the defense, communications or medical markets, or technological changes, as well as other market factors could intensify competitive pricing pressure, create an imbalance of industry supply and demand, or otherwise diminish volumes or profits. Such events, combined with changes in interest rates, could adversely affect our estimates of future net cash flows to be generated by our long-lived assets. Consequently, it is possible that our future operating results could be materially and adversely affected by additional impairment charges related to the recoverability of our long-lived assets.

Accounting for stock-based compensation

At the beginning of fiscal year 2006, we adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), and SAB No. 107, "Share-Based Payment," for our existing stock option plans under the prospective method. Under the prospective method, only new awards (or awards modified, repurchased, or cancelled after the effective date) are accounted for under the provisions of SFAS No. 123R. Previously, we applied the intrinsic-value method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under the intrinsic-value method, compensation expense was recorded only if the market price of the stock exceeded the stock option exercise price at the measurement date. We will continue to account for stock option awards outstanding at September 30, 2005 using the intrinsic-value method of measuring equity share options.

The fair value of each option award is estimated on the date of grant using the Black-Scholes model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable and requires the input of subjective assumptions, including the expected stock price volatility and estimated option life. For options granted under performance-related plans, we assume that performance goals will be achieved. If such goals are not met, no compensation cost is recognized and any recognized compensation cost is reversed. For purposes of this valuation model, no dividends have been assumed.

In accordance with SFAS No. 123R, prior to becoming a public entity in April 2006, we used the minimum value method to determine a calculated value, rather than a fair value, of share awards. Under the minimum value method, stock price volatility was assumed to be zero. The estimated fair value (or calculated value, as applicable) of our stock-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis for awards granted after the adoption of SFAS No. 123R and on a graded vesting basis for awards granted prior to the adoption of SFAS No. 123R. Since our common stock has not been publicly traded for a sufficient time period, the expected volatility is based on expected volatilities of similar companies that have a longer history of being publicly traded. The expected life of options granted is based on the simplified method for plain vanilla options in accordance with SAB No. 107. The risk-free rates are based on the U.S. Treasury yield in effect at the time of the grant. In fiscal years 2007 and 2006, we recognized $1.2 million and $0.3 million, respectively, in stock-based compensation expense.

Income taxes

We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that a substantial majority of the deferred tax assets recorded on our consolidated balance sheets will ultimately be recovered. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not probable.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional tax payments are probable. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. This may occur for a variety of reasons, such as the expiration of the statute of limitations on a particular tax return or the signing of a final settlement agreement with the relative tax authority. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

Item 7A: Quantitative and Qualitative Disclosures About Market Risk

We do not use market risk sensitive instruments for trading or speculative purposes.

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to our long-term debt. As of September 28, 2007, we had fixed rate senior notes of $125.0 million due in 2012, bearing interest at 8% per year and variable rate debt consisting of $22.0 million floating rate senior notes due in 2015 and a $99.8 million term loan under our newly amended and restated senior credit facilities due in 2014. Our variable rate debt is subject to changes in the prime rate and the LIBOR rate.

We use derivative instruments from time to time in order to manage interest costs and risk associated with our long-term debt. Most recently on September 21, 2007, we entered into an interest rate swap contract to receive three-month USD-LIBOR-BBA (British Bankers' Association) interest and pay 4.77% fixed rate interest. Net interest positions are settled quarterly. We have structured the swap with decreasing notional amounts to match the expected pay down of the term loan. The notional value of the swap was $90.0 million at September 28, 2007 and represented approximately 90% of the aggregate term loan balance. The swap agreement is effective through June 30, 2011. Under the provisions of SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended, this arrangement was initially designated and qualified as an effective cash flow hedge of interest rate risk related to the term loan under our senior credit facilities which permitted recording the fair value of the swap and corresponding unrealized gain or loss to accumulated other comprehensive income in the consolidated balance sheets. At September 28, 2007, the fair value of the unrealized loss on the swap was $0.1 million.

On August 31, 2007, we completed an early settlement of our $80.0 million interest rate swap contract associated with the floating rate senior notes, for which we received $0.4 million in cash representing the final net swap interest originally due on January 31, 2008. At September 28, 2007, the fair value of the unrealized gain on this interest rate swap was approximately $51,000.

We performed a sensitivity analysis to assess the potential loss in future earnings that a 10% increase in interest rates over a one-year period would have on our floating rate senior notes and term loan under our senior credit facilities. The impact was determined based on the hypothetical change from the end of period market rates over a period of one year and results in a net decrease of future annual earnings of approximately $0.2 million.

Foreign currency exchange risk

Although the majority of our revenue and expense activities are transacted in U.S. dollars, we do transact business in foreign countries. Our primary foreign currency cash flows are in Canada and several European countries. In an effort to reduce our foreign currency exposure to Canadian dollar denominated expenses, we enter into Canadian dollar forward contracts to hedge the Canadian dollar denominated costs for our manufacturing operation in Canada. Our Canadian dollar forward contracts are designated as a cash flow hedge and are considered highly effective, as defined by SFAS No. 133. The unrealized gains and losses from foreign exchange forward contracts are included in "accumulated other comprehensive income" in the consolidated balance sheets. If the transaction being hedged fails to occur, or if a portion of any derivative is ineffective, then we promptly recognize the gain or loss on the associated financial instrument in the consolidated statements of operations. No ineffective amounts were recognized due to anticipated transactions failing to occur in fiscal years 2007 and 2006.

As of November 26, 2007, we had entered into Canadian dollar forward contracts for approximately $23.4 million (Canadian dollars), or approximately 84% of estimated Canadian dollar denominated expenses through March 2008, at an average rate of approximately $0.95 U.S. dollar to Canadian dollar. We estimate the impact of a 1 cent change in the U.S. dollar to Canadian dollar exchange rate (without giving effect to our Canadian dollar forward contracts) to be approximately $0.4 million annually to our net income or approximately 2.2 cents to basic earnings per share and 2.1 cents to diluted earnings per share.

Net income for fiscal year 2007 includes a recognized loss from foreign currency forward contracts of $0.4 million. Net income for fiscal years 2006 and 2005 includes a recognized gain from foreign currency forward contracts of $1.2 million and $1.3 million, respectively. At September 28, 2007 and September 29, 2006, the fair value of the unrealized gain, net of tax, on Canadian dollar forward contracts was $1.2 million and $8,000, respectively.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements required by this item are hereby incorporated by reference to Part IV of this Annual Report on Form 10-K, and the supplementary data required by this item are included in Note 13 to the consolidated financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and our chief financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended).

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on its evaluation, our management concluded that our internal control over financial reporting was effective as of September 28, 2007.

KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued its attestation report, included herein, on the effectiveness of our internal control over financial reporting as of September 28, 2007.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the fourth quarter of fiscal year 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting as of September 28, 2007.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required under this item is incorporated by reference herein from our definitive 2008 proxy statement anticipated to be filed with the SEC within 120 days after September 28, 2007.

Item 11. Executive Compensation

The information required under this item is incorporated by reference herein from our definitive 2008 proxy statement anticipated to be filed with the SEC within 120 days after September 28, 2007.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required under this item is incorporated by reference herein from our definitive 2008 proxy statement anticipated to be filed with the SEC within 120 days after September 28, 2007.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required under this item is incorporated by reference herein from our definitive 2008 proxy statement anticipated to be filed with the SEC within 120 days after September 28, 2007.

Item 14. Principal Accounting Fees and Services

The information required under this item is incorporated by reference herein from our definitive 2008 proxy statement anticipated to be filed with the SEC within 120 days after September 28, 2007.

Notwithstanding the foregoing, information appearing in the sections of our 2008 definitive proxy statement entitled "Compensation Committee Report on Executive Compensation" and "Report of the Audit Committee" shall not be deemed to be incorporated by reference in this Form 10-K.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)

(1) Financial Statements:

The following consolidated financial statements and schedules are filed as a part of this report:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Stockholders' Equity and Comprehensive Income

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(2)

Consolidated Financial Statement Schedules

All schedules are omitted because they are not applicable, or because the required information is included in the financial statements or notes thereto.

(3)

The Exhibit Index beginning on page 119 of this annual report is hereby incorporated by reference herein.

(b)

Exhibits:

See Item 15(a)(3) above.

(c)

Financial Statement Schedules:

See Item 15(a)(2) above.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
CPI International, Inc.:

We have audited the accompanying consolidated balance sheets of CPI International, Inc. and subsidiaries (the "Company") as of September 28, 2007 and September 29, 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended September 28, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CPI International, Inc. and subsidiaries as of September 28, 2007 and September 29, 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended September 28, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted SFAS No. 123(R), "Share-Based Payment," applying the prospective method at the beginning of fiscal year 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CPI International, Inc.'s internal control over financial reporting as of September 28, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated December 10, 2007 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Mountain View, California
December 10, 2007

/s/ KPMG LLP

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
CPI International, Inc.:

We have audited CPI International, Inc.'s internal control over financial reporting as of September 28, 2007, based on criteria established in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). CPI International, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report On Internal Control Over Financial Reporting (Item 9A). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, CPI International, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 28, 2007, based on criteria established in the *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CPI International, Inc. and subsidiaries as of September 28, 2007 and September 29, 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended September 28, 2007, and our report dated December 10, 2007 expressed an unqualified opinion on those consolidated financial statements.

Mountain View, California
December 10, 2007

/s/ KPMG LLP

CPI INTERNATIONAL, INC.
and subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	September 28, 2007	September 29, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 20,474	$ 30,153
Restricted cash	2,255	1,746
Accounts receivable, net	52,589	43,628
Inventories	67,447	54,031
Deferred tax assets	9,744	11,520
Prepaid and other current assets	4,639	3,080
Total current assets	157,148	144,158
Property, plant, and equipment, net	66,048	63,851
Deferred debt issue costs, net	6,533	9,644
Intangible assets, net	81,743	75,489
Goodwill	161,573	147,489
Other long-term assets	3,177	1,128
Total assets	$ 476,222	$ 441,759
Liabilities and stockholders' equity		
Current Liabilities:		
Current portion of long-term debt	$ 1,000	$ 1,714
Accounts payable	21,794	19,101
Accrued expenses	26,349	23,269
Product warranty	5,578	5,958
Income taxes payable	8,748	10,693
Advance payments from customers	12,132	6,310
Total current liabilities	75,601	67,045
Deferred income taxes	28,394	29,933
Long-term debt, less current portion	245,567	245,067
Other long-term liabilities	754	41
Total liabilities	350,316	342,086
Commitments and contingencies		
Stockholders' equity		
Preferred stock ($0.01 par value; 10,000 shares authorized and none issued and outstanding)		
Common stock ($0.01 par value, 90,000 shares authorized; 16,370 and 16,050 shares issued and outstanding)	164	160
Additional paid-in capital	68,763	65,295
Accumulated other comprehensive income	937	679
Retained earnings	56,042	33,539
Total stockholders' equity	125,906	99,673

	September 28, 2007	September 29, 2006
Total liabilities and stockholders' equity	$ 476,222	$ 441,759

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

CPI INTERNATIONAL, INC.
and subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended		
	September 28, 2007	September 29, 2006	September 30, 2005
Sales	$ 351,090	$ 339,717	$ 320,732
Cost of sales	237,789	236,063	216,031
Gross profit	113,301	103,654	104,701
Operating costs and expenses:			
Research and development	8,558	8,550	7,218
Selling and marketing	19,258	19,827	18,547
General and administrative	21,519	22,418	27,883
Amortization of acquisition-related intangible assets	2,316	2,190	7,487
Net loss on disposition of fixed assets	129	586	446
Total operating costs and expenses	51,780	53,571	61,581
Operating income	61,521	50,083	43,120
Interest expense, net	20,939	23,806	20,310
Loss on debt extinguishment	6,331		
Income before taxes	34,251	26,277	22,810
Income tax expense	11,748	9,058	9,138
Net income	$ 22,503	$ 17,219	$ 13,672
Earnings per share:			
Basic	$ 1.39	$ 1.20	$ 1.05
Diluted	$ 1.27	$ 1.09	$ 0.98
Shares used to calculate earnings per share:			
Basic	16,242	14,311	13,079
Diluted	17,721	15,789	13,974

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

CPI INTERNATIONAL, INC.
and subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount				
Balances, October 1, 2004	**13,079**	**$ 131**	**$ 103,446**	**$ 1,369**	**$ 2,648**	**$ 107,594**
Comprehensive income:						
Net income					13,672	13,672
Unrealized gain on cash flow hedges, net of tax				252		252
Total comprehensive income						13,924
Income tax benefit adjustment from the exercise of stock options			(27)			(27)
Stock-based compensation expense			6,985			6,985
Special cash dividend			(75,809)			(75,809)
Balances, September 30, 2005	**13,079**	**131**	**34,595**	**1,621**	**16,320**	**52,667**
Comprehensive income:						
Net income					17,219	17,219
Unrealized loss on cash flow hedges, net of tax				(942)		(942)
Total comprehensive income						16,277
Proceeds from initial public offering, net of issuance costs	2,941	27	47,272			47,299
Stock-based compensation cost			299			299
Exercise of stock options	20	2	53			55
Tax benefit related to stock option exercises			76			76
Issuance of restricted stock awards	10					
Special cash dividend			(17,000)			(17,000)
Balances, September 29, 2006	**16,050**	**160**	**65,295**	**679**	**33,539**	**99,673**
Comprehensive income:						
Net income					22,503	22,503
Unrealized gain on cash flow hedges, net of tax				431		431
Total comprehensive income						22,934
Adoption of SFAS No. 158, net of tax				(173)		(173)
Stock-based compensation cost			1,128			1,128
Exercise of stock options	262	3	721			724
Tax benefit related to stock option exercises			781			781
Issuance of common stock under employee stock purchase plan	51	1	838			839
Issuance of restricted stock awards	7					
Balances, September 28, 2007	**16,370**	**$ 164**	**$ 68,763**	**$ 937**	**$ 56,042**	**$ 125,906**

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

CPI INTERNATIONAL, INC.
and subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended		
	September 28, 2007	**September 29, 2006**	**September 30, 2005**
Cash flows from operating activities			
Net income	$ 22,503	$ 17,219	$ 13,672
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	6,562	6,561	6,427
Amortization of intangibles	2,536	2,452	7,750
Amortization of deferred debt issue costs	1,401	1,417	1,304
Amortization of discount on floating rate senior notes	49	50	31
Amortization of acquisition-related inventory write-up			351
Non-cash loss on debt extinguishment	4,659		
Stock-based compensation expense	1,239	274	6,985
Allowance for doubtful accounts	(329)	11	60
Deferred income taxes	(561)	(5,927)	(3,791)
Net loss on the disposition of assets	129	586	446
Tax benefit from stock option exercises	1,281	76	
Excess tax benefit on stock option exercises	(781)	(47)	
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:			
Restricted cash	(509)	(459)	992
Accounts receivable	(7,388)	(4,344)	(2,095)
Inventories	(8,473)	(3,688)	(10,705)
Prepaid and other current assets	(811)	1	157
Other long-term assets	476	329	(1,136)
Accounts payable	(215)	(2,320)	5,429
Accrued expenses	(320)	(4,054)	5,405
Product warranty	(653)	(401)	173
Income taxes payable	(2,262)	8,877	(142)
Advance payments from customers	2,202	(5,757)	36
Other long-term liabilities	924	41	
Net cash provided by operating activities	21,659	10,897	31,349
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		11,334	
Expenses relating to sale of San Carlos property		(577)	(224)
Capital expenditures	(8,169)	(10,913)	(17,131)
Acquisitions, net of cash acquired	(22,174)		(18,325)
Net cash used in investing activities	(30,343)	(156)	(35,680)
Cash flows from financing activities			
Proceeds from issuance of debt	100,000	10,000	79,200
Proceeds from issuance of common stock		52,940	
Proceeds from stock purchase plan and exercises of stock options	1,436	55	
Repayments of debt	(100,750)	(47,500)	(9,550)
Debt issuance costs	(2,462)		(3,455)
Common stock issuance costs		(5,641)	
Repayments on capital leases			(20)
Stockholder distribution payments		(17,000)	(75,809)
Excess tax benefit on stock option exercises	781	47	

	Year Ended		
Net cash used in financing activities	(995)	(7,099)	(9,634)
Net (decrease) increase in cash and cash equivalents	(9,679)	3,642	(13,965)
Cash and cash equivalents at beginning of year	30,153	26,511	40,476
Cash and cash equivalents at end of year	$ 20,474	$ 30,153	$ 26,511
Supplemental cash flow disclosures			
Cash paid for interest	$ 22,255	$ 23,549	$ 17,460
Cash paid for income taxes, net of refunds	$ 13,631	$ 6,157	$ 13,311

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

CPI INTERNATIONAL, INC.
and subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tabular dollar amounts in thousands except share and per share amounts)

1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: Unless the context otherwise requires, "CPI International" means CPI International, Inc. (formerly known as CPI Holdco, Inc.), and "CPI" means Communications & Power Industries, Inc. CPI is a direct subsidiary of CPI International. CPI International is a holding company with no operations of its own. The term the "Company" refers to CPI International and its direct and indirect subsidiaries on a consolidated basis.

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

The consolidated financial statements include those of the Company and its subsidiaries. Significant intercompany balances, transactions, and stockholdings have been eliminated in consolidation.

The Company's fiscal year is the 52- or 53-week period that ends on the Friday nearest September 30. Fiscal years 2007, 2006 and 2005 comprised the 52-week period ending September 28, 2007, September 29, 2006 and September 30, 2005, respectively. All period references are to the Company's fiscal periods unless otherwise indicated.

On May 3, 2006, the Company completed the initial public offering of its common stock (see Note 10 for further disclosure).

Foreign Currency Translation: The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Gains or losses resulting from the translation into U.S. dollars of amounts denominated in foreign currencies are included in the determination of net income or loss. Foreign currency translation gains and losses are reported on a net basis in the caption "general and administrative" in the consolidated statements of operations.

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

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

The Company has commercial and U.S. Government fixed-price contracts that are accounted for under American Institute of Certified Public Accountants Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." These contracts have represented approximately 1% of the Company's sales during fiscal years 2007, 2006 and 2005, and are for contracts that generally are greater than one year in duration and that include a significant amount of product development. The Company uses the percentage-of-completion method when reasonably dependable estimates of the extent of progress toward completion, contract revenues and contract costs can be made. The portion of revenue earned or the amount of gross profit earned for a period is determined by measuring the extent of progress toward completion using total cost incurred to date and estimated costs at contract completion.

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

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

Fair Value of Financial Instruments: Financial instruments include cash and cash equivalents, restricted cash, accounts receivable, derivative instruments, accounts payable and long-term debt. Cash equivalents include highly liquid short-term investments with original maturities of three months or less, readily convertible to known amounts of cash. As of September 28, 2007 and September 29, 2006, cash equivalents were $17.7 million and $28.1 million, respectively. The carrying value of the Company's cash, restricted cash, accounts receivable, derivative instruments and accounts payable approximate their fair values. The estimated fair value of the Company's debt as of September 28, 2007 and September 29, 2006 was $249.7 million and $249.9 million, respectively. The fair value estimates were based on market interest rates and other market information available to management as of each balance sheet date presented. The approximate fair values do not take into consideration expenses that could be incurred in an actual settlement.

Restricted Cash: Restricted cash consists primarily of bank guarantees from customer advance payments to the Company's international subsidiaries. The bank guarantees become unrestricted cash when performance under the sales or supply contract is complete.

Inventories: Inventories are stated at the lower of average cost or market value, primarily using the average cost method. Costs include labor, material, and overhead costs. Overhead costs are based on indirect costs allocated among cost of sales, work-in-process inventory, and finished goods inventory. Inventories also include the costs and earnings in excess of billings which represent revenue recognized under the percentage of completion method of accounting for long-term contracts in excess of the amounts billable to the customer under the terms of the specific contracts. Contracts where advances and progress billings exceed costs incurred and profit earned to date are reported in Advance Payments from Customers.

The Company assesses the valuation of inventory and periodically writes down the value for estimated excess and obsolete inventory based upon actual usage and estimates about future demand. The excess balance determined by this analysis becomes the basis for the Company's excess inventory charge. Management personnel play a key role in the excess inventory review process by providing updated sales forecasts, managing product rollovers and working with manufacturing to maximize recovery of excess inventory. If actual market conditions are less favorable than those projected by management, additional write-downs may be required. If actual market conditions are more favorable than anticipated, inventory previously written down may be sold, resulting in lower cost of sales and higher income from operations than expected in that period.

Management also reviews the carrying value of inventory for lower of cost or market on an individual product or contract basis. A loss reserve is charged to cost of sales if product cost or the estimated contract cost at completion is in excess of net realizable value (selling price less estimated cost of disposal). If actual contract cost at completion is different than originally estimated, then a loss or gain provision adjustment is recorded that would have an impact on the Company's operating results.

Property, Plant, and Equipment: Property, plant and equipment are stated at cost. Major improvements are capitalized, while maintenance and repairs are expensed as incurred. Plant and equipment are depreciated over their estimated useful lives using the straight-line method. Building, land improvements, and process equipment are depreciated generally over twenty-five, twenty and twelve years, respectively. Machinery and equipment are depreciated generally over seven to twelve years. Office furniture and equipment are depreciated generally over five to ten years. Leasehold improvements are amortized using the straight-line method over their estimated useful lives, or the remaining term of the lease, whichever is shorter.

Goodwill and Other Intangible Assets: The Company accounts for business combinations using the purchase method of accounting pursuant to Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." Intangible assets acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141.

The values assigned to acquired identifiable intangible assets for technology were determined based on the excess earnings method of the income approach. This method determines fair market value using estimates and judgments regarding the expectations of future after-tax cash flows from those assets over their lives, including the probability of expected future contract renewals and sales, all of which are discounted to their present value.

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and identifiable intangible assets with indefinite useful lives be tested for impairment at least annually. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Identifiable intangible assets are amortized on a straight-line basis over their useful lives of up to 50 years. The Company tests goodwill for impairment annually or more frequently if events and circumstances warrant. The Company's annual testing resulted in no impairment of goodwill in fiscal years 2007, 2006 or 2005.

Long-Lived Assets: The Company accounts for long-lived assets in accordance with SFAS No. 144, which requires that long-lived and intangible assets, including property, equipment, and leasehold improvements, be evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Such impairment loss would be measured as the difference between the carrying amount of the asset and its fair value. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

The values assigned to land were determined based on the market or sales comparison approach, which estimates fair values through an analysis of recent sales of comparable assets. The values assigned to buildings, leasehold improvements, land improvements and personal property were determined based on the cost approach, which estimates fair values by determining the current cost of reproducing or replacing an asset with one of equivalent economic utility. The fair value of the Company's long-term ground lease was based on the difference between discounted cash flows of the Company's existing contract ground lease and the projected net operating income expected to be generated from the site assuming it was leased at market rates.

There were no triggering events identified that would indicate a need to review for impairment of long-lived assets during fiscal years 2007, 2006 or 2005.

Deferred Debt Issue Costs: Costs incurred related to the issuance of the Company's long-term debt and other credit facilities are capitalized and amortized over the estimated time the obligations are expected to be outstanding using the effective interest method. Deferred debt issue costs for CPI's revolving credit facility and term loan, CPI's 8% Senior Subordinated Notes due 2012, and CPI International's Floating Rate Senior Notes due 2015 are amortized over a period of 4 years, 8 years, and 10 years, respectively. As a result of the Company's refinancing transactions during the fourth quarter of fiscal year 2007 as discussed in Note 5, $4.2 million of unamortized deferred debt issue costs were written-off and charged to loss on debt extinguishment in the consolidated statement of operations for fiscal year 2007. As of September 28, 2007 and September 29, 2006, deferred debt issue costs were $8.7 million and $13.1 million, and accumulated amortization was $2.2 million and $3.5 million, respectively.

Product Warranty: The Company's products typically carry warranty periods of one to three years or warranties over a predetermined product usage life. The Company estimates the costs that may be incurred under its warranty plans and records a liability in the amount of such estimated costs at the time revenue is recognized. The determination of product warranty reserves requires the Company to make estimates of product return rates and expected cost to repair or replace the products under warranty. The Company assesses the adequacy of its preexisting warranty liabilities and adjusts the balance based on actual experience and changes in future expectations.

Derivative Instruments and Hedging: The Company accounts for derivative instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Hedging Activities an amendment of Financial Accounting Standards Board ("FASB") Statement No. 133" and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." In accordance with these standards, derivative instruments are recorded on the balance sheet as either an asset or liability measured at its fair value. The Company uses foreign currency forward contracts to hedge Canadian dollar expenses and interest rate swap agreements to reduce its exposure to changes in variable interest rates on debt. Derivatives are not used for speculative purposes.

The Company's derivatives are designated as cash flow hedges and the effective portion of the change in fair value of the derivative is recorded in stockholders' equity as a separate component of accumulated other comprehensive income and is recognized in the statement of operations when the hedged item affects earnings. The ineffective portion of the change in fair value of the derivative is immediately recognized in earnings.

Business Risks and Credit Concentrations: Defense-related applications, such as certain radar, electronic countermeasures and military communications, constitute a significant portion of the Company's sales. Companies engaged in supplying defense-related equipment and services to government agencies are subject to certain business risks unique to that industry. Sales to the government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad, and other factors.

Research and Development: Company-sponsored research and development costs related to both present and future products are expensed as incurred. Customer-sponsored research and development costs are charged to cost of sales to match revenue received. Total expenditures incurred by the Company on research and development are summarized as follows:

	Year Ended		
	September 28, 2007	September 29, 2006	September 30, 2005
CPI Sponsored	$ 8,558	$ 8,550	$ 7,218
Customer Sponsored	7,738	6,227	5,889
	$ 16,296	$ 14,777	$ 13,107

Advertising Expenses: Costs related to advertising are recognized in selling and marketing expenses as incurred. Advertising expenses were not material in any of the periods presented.

Stock-based Compensation: At the beginning of fiscal year 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), and Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment," for its existing stock option plans under the prospective method. Under the prospective method, only new awards (or awards modified, repurchased, or cancelled after the effective date) are accounted for under the provisions of SFAS No. 123R. Previously, the Company applied the intrinsic-value method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under the intrinsic-value method, compensation expense was recorded only if the market price of the stock exceeded the stock option exercise price at the measurement date. The Company will continue to account for stock option awards outstanding at September 30, 2005 using the intrinsic-value method of measuring equity share options. The application of SFAS No. 123R had no impact on the Company's cash position. See Note 10 for information regarding share-based compensation.

Income Taxes: The Company records income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. See Note 11 for further discussion on income taxes.

Comprehensive Income: The Company has adopted the accounting treatment prescribed by SFAS No. 130. Comprehensive income is defined as a change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. The primary difference between net income and comprehensive income for the Company arises from unrealized gains and losses on cash flow hedge contracts, net of tax.

Earnings per share: Basic earnings per share are computed using the weighted-average number of common shares outstanding during the period excluding outstanding nonvested restricted shares subject to repurchase. Diluted earnings per share are computed using the weighted-average number of common and dilutive potential common equivalent shares outstanding during the period. Potential common equivalent shares consist of common stock issuable upon exercise of stock options and nonvested restricted shares using the treasury stock method.

The following table is a reconciliation of the shares used to calculate basic and diluted earnings per share (in thousands):

	Year Ended		
	September 28, 2007	**September 29, 2006**	**September 30, 2005**
Weighted average shares outstanding Basic	16,242	14,311	13,079
Effect of dilutive stock options and nonvested restricted stock awards	1,479	1,478	895
Weighted average shares outstanding Diluted	17,721	15,789	13,974

As further discussed in Note 10, on April 7, 2006, in connection with the amendment and restatement of its certificate of incorporation, the Company effected a 3.059-to-1 split of its outstanding shares of common stock as of such date. All share and per share amounts have been retroactively restated to reflect this stock split.

The calculation of diluted net income per share excludes all anti-dilutive shares. The number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, was approximately 484,000 shares and 128,000 shares for fiscal years 2007 and 2006, respectively. For fiscal year 2005, all stock options were dilutive.

Recently Issued Accounting Standards: In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Income Tax Uncertainties." FIN No. 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN No. 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. Any differences between the amounts recognized in the statements of financial position prior to the adoption of FIN No. 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The Company will be required to adopt FIN No. 48 in its fiscal year 2008 commencing September 29, 2007 and is currently in the process of determining the impact, if any, of adopting the provisions of this new standard on its financial position, results of operations and liquidity.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. In particular, disclosures are required to provide information on: the extent to which fair value is used to measure assets and liabilities; the inputs used to develop measurements; and the effect of certain of the measurements on earnings (or changes in net assets). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities and for fiscal years beginning after November 15, 2008 for non-financial assets and liabilities. Early adoption, as of the beginning of an entity's fiscal year, is also permitted, provided interim financial statements have not yet been issued. The Company will be required to adopt SFAS No. 157 in its fiscal year 2009 commencing October 4, 2008 for financial assets and liabilities and in its fiscal year 2010 commencing October 2, 2009 for non-financial assets and liabilities. The Company is currently evaluating the potential impact, if any, that the adoption of this new standard will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)," which requires an employer to recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in its condensed consolidated balance sheet. Under SFAS No. 158, actuarial gains and losses and prior service costs or credits that have not yet been recognized through earnings as net periodic benefit cost will be recognized in other comprehensive income, net of tax, until they are amortized as a component of net periodic benefit cost. SFAS No. 158 is effective as of the end of the fiscal year ending after December 15, 2006 and shall not be applied retrospectively. On September 28, 2007, the Company adopted SFAS No. 158 and recognized the funded status of its defined benefit pension plan as an asset or liability on its consolidated balance sheet accordingly. The adoption of SFAS No. 158 did not have a material impact on the Company's financial position or results of operations and did not impact the Company's compliance with debt covenants of its borrowing arrangements.

In September 2006, the Securities and Exchange Commission ("SEC") issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in the current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both a balance sheet and an income statement approach. SAB No. 108 does not change the guidance in SAB No. 99, "Materiality," when evaluating the materiality of misstatements. SAB No. 108 is applicable for fiscal years ending after November 15, 2006. Upon initial application, SAB No. 108 permits a one-time cumulative effect adjustment to beginning retained earnings. The adoption of SAB No. 108 did not materially impact the Company's financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115." SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will be required to adopt SFAS No. 159 in its fiscal year 2009 commencing October 4, 2008 and is currently evaluating the impact, if any, that the adoption of this new standard will have on its consolidated financial statements.

2. Supplemental Balance Sheet Information

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

	September 28, 2007	September 29, 2006
Accounts receivable	$ 52,678	$ 44,122
Less: Allowance for doubtful accounts	(89)	(494)
Accounts receivable, net	$ 52,589	$ 43,628

The following table sets forth the changes in allowance for doubtful account during fiscal years 2007, 2006 and 2005:

	Year Ended		
	September 28, 2007	September 29, 2006	September 30, 2005
Balance at beginning of period	$ 494	$ 723	$ 660
(Recoveries) provision for doubtful accounts charged to general and administrative expense	(329)	11	60
Write-offs against allowance	(76)	(240)	3
Balance at end of period	$ 89	$ 494	$ 723

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

	September 28, 2007	September 29, 2006
Raw material and parts	$ 40,725	$ 35,160
Work in process	18,168	10,481
Finished goods	8,554	8,390
	$ 67,447	$ 54,031

Reserve for excess, slow moving and obsolete inventory: The following table summarizes the activity related to reserves for excess, slow moving and obsolete inventory during fiscal years 2007 and 2006:

	Year Ended	
	September 28, 2007	September 29, 2006
Balance at beginning of period	$ 8,822	$ 8,655
Malibu acquisition	601	
Inventory provision, charged to cost of sales	1,191	949
Inventory write-offs	(830)	(782)
Balance at end of period	$ 9,784	$ 8,822

Reserve for loss contracts: The following table summarizes the activity related to reserves for loss contracts during fiscal years 2007 and 2006:

	Year Ended	
	September 28, 2007	September 29, 2006
Balance at beginning of period	$ 1,702	$ 1,430
Malibu acquisition	1,984	
Provision for loss contracts, charged to cost of sales	1,196	1,757
Credit to cost of sales upon revenue recognition	(2,182)	(1,485)
Balance at end of period	$ 2,700	$ 1,702

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

	September 28, 2007	September 29, 2006
Inventories	$ 1,123	$ 1,277
Accrued expenses	1,577	425
	$ 2,700	$ 1,702

Property, Plant, and Equipment, Net: The following table provides details of property, plant and equipment, net:

	September 28, 2007	September 29, 2006
Land and land leaseholds	$ 4,715	$ 4,522
Buildings	39,496	32,249
Machinery and equipment	39,233	35,255
Construction in progress	1,806	4,593
	85,250	76,619
Less: accumulated depreciation and amortization	(19,202)	(12,768)
Property, plant, and equipment, net	$ 66,048	$ 63,851

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

		September 28, 2007			September 29, 2006		
	Weighted Average Useful Life (in years)	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
VED Core Technology	50	$ 30,700	$ (2,273)	$ 28,427	$ 30,700	$ (1,659)	$ 29,041
VED Application Technology	25	19,800	(2,921)	16,879	19,800	(2,130)	17,670
X-ray Generator and Satcom Application Technology	15	8,000	(1,974)	6,026	8,000	(1,441)	6,559
Antenna and Telemetry Technology	25	5,300	(29)	5,271			
Customer backlog	1	580	(78)	502	17,450	(17,450)	
Land lease	46	11,810	(928)	10,882	11,810	(706)	11,104
Tradename	Indefinite	7,600		7,600	5,800		5,800
Customer list and programs	25	6,280	(684)	5,596	5,700	(451)	5,249
Noncompete agreement	5	640	(80)	560	110	(44)	66
		$ 90,710	$ (8,967)	$ 81,743	$ 99,370	$ (23,881)	$ 75,489

Intangible assets, net as of September 28, 2007 include a total of approximately $8.8 million amortizable identifiable intangibles obtained from the Company's acquisition of Malibu Research Associates, Inc. during fiscal year 2007, as further discussed in Note 3. The additions to intangible assets and associated accumulated amortization during fiscal year 2007 were offset by a write-off of $17.5 million of expired, fully-amortized customer backlog.

The amortization of intangible assets amounted to $2.5 million, $2.5 million and $7.8 million for fiscal years 2007, 2006 and 2005, respectively.