

CPI HOLDCO INC
Form S-1
December 23, 2005

As filed with the Securities and Exchange Commission on December 23, 2005

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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

CPI HOLDCO, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

Copy to:

Richard C. Wirthlin, Esq. Irell & Manella LLP 1800 Avenue of the Stars, Suite 900	Daniel J. Zubkoff, Esq. Cahill Gordon & Reindel LLP 80 Pine Street New York, New York 10005
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Los Angeles, California 90067
(310) 277-1010

(212) 701-3000

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)(2)	Amount Of Registration Fee
Common Stock, par value \$0.01 per share			\$125,000,000.00	\$13,375.00

(1)

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

(2)

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

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

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

PRELIMINARY PROSPECTUS

, 2006

Subject to completion

Shares

Common Stock

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

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

Investing in our common stock involves a high degree of risk. Before buying any shares, you should read the discussion of material risks of investing in our common stock in "Risk factors" beginning on page 11 of this prospectus.

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

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

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

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

Joint Book-Running Managers

UBS Investment Bank Bear, Stearns & Co. Inc.

Wachovia Securities Banc of America Securities LLC

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

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

Until _____, 2006 (25 days after the date of this prospectus), federal securities laws may require all dealers that effect transactions in our common stock, whether or not participating in this offering, to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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

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Prospectus summary

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

Unless the context otherwise requires, as used in this prospectus (1) “CPI Holdco” or the “Successor” means CPI Holdco, Inc., (2) “Predecessor” means Communications & Power Industries Holding Corporation, the predecessor to CPI Holdco, (3) “CPI” means Communications & Power Industries, Inc. and (4) “Merger” means the January 23, 2004 merger pursuant to which CPI Holdco acquired the Predecessor. CPI is a direct subsidiary of CPI Holdco. CPI Holdco is a holding company with no operations of its own. Unless stated otherwise, the discussion in this prospectus of our business includes the business of CPI Holdco and its direct and indirect subsidiaries on a consolidated basis for periods ending on or after January 23, 2004, after giving effect to the Merger, and of the Predecessor and its direct and indirect subsidiaries on a consolidated basis for periods ending prior to January 23, 2004. The terms “we,” “us,” “our” and the “Company” refer to CPI Holdco, or the Predecessor, as applicable, and its direct and indirect subsidiaries on a consolidated basis.

Our fiscal year is the 52- or 53-week period that ends on the Friday nearest September 30. Fiscal year 2005 comprised the 52-week period ended September 30, 2005. “Fiscal year 2004” refers to the 16-week period ended January 22, 2004 and the 36-week period ending October 1, 2004. References to our results of operations for “fiscal year 2004” are references to the combined pro forma results of the Predecessor for the 16-week period ended January 22, 2004 and CPI Holdco for the 36-week period ended October 1, 2004. See “Management's discussion and analysis of financial condition and results of operations—The Merger.” Fiscal year 2003 comprised the 53-week period ended October 3, 2003.

Unless otherwise noted, all business data included in this summary is as of September 30, 2005 and does not give effect to subsequent events.

OUR COMPANY

We are a leading provider of microwave and radio frequency (“RF”) solutions for critical defense, communications, medical, scientific and other applications. Our products include high power microwave amplifiers, satellite

communications amplifiers, medical x-ray imaging subsystems, and other related products. Our solutions enable the generation, control and transmission of high power and high frequency microwave and RF signals.

Our products are critical elements of numerous high priority U.S. and foreign military programs such as the U.S. Navy's Aegis surface combatants (the DDG-51 class destroyers and the CG-47 cruisers), the ALE-50 and MK-53 NULKA electronic warfare decoys, Patriot (Advanced Capability and Missile System Radar), F-16 and F/A-18 E/F aircraft, IDECM, High Power Microwave and numerous high power military radar systems. Defense applications of our products include transmitting and receiving radar signals for locating and tracking threats, weapons guidance and navigation, and transmitting decoy and jamming signals for electronic warfare.

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 we believe enables us to leverage our 58 years of design experience and provides a diversified base of sales. In the communications market, we provide microwave amplifiers for satellite communication uplinks for broadcast, video, voice and data transmission. In the medical market, we supply amplifiers used in radiation oncology treatment systems primarily to Varian Medical Systems, Inc., with whom we have a long-standing, sole provider relationship. We also supply x-ray generators, subsystems, software and user interfaces for diagnostic imaging systems, a dynamic, high-technology market where we continue to experience significant growth.

In fiscal year 2005, we derived approximately 50% of our sales from U.S. and foreign government customers. Our high power microwave technologies are critical elements for current and next generation military systems that use microwave energy. We are one of a few companies in the world that have the facilities and expertise to

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produce high power microwave solutions to the demanding specifications required for advanced military applications such as high power radar, electronic warfare and broadband satellite communications.

In 1937 the founders of our business invented the klystron, a device which is still a foundation of modern high power microwave applications. Today, we continue to develop higher power, wider bandwidth and higher frequency microwave solutions that enable significant technological advances in the defense and commercial systems that use our technology. In fiscal year 2005, we generated approximately 58% of our total sales from products for which we believe we are the sole provider to our customers. The majority of our products are consumable with an average life of between 3 and 7 years. We estimate that approximately 50% of our total sales are generated from recurring sales of replacements, spares and repairs, including upgraded replacements for existing consumable products. We work with our customers on an opportunistic basis to create upgraded products that improve the bandwidth, power and reliability of our existing solutions. Our significant installed base of existing products and our sole provider positioning on numerous 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.

Our sales have increased by a CAGR of 8.5% since fiscal year 2002, with 7.1% organic growth. In fiscal year 2005, we generated total sales of \$320.7 million, EBITDA of \$57.3 million and net income of \$13.7 million. See page 9 for a definition of EBITDA.

OUR COMPETITIVE STRENGTHS

Leader in microwave and RF technology. Since 1948 we have been a leader in microwave solutions, pioneering a breakthrough technology that led to the commercialization of radar. Since then, we have improved our solutions,

enabling technological advances in radar, electronic warfare and communications systems, which have required higher power and higher frequency solutions and designing and producing cutting edge products that specifically address the evolving needs of our customers. In response to our customer needs, we have developed microwave systems that provide what we believe is a market-leading combination of power, frequency, bandwidth, control and reliability, making us a leading design house for our commercial and military customers. We have maintained our technological and production expertise through our experienced team of over 300 scientists and engineers, our recurring investment in research and development and our focus on continuous process improvement.

Leading positions in attractive end markets. We have developed leading market positions in the six end markets we serve by offering customers superior design expertise, product quality and customer service. We believe we are the market leader in the sale of high power, high frequency microwave devices and related products for the radar, communications, medical, electronic warfare and industrial end markets and the number two supplier of these and other related products for the scientific end market. In conjunction with our leading market positions, we have developed a diversified sales base, which reduces our dependence on any particular end market.

Diversified sales base. We sell our products to customers in six end markets. Within each of our markets, we also sell a variety of products. These products may be sold as stand-alone products or as part of a fully integrated subsystem. For example, we supply each U.S. Navy Destroyer with many different products, ranging from klystrons for the early warning radar system to power grid replacement products and services. Our product diversification reduces our dependence on any one part of any market for our overall success and profitability. Finally, our leadership in our markets is recognized worldwide, allowing us to penetrate other important geographic markets, as evidenced by the fact that 33% of our sales in fiscal year 2005 came from customers outside the U.S. These international customers provide us with further diversification, as they span all of our end markets.

Large installed product base with recurring sales of replacement parts, spares, repairs and upgrades. Our products are installed in a large and growing base of defense systems and commercial systems for which we supply replacement parts, spares, repairs and upgrades. We estimate that our products are installed on over 125 U.S. defense systems in addition to hundreds of commercial systems. Typically, once our products have been incorporated into the design of a government or commercial program, our products are not replaced in favor of a competitor's technology. We estimate that sales of

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replacement parts, spares, repairs and upgrades generate approximately 50% of our total sales. We believe that our large installed base will enable us to capture a long-term stream of spares, repairs and upgrade sales over the lives of these systems.

Substantial sole provider position. Our leading edge technology, customer focus, and long history as a reliable supplier to our government and commercial customers, has resulted in our products being designed into and installed on a large number of platforms and systems. In many cases, we are the sole provider of high power microwave equipment on

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

Significant barriers to entry. We compete in highly specialized markets with significant barriers to entry. We believe that the investments required for new or existing competitors to compete effectively against us in those markets where we are the dominant supplier are economically unattractive. We believe the sophisticated nature of microwave technology, our depth of customer relationships, large installed base and history of excellence, as well as the stringent product qualification requirements of our end markets all create significant barriers to entry for potential competitors.

Strong and experienced management team with a successful track record. Our current management team averages more than 22 years of experience with us. Since assuming its leadership responsibilities in 2002, our management team has instilled a culture that emphasizes cost control, profitable growth and cash generation. In addition, management has consolidated several facilities, reduced labor costs, overhead and general and administrative expenses and renewed our commitment to operational excellence principles in our laboratories and factories. As a result, this team has succeeded in increasing our sales at a CAGR of 8.5% since fiscal year 2002, with 7.1% organic growth. During the same time period, EBITDA has increased from \$28.7 million to \$57.3 million, for a CAGR of 26%, and net income (loss) has increased from \$(6.7) million to \$13.7 million. In addition, EBITDA as a percentage of sales has increased from 11.4% in fiscal year 2002 to 17.9% in fiscal year 2005.

OUR STRATEGY

Taking advantage of opportunities in the military satellite communications market. Real-time network communications between intelligence agencies, military commands and soldiers on the front lines is a critical component of the U.S. military's transformational initiative to become a lighter, faster, more responsive and lethal force. The procurement of a significant number of new, military communications satellites is a critical component of this initiative. Microwave technology is uniquely suited to provide the significant bandwidth required to enable the rapid and seamless transfer of large quantities of voice, video and other forms of information that are critical to military communications. Military satellite communications programs such as the U.S. Air Force's Transformational Satellite Communications System (TSAT) and the evolution of current military satellite communications programs including the Advanced Extremely High Frequency (AEHF) and Wideband Gapfiller (WGS) satellite systems will drive the need for next generation microwave technologies. We believe we are well positioned to be a key supplier of microwave technology for the military satellite communications market, having made significant investments over the past several years to bring to market internally developed, proprietary microwave solutions tailored for military satellite communications use.

Supporting other emerging military initiatives. Military initiatives, such as directed energy, that use microwave or RF energy to disable or destroy enemies' electronic systems or deter unauthorized personnel from approaching high value targets also require high power microwave technology. We believe our leadership in microwave technology should allow us to benefit from the U.S. Department of Defense's ("DoD") emerging applications of this technology.

Developing and expanding technologies. Through a combination of customer-funded research and development and our own internal research and development efforts, we intend to continue to enhance and expand our key technologies.

In fiscal years 2005, 2004 and 2003 our total research and development spending was \$13.1, \$10.9, \$10.6 million, respectively. Of these amounts, \$5.9, \$3.5 and \$3.7 million, respectively were funded by our customers.

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Pursuing attractive commercial opportunities. We intend to develop new products to pursue growth areas in the commercial markets we serve. Examples of our product innovation include our Gen IV satellite communications amplifier, which we believe has become the leading satellite uplink klystron power amplifier (KPA) in the market, and our new line of medical x-ray generators, which has gained broad customer acceptance.

Leveraging incumbent relationships. We have developed strong relationships with the U.S. Government, prime defense contractors and key commercial customers by continuing to deliver high levels of performance, reliability and service on our products and contracts. We believe these relationships will help to preserve our access to a valuable stream of spares and repairs business and enhance our ability to win new, upgrade and follow-on business.

Exploring strategic acquisitions. We intend to selectively explore strategic acquisitions in the rapidly consolidating defense and microwave components industries. Strategic acquisitions could permit us to acquire complementary technologies and products, achieve higher levels of system integration, grow our existing product base, increase facility utilization or increase our geographic coverage by leveraging our extensive corporate sales and marketing organization.

MARKET TRENDS

Increasing importance of military communications. Satellite communication is a critical element of the DoD's plans to transform military communications to supply real time, high data-rate communications, intelligence and battlefield information to the front-line soldier. The U.S. Government currently has over 30 large defense-related satellite communications programs in various stages of development and production as part of its military satellite communications, Global Information Grid and Transformational Communication Systems initiatives. DoD investments in military satellite communications are expected to be more than \$30 billion through 2024.

High power microwave initiatives. The DoD is increasingly exploring high power microwave solutions for a growing number of threat countermeasures and non-lethal weapons applications. These applications include a variety of directed energy systems to disable or destroy the enemy's electronic systems ("electronic attack") and deter unauthorized personnel from approaching high value targets and/or control unruly crowds ("active denial"). In addition, the recent proliferation of terrorist and insurgent groups and their use of non-traditional weapons has led the DoD to explore technologies that can disable or destroy these devices. We believe Improvised Explosive Devices ("IEDs") were responsible for approximately 28% of the U.S.-led coalition fatalities in Iraq as of November 28, 2005. High power microwave technology has shown a significant promise as a countermeasure against IEDs, and we expect that the DoD will actively pursue high power technology solutions in this area.

Continued reliance on advances in microwave solutions. Microwave technology is a core technology for all of the U.S. military's radar and electronic warfare capabilities. Microwave technology advances are key to capability improvements in new platforms but are even more significant in improving the capability of existing platforms. For existing platforms, improvements in microwave technology—replacing existing components with upgraded solutions—can be a cost-effective means of improving capability with minimal redesign cost. Even in a potentially challenging budgetary environment for new weapons platforms, we expect that the DoD will continue to focus on improving radar and electronic warfare capabilities on existing platforms.

Consolidation of government suppliers. Government customers are increasingly consolidating their base of suppliers and seeking to purchase complete systems and solutions, rather than individual components. As a result, vendors offering more integrated solutions should benefit from this trend and become further entrenched with government customers.

Resurgence of global demand for commercial satellite-based broadband communication and data transmission solutions and technology. There has been a general resurgence in the demand for and importance of satellite communications, and a significant improvement in the bandwidth and data-carrying capacity of the various underlying technologies, making commercial and government use of

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satellite solutions more cost effective. Renewed demand for commercial satellite solutions is being driven by decreases in the costs of broadband satellite communication technology and services and the need to support growing requirements for advanced communications and broadcast services (internet, direct-to-home broadcast, high-definition television and multimedia).

Growth of radiation treatment in cancer therapy and diagnostic imaging applications for our products. The market for equipment for radiotherapy treatment of cancer has enjoyed significant growth in the last several years. The U.S. market for radiotherapy equipment is projected to grow at a CAGR of 9.3% between 2004 and 2009. Major suppliers of radiation therapy equipment have introduced a number of key technological advances that enable the treatment of a greater number of oncology-related problems with their equipment. We believe this will drive continued growth in demand for radiation therapy equipment.

Increased replacement parts, upgrades and spares needed to support aging military platforms. Budget restrictions over the past decade have limited the U.S. military's ability to replace or augment substantial portions of its platform inventory, including aircraft, vehicles and ships. According to the Congressional Budget Office of the United States Congress, the average age of many major platforms has steadily increased since 1990, from between 7 and 22 years to between 13 and 29 years in 2004. As military equipment ages, increased levels of replacement parts and upgrades of critical equipment, including radar and electronic warfare and communications systems are necessary.

OUR CORPORATE INFORMATION

We were incorporated in Delaware in November 2003 and acquired our business from the Predecessor in January 2004 pursuant to the Merger (See “Management's discussion and analysis of financial condition and results of operations—The Merger”). Our principal executive offices are located at 811 Hansen Way, Palo Alto, California 94303, and our telephone number is (650) 846-2900. We maintain an internet website at www.cpii.com. We have not incorporated by reference into this prospectus the information on our website, and you should not consider it to be a part of this prospectus.

OUR EXISTING EQUITY INVESTORS

On January 23, 2004, pursuant to the Merger and the related transactions, affiliates of The Cypress Group acquired all of our outstanding common stock. We collectively refer to the entities affiliated with The Cypress Group that own our common stock as “Cypress” in this prospectus. Cypress is a selling stockholder in this offering. See “Principal and selling stockholders.” After giving effect to this offering, Cypress will own approximately % of our fully diluted common equity.

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The offering

Common stock we are offering

shares

Common stock being offered by the selling stockholders

shares

Total shares of common stock being offered

shares

Common stock to be outstanding immediately after this offering

shares

Use of proceeds

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

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

Proposed Nasdaq National Market symbol

“CPII”

The number of shares of our common stock outstanding after the offering mentioned in this prospectus is based on shares outstanding as of . Unless otherwise indicated, all information in this prospectus assumes the following:

a -for- split of our common stock to be completed before the closing of this offering; and

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

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

shares of our common stock issuable upon exercise of options outstanding as of , at a weighted average exercise price of \$ per share, of which options to purchase shares were exercisable as of that date;

shares of our common stock available for future grant under our 2006 Equity and Performance Incentive Plan; and

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

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

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Summary consolidated and pro forma combined financial data

As a result of the Merger, CPI Holdco became the successor to the Predecessor for financial reporting purposes.

The following summary consolidated financial data for the Predecessor for the fiscal year ended October 3, 2003 has been derived from the audited consolidated financial statements of the Predecessor included elsewhere in this prospectus. The following summary financial data for fiscal year 2004 represents the combined pro forma results of CPI Holdco for the 36-week period ended October 1, 2004 and the Predecessor for the 16-week period ended January 22, 2004. The following summary consolidated financial data for CPI Holdco for the fiscal year ended September 30, 2005 has been derived from the audited consolidated financial statements of CPI Holdco included elsewhere in this prospectus. The consolidated financial statements of the Predecessor and CPI Holdco for these periods are included elsewhere in this prospectus.

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

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The pro forma combined financial information for fiscal year 2004 presented below reflects financial data for us and the Predecessor that has been combined to present this information on a comparative annual basis. See "Management's discussion and analysis of financial condition and results of operations," beginning on page 30 of this prospectus for a description of the items or events that may impact the period-to-period comparability of the operating results covered by the following tables.

	Fiscal Year			
	2003 (Predecessor)	2004 (Pro Forma) ⁽¹⁾	2005 (Successor)	
	(dollars in thousands, except per share data)			
Statement of Operations Data:				
Sales	\$265,434	\$282,185	\$320,732	
Cost of sales	183,957	191,861	215,680	
Amortization of acquisition-related inventory write-up ⁽²⁾⁽³⁾	—	5,500	351	
Gross profit	81,477	84,824	104,701	
Operating costs and expenses:				
Research and development	6,860	7,453	7,218	
Selling and marketing	15,650	15,434	18,547	
General and administrative	17,939	18,729	28,329	
Merger expenses ⁽²⁾	—	6,374	—	
Amortization of acquisition-related intangible assets ⁽²⁾⁽³⁾	—	13,498	7,487	
Acquired in-process research and development ⁽²⁾	—	2,500	—	
Gain on sale of Solid State Products Division	(136)	—	—	
Total operating costs and expenses	40,313	63,988	61,581	
Operating income	41,164	20,836	43,120	
Interest expense, net	14,540	19,420	20,310	
Income tax expense	10,076	3,338	9,138	
Net income (loss)	\$16,548	\$(1,922)	\$13,672	
Net income per share ⁽⁴⁾ :				
Basic	N/A	⁽⁵⁾ N/A	⁽⁶⁾ \$3.20	
Diluted	N/A	⁽⁵⁾ N/A	⁽⁶⁾ \$2.96	
Shares used to calculate net income per share:				
Basic	N/A	⁽⁵⁾ N/A	⁽⁶⁾ 4,275,566	
Diluted	N/A	⁽⁵⁾ N/A	⁽⁶⁾ 4,620,283	
Other Financial Data:				
EBITDA ⁽⁷⁾	\$47,457	\$39,365	\$57,297	
EBITDA margin ⁽⁸⁾	17.9	% 14.0	% 17.9	%
Operating income margin ⁽⁹⁾	15.5	% 7.4	% 13.4	%
Net income (loss) margin ⁽¹⁰⁾	6.2	% (0.7)	% 4.3	%
Depreciation and amortization ⁽¹¹⁾	\$6,293	\$18,529	\$14,177	
Capital expenditures ⁽¹²⁾	3,067	3,776	17,131	

	As of	
	October 1, 2003 (Predecessor)	September 30, 2005 (Successor)
	(dollars in thousands)	
Balance Sheet Data (at period end):		
Working capital	\$17,272,385	\$65,400
Total assets	181,968,207	455,882
Long-term debt and redeemable preferred stock	128,907,606	284,231
Total stockholders' (deficit) equity	(65,446,594)	52,667

We did not pay cash dividends on the common stock of CPI Holdco or the Predecessor, as applicable, in fiscal years 2003 or 2004. In fiscal year 2005, we paid a special cash dividend of \$75,809 in the aggregate to stockholders of CPI Holdco.

(1)

Represents the combined pro forma results of CPI Holdco for the 36-week period ended October 1, 2004 and the Predecessor for the 16-week period ended January 22, 2004. Since the basis of accounting for CPI Holdco and the Predecessor are not the same, the combined pro forma results are not in accordance with U.S. generally accepted accounting principles, or GAAP. However, we are presenting this information because we believe it is useful for investors.

(2)

In fiscal year 2004, as a result of the Merger, we incurred charges for the amortization of inventory write-up and intangible assets, Merger expenses and a write-off of in-process research and development. In fiscal year 2005, as a result of the Merger, we incurred charges for the amortization of intangible assets.

(3)

In fiscal year 2005, we incurred charges for the amortization of inventory write-up and intangible assets for the Econco acquisition.

(4)

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

(5)

Due to the significant change in capital structure at the Merger closing date, the Predecessor amount has not been presented because it is not considered comparable to the Successor amount.

(6)

Due to the significant change in capital structure at the Merger closing date, the pro forma amount has not been presented because it is not considered comparable to the Successor amount. The Successor amount for the 36-week period ended October 1, 2004 is presented in "Selected financial data."

(7)

EBITDA represents earnings before provision for income taxes, interest expense, net and depreciation and amortization. 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 information in connection with their analysis of our business. The following demonstrates and forms the basis for such belief: (i) EBITDA is a component of the measure used by our board of directors and management team to evaluate our operating performance, (ii) our senior credit facility contains covenants that require us to maintain certain interest expense coverage and leverage ratios, which contain EBITDA as a component, and our management team uses EBITDA to monitor compliance with such covenants, (iii) EBITDA is a component of the measure used by our management team to make day-to-day operating decisions, (iv) EBITDA is a component of the measure used by the management to facilitate internal comparisons to competitors' results and our industry in general and (v) the payment of bonuses to certain members of management is contingent upon, among other things, the satisfaction by CPI Holdco 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.

	Fiscal Year		
	2003	2004	2005
	(Predecessor)	(Pro Forma) ⁽¹⁾	(Successor)
	(dollars in thousands)		
Net Income (loss)	\$16,548	\$ (1,922)	\$ 13,672
Depreciation and amortization ⁽¹¹⁾	6,293	18,529	14,177
Interest expense, net	14,540	19,420	20,310
Income tax expense	10,076	3,338	9,138
EBITDA	\$47,457	\$39,365	\$ 57,297

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

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	2003 (Predecessor)	2004 (Successor)	2005 (Successor)
	(Forma) ⁽¹⁾		
	(dollars in thousands)		
Stock compensation expense ^(a)	\$1,010	\$ 1,289	\$ —
Amortization of acquisition-related inventory write-up ^(b)	—	5,500	351
Merger expenses ^(c)	—	6,374	—
Acquired in-process research and development ^(d)	—	2,500	—
Compensation expense from performance-based stock options ^(e)	—	—	6,985
Move-related expenses ^(f)	—	—	1,790

(a)

In fiscal year 2003, represents compensation expense for stock subsequently determined to have been sold at less than fair value of \$790, and compensation expense for stock options subsequently determined to have been issued at less than fair value of \$220. In fiscal year 2004 represents additional compensation expense of \$1,289 from the same stock options issued in fiscal year 2003, the vesting of which was accelerated with the Merger.

(b)

In fiscal year 2004, represents a non-cash charge related to purchase accounting for the Merger. In fiscal year 2005, represents a non-cash charge related to purchase accounting for the acquisition of Econco.

(c)

Represents expenses incurred by the Predecessor in connection with the Merger.

(d)

Represents a non-cash charge related to purchase accounting for the Merger.

(e)

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

(f)

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

(8)

EBITDA margin represents EBITDA divided by sales.

(9)

Operating income margin represents operating income divided by sales.

(10)

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

(11)

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

(12)

In fiscal year 2005, includes \$13.1 million of capital expenditures resulting from the relocation of our San Carlos operation to Palo Alto, California and Mountain View, California.

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Risk factors

Before you invest in our common stock, you should carefully consider the following risks as well as other information set forth in this prospectus. If any of the following risks actually occurs, our business, financial condition or results of operations may suffer. As a result, the trading price of our common stock could decline, and you could lose all or part of your investment. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties may also impair our business operations and your investment in our common stock.

RISKS RELATING TO OUR BUSINESS

The markets in which we sell our products are competitive, which can result in reduced sales and loss of market share.

The U.S. and foreign markets in which we sell our products are competitive. Certain of our competitors have substantially greater resources than we do. In addition, some of our competitors offer a variety of products for applications similar to those of our products. Our ability to compete in these markets depends to a large extent on our ability to provide high quality products with shorter lead times at competitive prices, and our readiness in facilities, equipment and personnel. There can be no assurance that we will be able to compete successfully against our current or future competitors or that the competitive pressures we face will not result in reduced sales and market share or seriously harm 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, results of operations and financial condition. Historically, we have relied on a combination of internal research and development and customer-funded activities. To succeed in the future, we must continually engage in effective and timely research and development efforts in order to introduce innovative new products for technologically sophisticated customers and end markets and

benefit from activities of our customers. We may not be able to continue to allocate sufficient financial and other resources to our research and development activities or receive customer funding for research and development. If we fail to adapt successfully to technological changes or fail to obtain access to important technologies, our business, results of operations and financial condition may suffer.

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

Our future performance is dependent on our ability to attract and retain qualified technical, marketing, sales and managerial personnel. The unanticipated departure of any key member of our management team could have an adverse effect on our business, results of operations and financial condition. In addition, certain management and other personnel involved with the manufacture of some of our products are required to have various levels of security clearance, which is a time intensive process. There is competition for such personnel, and the failure to retain and/or recruit additional or substitute key personnel in a timely manner could have an adverse effect on our business, results of operations and financial condition.

A significant portion of our sales is, and is expected to continue to be, from contracts with the U.S. Government that are subject to competition, government regulation, changes in governmental appropriations, national defense policies and risks particular to government contracts.

A significant portion of our sales results from, and is expected to continue to result from, contracts with the U.S. Government, either directly or through prime contractors or subcontractors. Over 31%, 37% and 34% of our sales in the 2005, 2004 and 2003 fiscal years, respectively, were made directly or indirectly to the U.S. Government. A significant disruption or decline in U.S. government expenditures in the future, changes in spending priorities, other legislative changes, or a change in our relationship with the U.S. Government would

Risk factors

result in a material decrease to our sales, earnings and cash flow. 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.

In addition, we are subject to risks particular to companies supplying defense related equipment and services to the U.S. Government. These risks include the ability of the U.S. Government to unilaterally:

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

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; and

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

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

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

Further, because of our business with the U.S. Government, we may also be subject 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 and could potentially have a material adverse effect on our business, results of operations and financial condition.

Some of the business that we will seek from the U.S. Government in the future likely will be awarded through a competitive bidding process. Competitive bidding on government contracts presents risks that are not common to certain commercial contracts, such as: the need to bid on programs in advance of contract performance, which may result in unforeseen performance issues and costs; significant cost, time and effort to prepare bids and proposals for contracts that we may not be awarded; and the expense and delay that may arise if our competitors protest or challenge the award made to us, which could result in a procurement, modified contract, or reduced work.

Risk factors

Many of our 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. Obtaining security clearance and facility clearance can be a lengthy process. If our employees with security clearances leave our company or are unable to maintain their clearances, or we lose our facility clearances, the U.S. Government could terminate these contracts. 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.

Significant changes to appropriations, spending priorities, or national policy, a disruption of our relationship with the U.S. Government or termination of our U.S. Government contracts would have a material adverse effect on our business, results of operations and financial condition.

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

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

Our international operations subject us to the social, political and economic risks of doing business in foreign countries, any of which could negatively affect our business, results of operations and financial condition.

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

difficulties and costs of staffing and managing international operations;

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

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

changes in regulatory requirements;

U.S. and foreign government policies;

potentially adverse tax consequences;

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

the responsibility of complying with multiple and potentially conflicting laws;

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

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

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

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Risk factors

We may not be successful in obtaining the necessary export licenses and technical assistance agreements to conduct operations abroad, and the U.S. Congress may prevent proposed sales to foreign customers.

Licenses for the export of many of our products are required from government agencies in accordance with various statutory authorities, including the Export Administration Act of 1979, the International Emergency Economic Powers Act of 1977, the Trading with the Enemy Act of 1917 and the Arms Export Control Act of 1976. We can give no assurance that we will be successful in obtaining these necessary licenses in order to conduct business abroad. Termination or significant limitation on our ability to export would have an adverse effect on our business, results of operations and financial condition.

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.

Environmental regulation and legislation, liabilities relating to contamination and changes in our ability to recover under Varian Medical Systems Inc.'s indemnity obligations could adversely affect our business, results of operations and financial condition.

We are subject to a variety of U.S. federal, state and local, as well as foreign, environmental laws and regulations relating, among other things, to wastewater discharge, air emissions, handling of hazardous materials, disposal of solid and hazardous wastes, and remediation of soil and groundwater contamination. We use a number of chemicals or similar substances, and generate wastes, that are classified as hazardous. We require environmental permits to conduct many of our operations. Violation of environmental laws and regulations can 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. In addition, we may experience releases of certain chemicals or other events, including the discovery of previously unknown contamination, which could cause us to incur material cleanup costs or other damages. We are involved from time to time in legal proceedings involving compliance with environmental requirements applicable to our ongoing operations and may be involved in legal proceedings involving exposure to chemicals or the remediation of environmental contamination.

Under the stock sale agreement by and between Varian Associates, Inc., the predecessor of Varian Medical Systems, Inc. and CPI dated June 9, 1995, as amended, Varian Medical Systems retained and has agreed to indemnify us for various environmental liabilities relating to its electron devices business prior to August 1995, with certain exceptions and limitations. With certain limited exceptions, Varian Medical Systems did not agree to indemnify us with respect to liabilities resulting from our operations after August 1995.

Varian Medical Systems is undertaking the environmental investigation and remedial work at the remaining two of our manufacturing facilities that are known to require remediation, Palo Alto, California and Beverly, Massachusetts. In addition, Varian Medical Systems has been sued or threatened with suit with respect to these manufacturing facilities. Although we believe that Varian Medical Systems currently has sufficient financial resources to satisfy its environmental indemnity obligations to us, there can be no assurance that Varian Medical Systems will continue to have the financial resources or be willing to comply fully with those obligations, or will continue to perform its obligations.

Our San Carlos, California facility, which is under contract for sale and redevelopment, also has preexisting soil and groundwater contamination that has been the subject of some remediation and is expected to undergo additional remediation by the purchaser after the sale closes. In connection with the pending sale of that facility, we released Varian Medical Systems from certain of its environmental indemnity obligations related to that property, although the purchaser of the property has acquired pollution liability insurance that is intended to

Risk factors

cover the expected remediation costs of that property associated with the purchaser's intended use of the property. Although we believe that the proceeds of this insurance will be sufficient to cover the expected remediation costs and pollution liability associated with that property, there can be no assurance that such insurance proceeds or other sources of recovery will be adequate and that we will not be required to contribute funds with respect to such costs and liabilities.

If insurance proceeds or indemnification payments from Varian Medical Systems are unavailable or insufficient to satisfy costs and liabilities from adverse environmental conditions arising from our operations or properties, our business, results of operations and financial condition could be materially and adversely affected.

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

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

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

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

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

Finding and consummating acquisitions is one of the components of our growth strategy. Our ability to grow by acquisition depends on the availability of acquisition candidates at reasonable prices and our ability to obtain additional acquisition financing on acceptable terms. We may experience competition in making acquisitions from larger companies with significantly greater resources. We are likely to use significant amounts of cash, issue additional equity securities or incur additional debt in connection with future acquisitions, each of which could have a material adverse effect on our business. There can be no assurance that we will be able to obtain the necessary funds to carry out acquisitions on commercially reasonable terms, or at all.

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

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

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

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

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

the potential loss of key employees.

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Risk factors

Our backlog is subject to modifications and terminations of orders, which could negatively impact our business, results of operations and financial condition.

Backlog represents products or services that our customers have committed by contract to purchase from us, including government contracts that are cancelable at will. As of September 30, 2005, we had an order backlog of \$193.5 million. Although historically the amount of modifications and terminations of our orders has not been material compared to our total contract volume, customers can, and sometimes do, terminate or modify these orders. Cancellations of purchase orders or reductions of product quantities in existing contracts could substantially and materially reduce our backlog and consequently, our future revenues. Our failure to replace canceled or reduced backlog could negatively impact our business, results of operations and financial condition.

We are in the process of relocating our EIMAC operating division in San Carlos, California to Palo Alto, California, which could result in disruptions to our operations.

The relocation of our San Carlos, California operations to Palo Alto, California could result in delayed product deliveries to our customers. This delay could affect our customer relations, which could result in lower sales. As a result of the move, we bear the risk of increased or unexpected costs through reduced production yields.

We have had historical losses.

In fiscal year 2003, we had our first profitable year since fiscal year 1998, and we had a net loss of \$1.9 million in fiscal year 2004. Our ability to generate sales and profits is subject to the risks and uncertainties encountered by companies in competitive markets, including many of the factors described elsewhere in this section. In addition, we have historically experienced margin fluctuations from period to period due to variations in the mix of products sold during any period. If we are not able to maintain our current level of gross margin, our business, results of operations and financial condition will be adversely affected.

Being a public company will increase our expenses and administrative workload.

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

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

institute a more comprehensive compliance function;

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

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

enhance our investor relations function; and

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

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

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Risk factors

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

Beginning in fiscal year 2007, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we must perform and report our evaluation of internal controls over financial reporting, and our independent registered public accounting firm must attest to and report on the adequacy of management's evaluation and the effectiveness of such controls, on an annual basis. Our efforts to comply with Section 404 have resulted in, and are likely to continue to result in, significant costs, the commitment of time and operational resources and the diversion of management's attention. Because compliance with these requirements is complex and time consuming, there can be no assurance that we will be able to implement the requirements of Section 404 in a timely fashion. In addition, because of the time and expense required to evaluate our internal controls, our independent registered public accounting firm may have limited time before its attestation is required, which may prevent our accountants from being able to adequately test and subsequently to report on our internal controls. If we fail to timely complete our assessment of internal controls, or if our independent registered public accounting firm cannot report on our assessment, we could suffer a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in implementation, could harm our operating results or cause us to fail to timely meet our

regulatory reporting obligations.

RISKS RELATED TO OUR INDEBTEDNESS

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

We have a substantial amount of debt and may incur additional debt in the future. As of September 30, 2005, our total consolidated indebtedness was \$285 million and we had \$35.3 million of additional borrowings available under the revolver under our senior credit facilities. Pro forma, after giving effect to the December 2005 \$10 million increase in commitments under the term loan facility under our senior credit facilities and our additional borrowing thereunder and the expected redemption, repayment or repurchase of approximately \$ million in aggregate principal amount of our indebtedness with the net proceeds of this offering as described in “Capitalization,” our total consolidated indebtedness as of September 30, 2005 was \$ million and we had \$35.3 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 you, including, without limitation, the following:

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

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

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

it could adversely affect our relationship with customers and suppliers;

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

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

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

A default under our debt obligations could result in the acceleration of those obligations. We may not have the ability to fund our debt obligations in the event of such a default. This may adversely affect our ability to

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Risk factors

operate our business and therefore could adversely affect our results of operations and financial condition, and consequently, the price of our common stock. In addition, we may incur substantial additional debt in the future. If current debt levels increase, the related risks that we and you now face will intensify.

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

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

incur additional indebtedness;

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

pay dividends or repurchase or redeem capital stock;

make certain investments;

issue capital stock of our subsidiaries;

incur liens; and

enter into certain types of transactions with our affiliates.

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

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

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

Our ability to service our debt and to fund our planned capital expenditures and ongoing operations will depend on our ability to generate cash and to obtain financing in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors affecting our industry that are beyond our control. If we do not generate sufficient cash flow from operations, and sufficient future borrowings are not available under our senior credit facilities or from other sources of financing, we may not be able to repay our debt or fund capital expenditures or our other liquidity needs. As of September 30, 2005, on a consolidated basis, we had principal repayment obligations of \$0 in each of fiscal years 2006, 2007 and 2008, \$16 million in fiscal year 2009, \$64 million in fiscal year 2010 and \$205 million thereafter. Based on our debt obligations and interest rates at September 30, 2005, our annual debt service costs are approximately \$23 million per year.

CPI Holdco is a holding company with no operations, and unless it receives distributions, dividends, advances, loans or other payments from its subsidiaries, it will be unable to pay dividends on its common stock and meet its debt service and other obligations.

CPI Holdco is holding company, and we conduct all of our operations through our subsidiaries. CPI Holdco does not have, apart from its ownership of CPI, any independent operations. Accordingly, we will need to receive distributions, dividends, advances, loans or other payments from our subsidiaries or raise additional

Risk factors

financing in order to service our debt and meet our other obligations or to pay dividends. Our subsidiaries are separate and distinct legal entities and are not obligated to make funds available to us in the form of distributions, dividends, advances, loans or otherwise. Furthermore, the ability of our subsidiaries to make dividends and distributions to us is restricted by the terms of our senior credit facilities and the indenture governing CPI's 8% senior subordinated notes. Our subsidiaries are permitted under the terms of our senior credit facilities and other indebtedness to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to us. These restrictions or prohibitions may preclude our subsidiaries from providing us with sufficient dividends, distributions, or loans to fund scheduled interest and principal payments on our outstanding debt when due.

In addition, because CPI Holdco is a holding company, your claims as shareholders will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our subsidiaries, including

obligations under our senior credit facilities and CPI's 8% senior subordinated notes. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our subsidiaries will be able to satisfy the claims of our shareholders only after all of our and our subsidiaries' liabilities and obligations have been paid in full.

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

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

RISKS RELATED TO OUR COMMON STOCK AND THIS OFFERING

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

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

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

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

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

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

Upon consummation of this offering, there will be _____ shares of our common stock outstanding. The shares of common stock sold by us and the selling stockholders in this offering will be freely transferable without restriction or further registration under the Securities Act of 1933, or the Securities Act, except for shares that are purchased by our affiliates. The remaining shares of common stock owned by our existing stockholders will be “restricted securities” under the Securities Act, but will be eligible for resale subject to applicable volume, manner of sale, holding period and other limitations of Rule 144 under the Securities Act. We, our executive officers and directors, the selling stockholders and the holders of options to purchase our common stock have entered into lock-up agreements with the underwriters. Under these agreements, we and each of these persons may not, without the prior written approval of UBS Securities LLC and Bear, Stearns & Co. Inc., offer, sell, offer to sell, contract or agree to sell, hypothecate, hedge, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, any of our common stock or any securities convertible into or exercisable or exchangeable for our common stock, or warrants or other rights to purchase our common stock. These restrictions will be in effect for a period of 180 days after the date of this prospectus. At any time and without public notice, UBS Securities LLC and Bear, Stearns & Co. Inc. may in their sole discretion release some or all of the securities from these lock-up agreements. However, after the lockup agreements pertaining to this offering expire, holders of _____ shares of our common stock have the right to require us to register under the Securities Act all or a portion of their shares as well as “piggyback” registration rights.

In addition, as of September 30, 2005 we had options outstanding to purchase 946,529 shares of our common stock under our 2000 Stock Option Plan and our 2004 Stock Incentive Plan, of which 715,450 were exercisable as of such date. In addition, prior to the consummation of this offering, we will adopt our 2006 Equity and Performance Incentive Plan, which will permit the issuance of up to _____ shares of our common stock to officers, directors and consultants. Following the consummation of this offering, we intend to file one or more registration statements on Form S-8 under the Securities Act to register all shares of common stock issuable under our various incentive plans. After expiration of any applicable resale restrictions imposed by the lockup agreements, the shares covered by these registration statements will be eligible for sale in the public markets.

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

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

Because Cypress will own more than 50% of our stockholder voting power after the consummation of this offering, we will be deemed a “controlled company” under Nasdaq National Market Rule 4350(c). As a result, we will qualify for the “controlled company” exception of Rule 4350(c), which provides that so long as Cypress continues to own more than 50% of our stockholder voting power, we will be exempt from the rules that would otherwise require that our board of directors consist of a majority of “independent directors,” as defined under Nasdaq National Market rules, and that our compensation committee and nominating committee consist of only “independent directors.” We intend to avail ourselves of the “controlled company” exception for so long as Cypress continues to own more than 50% of our stockholder voting power. In the event that Cypress' voting power falls below 50%, we intend to comply with the Nasdaq National Market's majority independent director and compensation and nominating committee requirements. Because the “controlled company” exception does

Risk factors

not modify the independence requirements for the audit committee, we intend to comply with the requirements that our audit committee be composed of three independent directors within the transition period provided by Securities and Exchange Commission rules and Nasdaq National Market rules.

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

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

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

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

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

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

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

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

In addition, Section 203 of the Delaware General Corporation Law 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.

Investors will incur immediate and substantial dilution in the book value of their investment.

The initial public offering price will be substantially higher than the net tangible book value per share of the outstanding common stock. If you purchase shares of our common stock, you will incur immediate and substantial dilution in the amount of \$ per share, based on an initial public offering price of \$ per share.

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

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

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

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Special note regarding forward-looking statements

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

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

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Use of proceeds

We expect to receive approximately \$ million in net proceeds from this offering based on the sale of shares at an initial offering price of \$ per share after deducting estimated underwriting discounts and commissions and approximately \$ to pay fees and expenses associated with this offering and the related transactions. We intend to use the net proceeds from this offering to redeem, repurchase or repay our indebtedness and satisfy associated premium costs, accrued interest and transaction costs. We expect that this reduction of indebtedness could take place through:

the redemption or repurchase of certain of our floating rate senior notes and/or CPI's 8% senior subordinated notes;

the repayment of term loan amounts under our senior credit facilities; or

a combination of the above transactions.

In order to maximize our flexibility, we have not determined which portions of our indebtedness will be redeemed, repurchased or repaid with the net proceeds of this offering. Whether we redeem, repurchase or repay any particular tranche of debt will be determined by the cost of redeeming, repurchasing or repaying that debt, the expected interest savings from the redemption, repurchase or repayment of that debt and other factors, including the amount of time necessary to accomplish the transaction.

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

Dividend policy

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

Capitalization

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

on an actual basis; and

on a pro forma basis after giving effect to the following transactions as if they had occurred as of September 30, 2005: (1) the sale of shares of our common stock in this offering at an initial public offering price of \$ per share; (2) the redemption or repurchase of \$ aggregate outstanding principal amount of our floating rate senior notes for \$ (including accrued interest); (3) the redemption or repurchase of \$ aggregate outstanding principal amount of CPI's 8% senior subordinated notes for \$ (including accrued interest); (4) the repayment of \$ of the outstanding principal amounts of the term loan under our senior credit facilities; (5) the \$10 million increase in commitments under the term loan facility under our senior credit facilities that occurred on December 15, 2005 and our additional \$10 million borrowing thereunder; and (6) the special cash dividend of \$17 million to holders of our common stock made on December 15, 2005.

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

	Actual as of September 30, 2005	Pro Forma as of September 30, 2005
	(dollars in thousands)	
Cash:		
Cash and cash equivalents	\$26,511	\$
Debt:		
Subsidiary debt		
Senior credit facilities ⁽¹⁾ :		
Senior term loan facility	\$80,000	\$
CPI 8% senior subordinated notes	125,000	
CPI Holdco debt		
Floating rate senior notes ⁽²⁾	79,231	
Total debt	284,231	
Stockholders' equity:		
Common stock (actual, \$0.01 par value, 5,500,000 shares authorized, 4,275,566 shares issued and outstanding; pro forma, \$0.01 par value, shares authorized, shares issued and outstanding)	43	
Additional paid-in-capital	34,683	
Accumulated other comprehensive income	1,621	
Retained earnings	16,320	
Total stockholders' equity	52,667	
Total capitalization	\$336,898	\$

(1)

As of September 30, 2005, our senior credit facilities consist of a revolving credit facility with \$40 million of available borrowing capacity (of which \$4.7 million has been used for letters of credit) for working capital and other general corporate purposes and a term loan of \$80 million. For a description of the interest rate applicable to, and

additional information about, our senior credit facilities. See “Description of Indebtedness—Senior Credit Facilities of CPI.”

(2)

Net of unamortized discount of \$769 for actual and \$ for pro forma. For a description of the interest rate applicable to, and additional information about, our floating rate senior notes see “Description of Indebtedness—Floating Rate Senior Notes due 2015 of CPI Holdco.”

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Dilution

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

Our net tangible book value as of September 30, 2005 was a negative \$170.7 million, or approximately \$ per share of common stock. Net tangible book value per share is equal to our total tangible assets minus total liabilities all divided by the number of shares of common stock outstanding as of September 30, 2005. Our pro forma net tangible book value as of September 30, 2005, after giving effect to the special cash dividend of \$17 million to holders of our common stock made on December 15, 2005, as if such transactions had occurred as of September 30, 2005, was approximately \$ million, or approximately \$ per share of common stock.

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

Assumed initial public offering price per share	\$
Net tangible book value per share as of September 30, 2005	\$
Pro forma net tangible book value per share as of September 30, 2005	
Increase per share attributable to the offering	
Pro forma as adjusted net tangible book value per share after this offering	
Dilution per share to new investors	\$

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

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

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	Shares Purchased Number	%	Total Consideration Amount	Percent	Average Price Per Share
Existing stockholders		%		%	\$
New investors purchasing stock from us in this offering					\$
Total		%		%	

If the underwriters exercise their over-allotment option in full, the following will occur:

the pro forma as adjusted percentage of shares of our common stock held by existing stockholders will decrease to approximately % of the total number of pro forma as adjusted shares of our common stock outstanding after this offering; and

the pro forma as adjusted number of shares of our common stock held by new public investors will increase to , or approximately % of the total pro forma as adjusted number of shares of our common stock outstanding after this offering.

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Dilution

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

946,529 shares of our common stock issuable upon exercise of options outstanding as of September 30, 2005, at a weighted average exercise price of \$9.58 per share, of which options to purchase 715,450 shares were exercisable as of that date; and

shares of our common stock available for future grant under our 2006 Equity and Performance Incentive Plan as of

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Selected financial data

As a result of the Merger, CPI Holdco became the successor to the Predecessor for financial reporting purposes.

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

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

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Selected financial data

	Year Ended September 28, 2001 (Predecessor)	Year Ended September 27, 2002 (Predecessor)	Year Ended October 3, 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-Week Period Ended October 1, 2004 (Successor)	Year Ended September 30, 2005 (Successor)
(dollars in thousands, except per share data)						
Statement of Operations Data:						
Sales	\$272,521	\$251,245	\$265,434	\$79,919	\$202,266	\$320,732
Cost of sales	223,332	192,189	183,957	56,189	135,672	215,680
Amortization of acquisition-related inventory write-up ⁽¹⁾⁽²⁾	—	—	—	—	5,500	351
Gross profit	49,189	59,056	81,477	23,730	61,094	104,701
Operating costs and expenses:						
Research and development	5,767	5,873	6,860	2,200	5,253	7,218
Selling and marketing	17,544	16,073	15,650	4,352	11,082	18,547
General and administrative	21,041	19,777	17,939	6,033	12,696	28,329
Merger expenses ⁽¹⁾	—	—	—	6,374		
Amortization of acquisition-related intangible assets ⁽¹⁾⁽²⁾	—	—	—	—	13,498	7,487
Acquired-in-process research and development ⁽¹⁾	—	—	—	—	2,500	—
Loss (gain) on sale of Solid State Products Division ⁽³⁾	—	3,004	(136)	—	—	—
Total operating costs and expenses	44,352	44,727	40,313	18,959	45,029	61,581
Operating income	4,837	14,329	41,164	4,771	16,065	43,120
Interest expense, net	20,734	16,508	14,540	8,902	10,518	20,310
Income tax expense	2,950	4,554	10,076	439	2,899	9,138
Net income (loss)	\$(18,847)	\$(6,733)	\$16,548	\$(4,570)	2,648	\$13,672

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Net income per share⁽⁴⁾:

Basic	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	\$0.62	\$3.20
Diluted	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	\$0.59	\$2.96

Shares used to calculate net income per share:

Basic	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	4,270,269	4,275,566
Diluted	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	N/A ⁽⁵⁾	4,478,706	4,620,283

Other Financial Data:

EBITDA ⁽⁶⁾	\$18,183	\$28,666	\$47,457	\$6,549	\$32,816	\$57,297
EBITDA margin ⁽⁷⁾	6.7 %	11.4 %	17.9 %	8.2 %	16.2 %	17.9 %
Operating income margin ⁽⁸⁾	1.8 %	5.7 %	15.5 %	6.0 %	7.9 %	13.4 %
Net income (loss) margin ⁽⁹⁾	(6.9)%	(2.7)%	6.2 %	(5.7)%	1.3 %	4.3 %
Depreciation and amortization ⁽¹⁰⁾	\$13,346	\$11,304	\$6,293	\$1,778	\$16,751	\$14,177
Capital expenditures ⁽¹¹⁾	5,788	3,378	3,067	459	3,317	17,131
Ratio of earnings to fixed charges ⁽¹²⁾	—	—	2.78x	—	1.51x	2.10x
Net cash provided by operating activities	\$6,513	\$44,020	\$34,482	\$6,574	\$12,203	\$31,349
Balance Sheet Data (at period end):						
Working capital	\$22,048	\$1,101	\$17,241	—	\$72,385	\$65,400
Total assets	204,067	156,189	181,968	—	\$431,207	455,882
Long-term debt and redeemable preferred stock	148,569	128,693	128,907	—	210,606	284,231
Total stockholders' (deficit) equity	(57,608)	(73,104)	(65,445)	—	107,594	52,667

We did not pay cash dividends on the common stock of CPI Holdco or the Predecessor, as applicable, in fiscal years 2001, 2002, 2003 or 2004. In fiscal year 2005, we paid a special cash dividend of \$75,809 in the aggregate to stockholders of CPI Holdco.

(1)

In fiscal year 2004, as a result of the Merger, we incurred charges for the amortization of inventory write-up and intangible assets, Merger expenses and a write-off of in-process research and development. In fiscal year 2005, as a result of the Merger, we incurred charges for the amortization of intangible assets.

(2)

In fiscal year 2005, we incurred charges for the amortization of inventory write-up and intangible assets for the Econco acquisition.

(3)

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

(4)

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

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Selected financial data

(5)

Due to the significant change in capital structure at the Merger closing date, the Predecessor amount has not been presented because it is not considered comparable to the Successor amount.

(6)

EBITDA represents earnings before provision for income taxes, interest expense, net and depreciation and amortization. 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 information in connection with their analysis of our business. The following demonstrates and forms the basis for such belief: (i) EBITDA is a component of the measure used by our board of directors and management team to evaluate our operating performance, (ii) our Senior Credit Facility contains covenants that require us to maintain certain interest expense coverage and leverage ratios, which contain EBITDA as a component, and our management team uses EBITDA to monitor compliance with such covenants, (iii) EBITDA is a component of the measure used by our management team to make day-to-day operating decisions, (iv) EBITDA is a component of the measure used by the management to facilitate internal comparisons to competitors' results and our industry in general and (v) the payment of bonuses to certain members of management is contingent upon, among other things, the satisfaction by CPI Holdco 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:

	Fiscal Year 2001 (Predecessor)	Fiscal Year 2002 (Predecessor)	Fiscal Year 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-week Period Ended October 1, 2004 (Successor)	Fiscal Year 2005 (Successor)
	(dollars in thousands)					
Net income (loss)	\$ (18,847)	\$ (6,733)	\$ 16,548	\$ (4,570)	\$ 2,648	\$ 13,672
Depreciation and amortization ⁽¹⁰⁾	13,346	11,304	6,293	1,778	16,751	14,177
Interest expense, net	20,734	16,508	14,540	8,902	10,518	20,310
Income tax expense	2,950	4,554	10,076	439	2,899	9,138
Write-off of goodwill	—	2,525	—	—	—	—

Impairment of property, plant and equipment	—	508	—	—	—	—
EBITDA	\$18,183	\$28,666	\$47,457	\$6,549	\$32,816	\$57,297

(7)

EBITDA margin represents EBITDA divided by sales.

(8)

Operating income margin represents operating income divided by sales.

(9)

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

(10)

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

(11)

In fiscal year 2005, includes \$13.1 million of capital expenditures resulting from the relocation of our San Carlos operation to Palo Alto, California and Mountain View, California.

(12)

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

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

Our fiscal years are the 52- or 53-week periods that end on the Friday nearest September 30. Fiscal year 2005 comprised the 52-week period ending September 30, 2005; fiscal year 2004 comprised the 16-week period ended January 22, 2004 and the 36-week period ending October 1, 2004; and fiscal year 2003 comprised the 53-week period ended October 3, 2003. The following discussion reflects the consolidated results of the Predecessor and its subsidiaries for periods ending prior to January 23, 2004 and for CPI Holdco and its subsidiaries on or subsequent to January 23, 2004, after giving effect to the Merger. Financial results for fiscal year 2004 represent the combined pro forma results of the Predecessor for the 16-week period ended January 22, 2004 and CPI Holdco for the 36-week period ended October 1, 2004. The following discussion should be read in conjunction with the consolidated financial statements of the Predecessor and CPI Holdco, and the notes thereto, included elsewhere in this prospectus.

OVERVIEW

We are a leading provider of microwave and radio frequency solutions for critical defense, communications, medical, scientific and other applications. Our products include high power microwave amplifiers, satellite communications amplifiers, medical x-ray imaging subsystems, and other related products. We discuss our business in terms of our end markets—the radar, electronic warfare, medical, communications, industrial and scientific markets—in order to more clearly describe our business to our investors. However, we are internally organized into six operating divisions, differentiated based on products. For financial reporting purposes, we have two reportable segments: Vacuum electron devices (“VED”) and satcom equipment. Our VED segment consists of five of our operating divisions and our satcom equipment segment consists of one division.

ECONCO ACQUISITION

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

THE MERGER

On January 23, 2004, CPI Holdco acquired the Predecessor pursuant to the Merger. The Merger essentially resulted in the recapitalization of the Predecessor but did not impact our underlying operations. In connection with the Merger, the Predecessor and CPI (which was, at such time, the direct wholly-owned subsidiary of the Predecessor) refinanced all of their outstanding indebtedness and CPI redeemed all of its outstanding preferred stock. As a result of the Merger, the assets acquired and liabilities assumed were adjusted to reflect fair value, and the excess of the purchase price over the fair value was recorded as goodwill. The revised fair values impacted our results of operations subsequent to the Merger and their comparability to the results of operations of the Predecessor.

SUMMARY OF YEAR-END FINANCIAL RESULTS

Orders

Our orders recorded during fiscal year 2005 increased compared to fiscal year 2004. 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. Order cancellations or terminations are recorded as order reductions.

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

Fiscal Year 2005	Fiscal Year 2004	
Percentage	Percentage	
Amount of Total	Amount of Total	Increase (Decrease)
Orders	Orders	Amount Percentage

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

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

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

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

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

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

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

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

Incoming order levels fluctuate significantly on a quarterly or annual basis and a particular quarter or year's order rate may not be indicative of future order levels. In addition, our sales are highly dependent upon manufacturing

scheduling and performance and, accordingly, it is not possible to accurately predict when orders will be recognized as sales.

Backlog

As of September 30, 2005, we had an order backlog of \$193.5 million compared to an order backlog of \$179.7 million as of October 1, 2004. Based on current product delivery schedules, we expect to ship approximately 96% of order backlog at September 30, 2005 in fiscal year 2006. Although the backlog consists of firm orders

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for which goods and services are yet to be provided, customers can, and sometimes do, terminate or modify these orders. Historically, the amount of modifications and terminations has not been material compared to total contract volume.

Sales

Sales for fiscal year 2005 of \$320.7 million were \$38.5 million, or 14%, higher than fiscal year 2004 sales of \$282.2 million. Except for the radar market and the scientific market, sales for fiscal year 2005 increased in all markets from the comparable period of fiscal year 2004. The sales increases were primarily in the communications and medical markets and were primarily attributable to: increased shipment of satcom products both domestically and internationally, including direct-to-home broadcast amplifiers; high power microwave technology communication products and additional sales from the Econco operation; and increased shipments of high power microwave devices used in cancer therapy and magnetic resonance imaging systems and x-ray generator systems and power supply products used in x-ray imaging systems.

Our costs and expenses consist of cost of goods sold and operating expenses, a portion of which is incurred in Canadian dollars. See “—Quantitative and Qualitative Disclosures About Market Risk” below. Costs of goods sold generally include 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.

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RESULTS OF OPERATIONS

The following table sets forth our historical results of operations for each of the periods indicated:

Fiscal Year 2005		Fiscal Year 2004 ^(a)		Fiscal Year 2003	
Amount	Percentage of Sales	Amount	Percentage of Sales	Amount	Percentage of

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							Sales		
Sales	\$320,732	100.0	%	282,185	100.0	%	265,434	100.0	%
Cost of sales	215,680	67.3		191,861	68.0		183,957	69.3	
Amortization of acquisition-related inventory write-up	351	0.1		5,500	1.9		—	—	
Gross profit	104,701	32.6		84,824	30.1		81,477	30.7	
Research and development	7,218	2.3		7,453	2.6		6,860	2.6	
Selling and marketing	18,547	5.8		15,434	5.5		15,650	5.9	
General and administrative	28,329	8.8		18,729	6.6		17,939	6.8	
Merger expenses	—	—		6,374	2.3		—	—	
Amortization of acquisition-related intangible assets	7,487	2.3		13,498	4.8		—	—	
Acquired in-process research and development	—	—		2,500	0.9		—	—	
Gain on sale of Solid State Products Division	—	—		—	—		(136)	(0.1)	
Operating income	43,120	13.4		20,836	7.4		41,164	15.5	
Interest expense, net	20,310	6.3		19,420	6.9		14,540	5.5	
Income before taxes	22,810	7.1		1,416	0.5		26,624	10.0	
Income tax expense	9,138	2.8		3,338	1.2		10,076	3.8	
Net income (loss)	13,672	4.3%		(1,922)	(0.7)%		16,548	6.2%	
Other Data:									
EBITDA ^(b)	\$57,297	17.9%		\$39,365	14.0%		47,457	17.9%	

(a)

Represents the combined pro forma results of CPI Holdco for the 36-week period ended October 1, 2004 and the Predecessor for the 16-week period ended January 22, 2004. Since the basis of accounting for CPI Holdco and the Predecessor are not the same, the combined pro forma results are not in accordance with GAAP. However, we are presenting this information because we believe it is useful for investors.

(b)

EBITDA represents earnings before provision for income taxes, interest expense, net and depreciation and amortization. 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 information in connection with their analysis of our business. The following demonstrates and forms the basis for such belief: (i) EBITDA is a component of the measure used by our board of directors and management team to evaluate our operating performance, (ii) our Senior Credit Facility contains covenants that require us to maintain certain interest expense coverage and leverage ratios that contain EBITDA as a component, and our management team uses EBITDA to monitor compliance with such covenants, (iii) EBITDA is a component of the measure used by our management team to make day-to-day operating decisions, (iv) EBITDA is a component of the measure used by the management to facilitate internal comparisons to competitors' results and our industry in general and (v) the payment of bonuses to certain members of management is contingent upon, among other things, the satisfaction by CPI Holdco of certain targets, which contain EBITDA as a component. Other companies may define EBITDA differently and, as a result, our measure of EBITDA may not be directly comparable to EBITDA of other companies. Although we use EBITDA as a financial measure to assess the performance of our business, the use of EBITDA is limited because it does not include certain material costs, such as interest and taxes, necessary to operate our business. When analyzing our performance, EBITDA should be considered in addition to, and not as a substitute for, net income (loss), cash flows from operating activities or other statements of operations or statements of cash flows data prepared in accordance with GAAP. For a reconciliation of net income (loss) to EBITDA, see footnote 7 in "Summary financial data."

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Fiscal year 2005 compared to fiscal year 2004

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

	Fiscal Year 2005			Fiscal Year 2004		
	Amount	Percentage	Amount	Percentage	Increase (Decrease)	
		of Total Sales		of Total Sales	Amount	Percentage
Radar	\$109.4	34%	\$112.1	40%	\$(2.7)	(2%)
Electronic Warfare	27.7	9%	23.8	8%	3.9	16%
Medical	50.7	16%	41.6	15%	9.1	22%
Communications	101.4	31%	74.8	27%	26.6	36%
Industrial	23.1	7%	20.2	7%	2.9	14%
Scientific	8.4	3%	9.7	3%	(1.3)	(13%)
Total Sales	\$320.7	100%	\$282.2	100%	\$38.5	14%

Sales for fiscal year 2005 of \$320.7 million were \$38.5 million, or 14%, higher than fiscal year 2004 sales of \$282.2 million. The sales increase was primarily related to increases in the communications and medical markets. The Econco acquisition represents \$12.2 million of the sales increase, while the remaining increase of \$26.3 million was due to growth from our existing business. During fiscal year 2005, approximately \$5 million of communications, industrial and medical sales were accelerated by several customers in anticipation of planned manufacturing disruptions due to the relocation of our Eimac division from the San Carlos, California facility to our Palo Alto, California facility.

The communications sales increase was primarily due to increased shipment of satcom products both domestically and internationally; including direct-to-home broadcast amplifiers, high power microwave technology communication products and additional sales from the Econco operation. The medical sales increase was primarily due to increased shipments of high power microwave devices used in cancer therapy and magnetic resonance imaging systems, and x-ray generator systems and power supply products used in x-ray imaging systems.

Gross Profit. Gross profit of \$104.7 million for fiscal year 2005 was \$19.9 million higher than the prior year's level of \$84.8 million. The increase in gross profit was primarily due to higher sales volume in fiscal year 2005 and Merger purchase accounting charges of \$5.5 million for amortization of acquisition-related inventory write-up in fiscal year 2004. Cost of sales for fiscal year 2005 includes \$0.8 million of expenses associated with the relocation of our Eimac division from our San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities.

Research and Development. Research and development expenses of \$7.2 million, or 2.3% of sales, for fiscal year 2005 were \$0.3 million lower than fiscal year 2004 due to less time spent on research and development projects and more time spent on customer-funded development sales contracts, which costs are classified in cost of sales.

Selling and Marketing. Selling and marketing expenses of \$18.5 million, or 5.8% of sales, for fiscal year 2005 increased from the \$15.4 million, or 5.5% of sales, for fiscal year 2004. The increase in selling and marketing expenses in fiscal year 2005 was primarily due to additional selling costs to support the increase in sales volume, including for the Econco operation, which represented \$1.1 million of the increase in fiscal year 2005.

General and Administrative. General and administrative expenses of \$28.3 million, or 8.8% of sales, for fiscal year 2005 were \$9.6 million higher than the \$18.7 million, or 6.6% of sales, for fiscal year 2004. During fiscal year 2005, we incurred stock-based compensation expense of \$7.0 million, incremental costs for the Econco operation of \$1.1 million, and moving costs of \$1.0 million associated with the relocation of our Eimac division from our San Carlos, California facility to our Palo Alto, California and Mountain View, California facilities.

Fiscal year 2005 includes \$7.0 million of stock-based compensation expense for performance stock options and fiscal year 2004 includes \$1.3 million of stock-based compensation expense for stock options issued at a value that was subsequently determined to be less than fair value. In September 2005, the Compensation Committee

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of the Board of Directors approved the acceleration of vesting of all outstanding performance options. The purpose of the acceleration was to reward management for its performance. Fiscal year 2005 stock-based compensation expense includes \$2.8 million from the acceleration of vesting of performance stock options that were expected to vest in fiscal years 2006, 2007 and 2008 assuming that the performance criteria would have been achieved.

Merger Expenses. Merger expenses of \$6.4 million for fiscal year 2004 were primarily made up of investment banking fees, legal expenses, transaction bonuses, and transaction fees paid pursuant to the management services agreement with Leonard, Green & Partners, L.P., an affiliate of the former holder of substantially all of the common stock of the Predecessor.

Amortization of Acquisition-Related Intangibles. Amortization of acquisition-related intangibles of \$7.5 million for fiscal year 2005 was \$6.0 million lower than for fiscal year 2004. Amortization of acquisition-related intangibles consists of purchase accounting charges, primarily for customer backlog and other intangible assets. Customer backlog was fully amortized in January 2005 while the other acquisition-related intangible assets will continue to be amortized over periods of up to 50 years.

Acquired In-Process Research and Development. Acquired in-process research and development expense of \$2.5 million for fiscal year 2004 represents the estimated fair value of acquired in-process research and development projects that had not yet reached technological feasibility and had no alternative future use as of the Merger closing date.

Interest Expense, net. Interest expense, net of \$20.3 million for fiscal year 2005 was \$0.9 million higher than the \$19.4 million for fiscal year 2004. The increase in interest expense in fiscal year 2005 was primarily due to additional interest expense for the floating rate senior notes issued on February 22, 2005, and was partially offset by fiscal year 2004 interest costs associated with the early redemption of the Predecessor's 12% Notes and the write-off of capitalized debt issue costs related to outstanding debt at the time of the Merger.

Income Tax Expense. We recorded income tax expense of \$9.1 million for fiscal year 2005 compared to income tax expense of \$3.3 million for fiscal year 2004. The effective income tax rates were 40% and 236% for fiscal year 2005 and 2004, respectively. The increase in income tax expense is primarily due to higher taxable income in fiscal year 2005. Taxable income for fiscal year 2004 included non-deductible acquired in-process research and development and other purchase accounting charges related to the Merger.

Net Income (Loss). We recorded net income of \$13.7 million for fiscal year 2005, an increase of \$15.6 million compared to net loss of \$1.9 million for fiscal year 2004. Higher net income for the fiscal year 2005 compared to

fiscal year 2004 is primarily due to higher gross profit due to increased sales in fiscal year 2005, partially offset by higher income tax expense recorded in fiscal year 2005, and Merger expenses in fiscal year 2004.

EBITDA. EBITDA for fiscal year 2005 was \$57.3 million, an increase of \$17.9 million compared to \$39.4 million for fiscal year 2004. The increase in EBITDA from fiscal year 2004 to 2005 resulted primarily from higher gross profit due to higher sales in fiscal year 2005 and expenses in fiscal year 2004 for the write-off of acquired in-process research and development and merger expenses that did not occur in fiscal year 2005. For a reconciliation of net income (loss) to EBITDA, see footnote 7 in "Summary financial data."

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Fiscal year 2004 compared to fiscal year 2003

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

	Fiscal Year 2004			Fiscal Year 2003		
	Amount	Percentage	Amount	Percentage		
	of Total		of Total		Increase (Decrease)	
	Sales		Sales		Amount	Percentage
Radar	\$112.1	40%	\$102.6	39%	\$9.5	9%
Electronic Warfare	23.8	8%	22.5	9%	1.3	6%
Medical	41.6	15%	38.2	14%	3.4	9%
Communications	74.8	27%	82.5	31%	(7.7)	(9%)
Industrial	20.2	7%	11.3	4%	8.9	79%
Scientific	9.7	3%	8.3	3%	1.4	17%
Total Sales	\$282.2	100%	\$265.4	100%	\$16.8	6%

Sales for fiscal year 2004 of \$282.2 million were \$16.8 million, or 6%, higher than fiscal year 2003 sales of \$265.4 million. The sales increase was primarily related to increases in the radar and industrial markets. The increase in radar sales was primarily due to increased shipments of high power microwave devices to the Department of Defense. The increase in industrial sales was due to strong demand for semiconductor products. The decrease in communication sales for fiscal year 2004 can be attributed to the timing of deliveries of direct-to-home broadcast products combined with continued moderate spending by non-broadcast communication companies.

Gross Profit. Gross profit of \$84.8 million for fiscal year 2004, was \$3.3 million higher than the prior year's level of \$81.5 million. The increase in gross profit was primarily due to higher shipment volume and a favorable mix of product shipments with higher pricing as well as manufacturing volume efficiencies and was partially offset by the \$5.5 million purchase accounting charge related to the write-up of inventory resulting from the Merger.

Research and Development. Research and development expenses of \$7.5 million, or 2.6% of sales, for fiscal year 2004 were \$0.6 million higher than fiscal year 2003. The increase in research and development expenses for fiscal year 2004 was primarily attributable to additional development efforts on products for the radar and medical markets.

Selling and Marketing. Selling and marketing expenses of \$15.4 million, or 5.5% of sales, for fiscal year 2004 decreased slightly from the \$15.7 million, or 5.9% of sales, for fiscal year 2003. The decrease in selling and marketing expenses was primarily due to lower sales representative commissions for fiscal year 2004 compared to fiscal year 2003 due to changes in sales mix.

General and Administrative. General and administrative expenses of \$18.7 million, or 6.6% of sales, for fiscal year 2004 were \$0.8 million higher than the \$17.9 million, or 6.8% of sales, for fiscal year 2003. The increase in general and administrative expense for fiscal year 2004 can primarily be attributed to expenses incurred to evaluate acquisition candidates and stock compensation expense due to the acceleration of stock option vesting in connection with the Merger.

Merger Expenses. Merger expenses of \$6.4 million for fiscal year 2004 were primarily made up of investment banking fees, legal expenses, transaction bonuses, and transaction fees paid pursuant to the management services agreement with Leonard, Green & Partners, L.P., an affiliate of the former holder of substantially all of the common stock of the Predecessor.

Amortization of Acquisition-Related Intangibles. Amortization of acquisition-related intangibles of \$13.5 million for fiscal year 2004 represents charges of \$12.1 million for customer backlog and \$1.4 million for technology amortization. Customer backlog was fully amortized in January 2005, while technology continues to be amortized over periods of up to 50 years.

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Acquired In-Process Research and Development. Acquired in-process research and development expense of \$2.5 million for fiscal year 2004 represents the estimated fair value of acquired in-process research and development projects that had not yet reached technological feasibility and had no alternative future use as of the Merger closing date.

Gain on Sale of Solid State Products Division. The \$0.1 million gain on the sale of our Solid State Products Division for fiscal year 2003 represents principal payments on the unsecured promissory note due from KMIC Technology Inc. for the purchase of our Solid State Products Division. Due to the uncertainty of ultimate collection on the promissory note, the gain was recognized when the cash payments were received.

Interest Expense, net. Interest expense, net of \$19.4 million for fiscal year 2004 was \$4.9 million higher than the \$14.5 million for fiscal year 2003. Interest expense for fiscal year 2004 included incremental expenses of \$4.6 million associated with the redemption and termination of Predecessor debt. Since refinancing outstanding indebtedness at the Merger closing date, interest expense remained consistent with prior years' levels. The cost of maintaining higher debt levels for the Successor was partially offset by lower interest rates.

Income Tax Expense. We recorded income tax expense of \$3.3 million for fiscal year 2004 compared to income tax expense of \$10.1 million for fiscal year 2003. The effective income tax rates were 236% and 38% for fiscal year 2004 and 2003, respectively. The increase in the effective income tax rate for fiscal year 2004 was primarily due to non-deductible acquired in-process research and development and other purchase accounting charges related to the Merger.

Net Income (Loss). We recorded a net loss of \$1.9 million for fiscal year 2004, a decrease of \$18.4 million compared to net income of \$16.5 million for fiscal year 2003. Net income was lower for fiscal year 2004 primarily due to Merger-related expenses and amortization charges, which were partially offset by favorable gross margin performance and lower income tax expense.

EBITDA. EBITDA for fiscal year 2004 was \$39.4 million, a decrease of \$8.1 million compared to \$47.5 million for fiscal year 2003. The decrease in EBITDA resulted primarily from purchase accounting charges of \$5.5 million for

inventory write-up and \$2.5 million for acquired in-process research and development, and \$6.4 million for merger expenses. The effect of these Merger-related items was offset in part by improved gross margins for fiscal year 2004 compared to fiscal year 2003 due to higher shipment volume and a favorable mix of product shipments with higher pricing as well as manufacturing volume efficiencies. For a reconciliation of net income (loss) to EBITDA, see footnote 7 in “Summary financial data.”

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, internal growth and acquisitions, 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.

As of September 30, 2005, we had availability of \$35.3 million under the revolver under our senior credit facilities. We believe that cash and cash equivalents on hand, cash expected to be generated from operations and borrowing capability under our senior credit facilities will be sufficient to meet our currently anticipated cash requirements during fiscal year 2006. Thereafter, our ability to fund our cash requirements and to comply with the financial covenants under our debt agreements will depend on our results of future operations, performance and cash flows and will be subject to uncertainties in the markets in which we compete and other factors, many of which are beyond our control.

Historical operating, financing and investing activities

As of September 30, 2005, we had cash equivalents of \$26.5 million compared to \$40.5 million as of October 1, 2004. Cash balances in excess of operating requirements are invested daily in overnight U.S. Government securities.

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Operating Activities. For fiscal year 2005, net cash provided by operating activities was \$31.3 million compared to \$18.8 million for fiscal year 2004. The \$12.5 million increase in net cash from operating activities for fiscal year 2005 compared to fiscal year 2004 was primarily due to higher net income, excluding non-cash charges, in fiscal year 2005. The fiscal year 2005 cash flow increases from higher accrued expenses and accounts payable was essentially offset by increases in inventory. The increase in accrued expenses was primarily due to accruals for capital expenditures in connection with the relocation of the San Carlos production facility to Palo Alto, California and employee bonus and incentive accruals. The increase in inventory, and related accounts payable, was due to expected increases in the volume of customer shipments in the first half of fiscal year 2006. Working capital of \$65.4 million at September 30, 2005 was \$7.0 million lower than the working capital balance of \$72.4 million at October 1, 2004. The primary reason for the reduction of working capital during fiscal year 2005 was the use of cash to pay for capital expenditures related to the relocation of the San Carlos production facility to Palo Alto, California.

Cash provided by operating activities was \$18.8 million for fiscal year 2004, compared to \$34.5 million for fiscal year 2003. The \$15.7 million decrease in net cash provided by operating activities for fiscal year 2004 compared to fiscal year 2003 is primarily due to Merger and Merger-related expenses incurred in fiscal year 2004 and changes in

inventory, accounts payable and accrued expenses. The reduction in cash flow in fiscal year 2004 was due, in part, to more favorable changes in inventory, accounts payable and accrued expenses in fiscal year 2003 than 2004.

Investing Activities. For fiscal year 2005, net cash used in investing activities was \$35.7 million compared to \$103.9 million for fiscal year 2004. Investing activities for fiscal year 2005 include \$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 relocation of the San Carlos production facility to Palo Alto, California. Investing activities for fiscal year 2004 consist primarily of the purchase of the Predecessor in connection with the Merger.

Net cash used in investing activities was \$103.9 million for fiscal year 2004, compared to \$2.9 million in fiscal year 2003. Net cash used in investing activities for fiscal year 2004 included \$113.1 million used to acquire the Predecessor, which was offset by the receipt of \$13.5 million as an advance payment for the sale of our San Carlos property. Investment in property, plant and equipment for fiscal year 2004 was similar to such investment in fiscal year 2003.

Financing Activities. For fiscal year 2005, net cash used in financing activities was \$9.6 million compared to net cash provided by financing activities of \$105.7 million for fiscal year 2004. Financing activities for fiscal year 2005 consist primarily of a \$75.8 million distribution to stockholders of CPI Holdco, \$9.6 million repayments on CPI's senior term loans, and \$3.5 million of debt 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 included \$3.9 million of required annual repayments and an optional prepayment of \$5.7 million.

Net cash provided by financing activities was \$105.7 million for fiscal year 2004, compared to net cash used in financing activities of \$0.5 million for fiscal year 2003. Financing activities for fiscal year 2004 include approximately \$315 million of cash proceeds from the issuance of debt and equity that was used to purchase the Predecessor, which was partially offset by the extinguishment of \$199 million of Predecessor debt and preferred stock and \$9.7 million in debt issue costs.

Long-term debt

On February 22, 2005, CPI Holdco issued \$80 million in principal amount of its floating rate senior notes. The floating rate senior notes were issued at a 1% discount; the gross cash proceeds from the issuance of floating rate senior notes were \$79.2 million. The proceeds from the issuance of the floating rate senior notes were used to make a distribution of approximately \$75.8 million to CPI Holdco's stockholders and to pay fees and expenses of approximately \$3.5 million associated with the issuance of the floating rate senior notes. See "Description of certain indebtedness—Floating Rate Senior Notes due 2015 of CPI Holdco."

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On January 23, 2004, in connection with the Merger, CPI issued \$125 million in aggregate principal amount of its 8% senior subordinated notes. The proceeds of the 8% senior subordinated notes were used to pay the Merger consideration and retire existing debt. See "Description of certain indebtedness—8% Senior Subordinated Notes due 2012 of CPI."

Our senior credit facilities, under which CPI is the borrower, as amended on December 15, 2005, provide for financing of up to \$139.6 million consisting of (1) a \$99.6 million term loan facility with a maturity date in July 2010, and (2) a \$40.0 million revolving credit facility with a maturity date in January 2010. The revolving credit facility

includes borrowing capacity available for letters of credit. Upon specified conditions, CPI may seek commitments for up to \$65 million in additional term loans under our senior credit facilities. See “Description of certain indebtedness—Senior Credit Facilities of CPI.”

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, some of which require us to maintain specified financial ratios and meet financial tests. Continued access to our senior credit facilities is subject to remaining in compliance with the covenants thereunder. We are currently in compliance with the covenants under the indentures governing our floating rate senior notes, 8% senior subordinated notes and senior credit facilities, and we expect to remain in compliance with those covenants throughout fiscal 2006.

Dividends from CPI to CPI Holdco

For fiscal year 2005, CPI paid \$4.1 million of cash dividends to CPI Holdco to fund cash interest payments of \$3.1 million on the floating rate senior notes and to make a \$1.0 million deposit as collateral on CPI Holdco's interest rate swap (see “—Quantitative and Qualitative Disclosures About Market Risk—Interest rate risk”). CPI Holdco's future ability to make semi-annual cash interest payments on its floating rate senior notes and any interest and related obligations will depend on CPI's ability to make dividends to CPI Holdco in the amounts necessary for such payments. The agreements governing our senior credit facilities and the indenture governing the 8% senior subordinated notes impose restrictions on CPI's ability to make these payments. CPI's ability to make these payments will depend, among other things, on CPI's level of indebtedness at the time of the proposed dividend, the amount of dividends, distributions and certain other restricted payments made in the past and whether CPI is in default under the agreements governing its debt.

San Carlos Sale Agreement

In February 2003, we entered into an agreement to sell the land and close our facilities located in San Carlos, California. The purchase price is \$23.8 million. Under the sale agreement, the buyer has paid us a \$13.0 million deposit on the purchase price, which we are using to defray the costs of moving our San Carlos operations to our Palo Alto facility and to a new location in the Palo Alto area. The \$13.0 million deposit is nonrefundable unless we breach the sale agreement.

The closing of the sale is subject to a number of conditions, including the requirement that we vacate our facilities and obtain regulatory closure of certain permitted equipment located on the property. Although there can be no assurance that the sale of the San Carlos property will occur, we expect to close the sale of the property in fiscal year 2007.

As of September 30, 2005, the San Carlos land and building was classified as held for use in property, plant and equipment and the advance payments from the sale of the property, aggregating \$13.5 million, are classified as a long-term liability in the consolidated balance sheets. As of September 30, 2005, we had capitalized recoverable selling costs of \$0.7 million relating to the sale of the San Carlos property and classified these amounts as other long-term assets in the accompanying consolidated balance sheets. As of September 30, 2005, the San Carlos land and building had a net book value of \$23.7 million, and the building continues to be depreciated over its remaining useful life. Based on current projections we do not expect to recognize a loss on the sale of the San Carlos property.

Capital Expenditures

Our continuing operations typically do not have large capital expenditure requirements. Capital expenditures are generally made to replace existing assets, increase productivity, facilitate cost reductions or meet regulatory requirements. Capital expenditures were \$3.1 million, \$3.8 million and \$17.1 million in fiscal years 2003, 2004 and 2005, respectively. The relocation of the San Carlos operations is expected to be completed in fiscal year 2007 with additional capital expenditures of approximately \$5 million in fiscal year 2006. Total capital expenditures for fiscal year 2006 are expected to be approximately \$14 million, including approximately \$5 million to complete the relocation of the San Carlos operations, \$4 million for a proposed expansion of the Canadian facility to accommodate expected growth and \$5 million for ongoing capital expenditures.

Contractual Obligations

The following table summarizes our significant contractual obligations at September 30, 2005 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
Debt obligations	\$285,000	—	—	80,000	205,000
Operating leases	8,331	1,303	1,881	1,488	3,659
Total cash obligations	\$293,331	1,303	1,881	81,488	208,659
Standby letters of credit	\$4,708	4,708	—	—	—

The following table summarizes our significant contractual obligations at September 30, 2005 and the effect that such obligations are expected to have on our liquidity and cash flows in future periods, after giving effect to: this offering and the intended application of the proceeds received by us from this offering; and the \$10 million increase in commitments under the term loan facility under our senior credit facilities that occurred on December 15, 2005, and our additional borrowing thereunder (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt obligations	\$				
Operating leases					
Total cash obligations	\$				
Standby letters of credit	\$				

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

Recent Events

On December 15, 2005, CPI Holdco and CPI entered into Amendment No. 3 to our senior credit facilities. The amendment increased the commitments under our term loan facility by \$10 million, and CPI borrowed an additional \$10 million thereunder. In addition, among other things, the amendment (1) permitted CPI to pay a dividend (not to exceed \$20 million) to CPI Holdco to fund a dividend by CPI Holdco to its stockholders, (2) amends the definition of Excess Cash Flow in our senior credit facilities to decrease Excess Cash Flow for CPI's fiscal year 2006 by the excess of the amount of the dividend described in clause (2) over the gross proceeds of the \$10 million additional borrowing, and (3) permits CPI or CPI Holdco to use up to \$70 million of the proceeds of the first equity issuance by CPI Holdco to repurchase or redeem our floating rate senior notes or CPI's 8% senior subordinated notes.

CPI used the proceeds of the additional term loan borrowing to fund a portion of a special cash dividend of \$17 million paid to the holders of CPI Holdco's common stock on December 15, 2005. In addition, on December 15, 2005, CPI's Board of Directors approved a payment of \$3,250,000 in bonuses to CPI employees and directors (other than directors who are employees or affiliates of Cypress) to reward them for the increase in company value.

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

Effect of this offering and the related transactions on results of operations, liquidity and capital resources; liquidity outlook

We expect that this offering and the related transactions will have the following effects on our future results of operations, liquidity and capital resources:

We will pay approximately \$ million in one-time fees, premiums and expenses in connection with this offering and the related transactions, \$ million of which are related to the offering and will be recorded as a reduction to additional paid-in capital.

We will use the net proceeds of this offering to redeem, repurchase or repay our indebtedness and satisfy associated premium costs, accrued interest and transaction costs. Based on the assumptions set forth in "Capitalization" as to the amount and type of indebtedness that will be redeemed, repurchased or repaid, our debt would decrease by \$ million due to the redemption or repurchase of \$ million of outstanding principal amount of floating rate senior notes, the redemption or repurchase of \$ million of outstanding principal amount of CPI's 8% senior subordinated notes and the repayment of \$ million aggregate outstanding principal amount of term loan under our senior credit facilities.

Based on the assumptions set forth in "Capitalization" as to the amount and type of indebtedness that will be redeemed, repurchased or repaid, and, with respect to variable rate indebtedness, based on the interest rates in effect as of September 30, 2005, we expect to have a net decrease in interest expense of approximately \$ million per year. Our future interest expense will depend on the exact amount and type of indebtedness that is redeemed, repurchased or repaid with the net proceeds of this offering, and the applicable interest rates in effect in future periods.

As a public company, we expect to incur approximately \$ in incremental ongoing board expenses, director and officer liability insurance premiums, expenses relating to stockholders' meetings, printing expenses, investor relations expenses, additional filing fees, registrar and transfer agent fees, independent directors' fees, additional legal fees, listing fees and miscellaneous fees.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-01"). EITF 03-01 provides

guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. The FASB issued EITF 03-01-1 in September 2004, which delayed the effective date of the recognition and measurement provisions of EITF 03-01. We do not expect the adoption of EITF 03-01 to have a material impact on our results of operations or financial condition.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payments" ("SFAS No. 123R"). SFAS No. 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize the cost over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123R eliminates the alternative method of accounting for employee share-based payments previously available under APB No. 25. The effective date for a non public entity that becomes a public entity after June 15, 2005, is the first interim or annual reporting period beginning after the entity becomes a public entity. Accordingly, we will adopt SFAS No. 123R in the second quarter of fiscal year 2006. We have not yet determined the impact of applying the provisions of SFAS No. 123R.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4", which is the result of the FASB's project to reduce differences between U.S. and international accounting standards. SFAS No. 151 requires idle facility costs, abnormal freight, handling costs, and amounts of wasted materials (spoilage) be treated as current-period costs. Under this concept, if the costs associated with the actual level of spoilage or production defects are greater than the costs associated with the range of normal spoilage or

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

defects, the difference would be charged to current-period expense, not included in inventory costs. We are required to adopt SFAS No. 151 in the beginning of fiscal year 2006 and its adoption is not expected to have a significant impact on our results of operations or financial condition.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," ("SFAS No. 153") an amendment of APB Opinion No. 29. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS No. 153 is effective for nonmonetary asset exchanges beginning in our first quarter of fiscal year 2006. We do not expect the adoption of SFAS No. 153 to have a material impact on our results of operations or financial condition.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated even though uncertainty exists about the timing and (or) method of settlement. We are required to adopt Interpretation No. 47 by the end of fiscal year 2006. We do not expect the implementation of Interpretation No. 47 to have a significant impact on our results of operations or financial condition.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statement," and changes the requirements for the accounting for and reporting of a change in accounting principle. We are required to adopt SFAS No. 154 for accounting changes and error corrections in fiscal year 2007. Our results of operations and financial condition will only be impacted by SFAS No. 154 if we implement changes in accounting principle that are addressed by the standard or correct accounting errors in future periods.

In June 2005, the FASB issued a FASB Staff Position (“FSP”) interpreting FASB Statement No. 143, “Accounting for Asset Retirement Obligations,” specifically FSP 143-1, “Accounting for Electronic Equipment Waste Obligations” (“FSP 143-1”). FSP 143-1 addresses the accounting for obligations associated with Directive 2002/96/EC (“Directive”), Waste Electrical and Electronic Equipment, which was adopted by the European Union (“EU”). The FSP provides guidance on how to account for the effects of the Directive but only with respect to historical waste associated with products placed on the market on or before August 13, 2005. FSP 143-1 is effective the later of the first reporting period ending after June 8, 2005, or the date of the adoption of the law by the applicable EU-member country. The adoption of FSP 143-1 did not have a material impact on our results of operations or financial condition.

In June 2005, the EITF reached a consensus on Issue No. 05-06, “Determining the Amortization Period for Leasehold Improvements” (“EITF 05-06”). EITF 05-06 provides guidance for determining the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease, collectively referred to as subsequently acquired leasehold improvements. EITF 05-06 provides that the amortization period used for the subsequently acquired leasehold improvements to be the lesser of (a) the subsequently acquired leasehold improvements' useful lives, or (b) a period that reflects renewals that are reasonably assured upon the acquisition or the purchase. EITF 05-06 is effective on a prospective basis for subsequently acquired leasehold improvements purchased or acquired in periods beginning after the date of the FASB's ratification, which was on June 29, 2005. We do not expect the adoption of EITF 05-06 to have a material impact on our results of operations or financial condition.

CRITICAL ACCOUNTING POLICIES

Management is required to make judgments, assumptions and estimates in preparing our financial statements and related disclosures in conformity with accounting principles generally accepted in the United States. The following critical accounting policies are those policies that management believes affect its more significant estimates and assumptions used in preparation of our consolidated financial statements.

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

Revenue recognition

The estimated sales values of performance under certain contracts to commercial customers and U.S. Government fixed price contracts are recognized under the percentage of completion method of accounting. When applying the percentage of completion method, we rely on estimates of total expected contract revenue and costs. Recognized revenues and profit are subject to revisions as the contract progresses towards completion. Revisions in profit estimates are charged to income in the period in which they become determinable.

Allowance for doubtful accounts

We monitor the creditworthiness of our customers based on a variety of factors, including the length of time the receivables are past due, the financial health of the customer, economic conditions and historical experience. If collectibility is considered uncertain, then we will record a reserve to reduce the receivable to the amount considered collectible. If circumstances change, then further adjustments could be required.

Warranty obligations

Our products are generally subject to warranties, and we provide for the estimated future costs of repair, replacement or customer accommodation at the time of sale as an additional cost of the sale. Management's estimates are based on historical costs for warranty and are adjusted when circumstances indicate that future costs are expected to vary from historical levels. If actual product failure rates or material usage incurred differ from our estimates, then revisions to the estimated warranty liability would be required.

Inventory valuation

We review inventory quantities on hand and adjust for excess and obsolete inventory based primarily on historical usage rates and our estimates of product demand and production. Actual demand may differ from our estimates, in which case we may have understated or overstated the provision required for obsolete and excess inventory, which would have an impact on our operating results.

We also review 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 our operating results.

Goodwill and other intangible assets and long-lived assets

Goodwill represents the excess of acquisition costs over the estimated fair value of the net assets acquired. The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," which requires that amortization of goodwill cease and that we evaluate the recoverability of goodwill and other intangible assets annually, or more frequently if events or changes in circumstances, such as a decline in sales, earnings or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Our reporting units consist of our six operating divisions.

Fair values are established using a discounted cash flow methodology (specifically, the income approach). The determination of discounted cash flows is based on our strategic plans and long-range forecasts. The revenue growth rates included in the forecasts are our best estimates based on current and anticipated market conditions, and the profit margin assumptions are projected based on the current and anticipated costs structures.

We perform an annual evaluation for the impairment of long-lived assets, other than goodwill, based on expectations of non-discounted future cash flows compared to the carrying value of the operating division in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Our cash flow estimates are based upon historical cash flows, as well as management projections of future cash flows in connection with our annual company-wide planning process, and include a terminal valuation based upon a multiple of EBITDA. We estimate the EBITDA multiple by reviewing comparable company information and other industry data. We believe that our procedures for estimating gross future cash flows, including the terminal valuation, are reasonable and consistent with current market conditions.

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 highly judgmental and requires the extensive use of estimates and fair value assumptions, which can have a significant impact on operating results. As a result of the Merger, the assets acquired and liabilities assumed were adjusted to reflect fair value, and the excess of the purchase price over the fair value was recorded as goodwill. The revised fair values significantly impacted our results of operations subsequent to the Merger and their comparability to the results of operations of the Predecessor.

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 and our investment in overnight government securities.

We have variable rate debt that comprises an \$80 million term loan due in 2010 under our senior credit facilities and \$80 million in floating rate senior notes. Our variable rate debt is subject to changes in the prime rate and the LIBOR rate. We entered into an interest rate swap contract with a notional amount of \$80.0 million to effectively convert the floating rate senior notes to a fixed rate of 9.9% through the swap maturity date in January 2008. We also have \$125 million of fixed rate 8% senior subordinated notes.

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 the variable rate \$80 million 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 \$0.3 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. We have limited market risk exposure from foreign currency financial instruments. The functional currency for all of our foreign subsidiaries is the U.S. Dollar. Most sales contracts are in U.S. Dollars, and foreign sales entities purchase inventory from our North American manufacturing operations. Our Canadian manufacturing operation purchases large quantities of different high power microwave devices from our U.S. manufacturing operations. 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. We limit our foreign currency translation exposure primarily through natural hedging (offsetting foreign currency payables with foreign currency receivables). These efforts reduce, but do not eliminate, the impact of foreign currency movements on our financial results.

In an effort to reduce our foreign currency exposure to Canadian dollar denominated expenses, we entered into Canadian dollar forward contracts to hedge the Canadian dollar denominated costs for our manufacturing operation in Canada. Net income includes recognized gains from foreign currency forward contracts of \$1.3 million and \$20,000 for fiscal years 2005 and 2004, respectively. As of September 30, 2005, we had outstanding forward contract commitments to purchase Canadian dollars for an aggregate U.S. notional amount of \$12.1 million. The last forward contract expires on March 10, 2006. At September 30, 2005, the fair value of unrealized foreign currency forward contracts was \$1.7 million, and the unrealized gain was approximately \$1.2 million, net of related tax expense. We anticipate recognizing the entire unrealized gain in operating earnings within the next twelve months.

Business

SUMMARY

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

Our products are critical elements of numerous high priority U.S. and foreign military programs such as the U.S. Navy's Aegis surface combatants (the DDG-51 class destroyers and the CG-47 cruisers), the ALE-50 and MK-53 NULKA electronic warfare decoys, Patriot (Advanced Capability and Missile System Radar), F-16 and F/A-18 E/F aircraft, IDECM, High Power Microwave and numerous high power military radar systems. Defense applications of our products include transmitting and receiving radar signals for locating and tracking threats, weapons guidance and navigation, and transmitting decoy and jamming signals for electronic warfare.

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 we believe enables us to leverage our 58 years of design experience and provides a diversified base of sales. In the communications market, we provide microwave amplifiers for satellite communication uplinks for broadcast, video, voice and data transmission. In the medical market, we supply amplifiers used in radiation oncology treatment systems primarily to Varian Medical Systems, Inc., with whom we have a long-standing, sole provider relationship. We also supply x-ray generators, subsystems, software and user interfaces for diagnostic imaging systems, a dynamic, high-technology market where we continue to experience significant growth.

In fiscal year 2005, we derived approximately 50% of our sales from U.S. and foreign government customers. Our high power microwave technologies are critical elements for current and next generation military systems that use microwave energy. We are one of a few companies in the world that have the facilities and expertise to produce high power microwave solutions to the demanding specifications required for advanced military applications such as high power radar, electronic warfare and broadband satellite communications.

In 1937 the founders of our business invented the klystron, a device which is still a foundation of modern high power microwave applications. Today, we continue to develop higher power, wider bandwidth and higher frequency microwave solutions that enable significant technological advances in the defense and commercial systems that use our technology. In fiscal year 2005, we generated approximately 58% of our total sales from products for which we believe we are the sole provider to our customers. The majority of our products are consumable with an average life of between 3 and 7 years. We estimate that approximately 50% of our total sales are generated from recurring sales of replacements, spares and repairs, including upgraded replacements for existing consumable products. We work with our customers on an opportunistic basis to create upgraded products that improve the bandwidth, power and reliability of our existing solutions. Our significant installed base of existing products and our sole provider positioning on numerous 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.

Our sales have increased by a CAGR of 8.5% since fiscal year 2002, with 7.1% organic growth. In fiscal year 2005, we generated total sales of \$320.7 million, EBITDA of \$57.3 million and net income of \$13.7 million.

Business

INDUSTRY TRENDS

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

Increasing importance of military communications. Satellite communication is a critical element of the U.S. Department of Defense's ("DoD") plans to transform military communications to supply real time, high data-rate communications, intelligence and battlefield information to the front-line soldier. The U.S. Government currently has over 30 large defense-related satellite communications programs in various stages of development and production as part of its military satellite communications, Global Information Grid and Transformational Communication Systems initiatives. DoD investments in military satellite communications are expected to be more than \$30 billion through 2024. The specific initiatives include WIN-T, MUOS, TSAT, AEHF and WGF among others. In addition to satellite communications, the military is also expanding its use of over-the-horizon, microwave-based communication systems that enable the transmission of voice, video and data over hundreds of miles without the use of a satellite, making these systems an efficient alternative to satellite-based communications and providing significantly enhanced coverage over traditional line-of-sight communications. These new military initiatives all demand high power, high frequency systems to transmit increasingly large quantities of video and data to an expanding variety of user interfaces, at the highest possible data rates.

High power microwave initiatives. The DoD is increasingly exploring high power microwave solutions for a growing number of threat countermeasures and non-lethal weapons applications. These applications include a variety of directed energy systems to disable or destroy the enemy's electronic systems and deter unauthorized personnel from approaching high value targets and/or control unruly crowds. In addition, the recent proliferation of terrorist and insurgent groups and their use of non-traditional weapons has led the DoD to explore technologies that can disable or destroy these devices. We believe IEDs were responsible for approximately 28% of the U.S.-led coalition fatalities in Iraq as of November 28, 2005. High power microwave technology has shown significant promise as a countermeasure against IEDs, and we expect that the DoD will actively pursue high power technology solutions in this area.

Continued reliance on advances in microwave solutions in military applications. Microwave technology is a core technology for all of the U.S. military's radar and electronic warfare capabilities. Microwave technology advances are key to capability improvements in new platforms but are even more significant in improving the capability of existing platforms. For existing platforms, improvements in microwave technology—replacing existing components with upgraded solutions—can be a cost-effective means of improving capability with minimal redesign cost. Even in a potentially challenging budgetary environment for new weapons platforms, we expect that the DoD will continue to focus on improving radar and electronic warfare capabilities on existing platforms.

Consolidation of government suppliers. Government customers are increasingly consolidating their base of suppliers and seeking to purchase complete systems and solutions, rather than individual components. As a result, vendors offering more integrated solutions should benefit from this trend and become further entrenched with government customers.

Resurgence of global demand for commercial satellite-based broadband communication and data transmission solutions and technology. There has been a general resurgence in the demand for and importance of satellite communications, and a significant improvement in the bandwidth and data-carrying capacity of the various underlying technologies, making commercial and government use of satellite solutions more cost effective. Renewed demand for commercial satellite solutions is being driven by decreases in the costs of broadband satellite communication technology and services and the need to support growing requirements for advanced communications and broadcast services (internet, direct-to-home broadcast, high-definition television and multimedia). As demand continues to grow, we believe the demand for ground-based infrastructure required to provide these services, including microwave-based satellite uplink technology, will also expand.

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Business

Growth of radiation treatment in cancer therapy and diagnostic imaging applications for our products. The market for equipment for radiotherapy treatment of cancer has enjoyed significant growth in the last several years. The U.S. market for radiotherapy equipment is projected to grow at a CAGR of 9.3% between 2004 and 2009. Our major customer for our cancer therapy products is Varian Medical Systems. Orders for Varian Medical Systems' Oncology Systems business increased at a CAGR of 16.4% between 2002 and 2005, and we believe this business will continue to grow in the future. Varian Medical Systems has introduced a number of advances in its radiation therapy equipment, which we believe will continue to fuel demand for its products. Among those advances is image guided radiation therapy (IGRT), which incorporates an On-Board Imager™ accessory that makes it possible for the equipment to track and target tumors more accurately. This advance makes it possible to concentrate higher doses of radiation into tumors while better protecting the surrounding healthy tissue. In addition, the On-Board Imager™ accessory contains an x-ray imaging system that uses our x-ray generator and has therefore created a new and incremental application for our x-ray generator products.

Our x-ray generator business has enjoyed strong growth in the last several years, as we have developed new products to satisfy increasingly demanding requirements in diagnostic imaging applications. Sales of our x-ray imaging products have grown at a CAGR of 18.4% from fiscal year 2002 through fiscal year 2005. A portion of this growth stems from orders from larger imaging systems original equipment manufacturers ("OEMs") who have outsourced certain of their x-ray generator requirements to us. In addition to our existing contract to provide x-ray generators to Philips Medical Systems, we have, within the last 18 months, won the bid for three new x-ray generation outsourcing contracts from GE Medical Systems. We believe that this outsourcing trend is likely to continue, and that it will provide additional opportunities for us.

Increased replacement parts, upgrades and spares needed to support aging military platforms. Budget restrictions over the past decade have limited the U.S. military's ability to replace or augment substantial portions of its platform inventory, including aircraft, vehicles and ships. According to the Congressional Budget Office of the United States Congress, the average age of many major platforms has steadily increased since 1990, from between 7 and 22 years to between 13 and 29 years in 2004. As military equipment ages, increased levels of replacement parts and upgrades of critical equipment, including radar and electronic warfare and communications systems are necessary.

COMPANY HISTORY

In 1937, Russell and Sigurd Varian (the historical founders of our business) invented the klystron, which overcame then-existing limitations in electron device technology and made possible the generation, amplification and transmission of high-fidelity electronic signals at high power levels and high frequencies. The klystron was the first coherent microwave frequency amplifier to be used in radar and communications systems. The klystron's higher power and signal coherency capabilities provided more reliable communications over longer distances, and improved the range and resolution capabilities of radars, thus providing better target discrimination and tracking. The technology encompassed in this invention enabled the continuing development of modern radar and communications systems. In 1948, Russell and Sigurd Varian founded Varian Associates, Inc. and introduced the klystron as its first commercial product. Their first products became the progenitor 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 fund managed by Leonard Green & Partners, L.P., together with members of management, purchased the electron devices business from Varian Associates and formed CPI. During the mid-to-late 1990s, we focused heavily on the commercial business, particularly the telecommunications markets, to achieve higher growth for the business. As a result, we suffered financially in fiscal years 1999 through 2002 as the telecommunications market suffered a decline. In 2001, the current management team led by Joe Caldarelli and Bob Fickett took leadership of the Company and refocused our business on our core competencies. The current management team also moved our satellite communications amplifier business from Palo Alto, California to Georgetown, Ontario,

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Business

Canada to rationalize our manufacturing base and achieve a lower cost structure. In January 2004, Cypress acquired us. In October 2004, we purchased Econco Broadcast Service, Inc., a leading rebuilder of high power grid devices.

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), Eimac Division (San Carlos, California), and Econco Division (Woodland, California).

MARKETS

We supply complex, high power microwave solutions and high voltage power generation and control components and subsystems for applications and programs in defense and commercial markets. Our defense applications include high power microwave sources and amplifiers and integrated microwave assemblies used in radar, electronic warfare and communications systems. Our products are used within these end markets primarily to generate, control and transmit high power and high-frequency microwave and RF signals. We supply similar high power microwave components and subsystems for use in commercial radar, communications, medical, industrial and scientific markets. We provide high voltage power generators and control systems to the medical and industrial 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 our products include:

The transmission and amplification of radar signals for navigation and location;

The transmission and amplification of decoy and jamming signals for electronic warfare;

The transmission and amplification of voice, data and video signals for broadcasting, internet and other types of communications;

The provision of power and control for medical diagnostic imaging;

The generation of microwave energy for radiation therapy in the treatment of cancer; and

The generation of high power microwave signals for non-lethal weapons systems.

Our end markets are described below.

Radar Market

We supply critical products used in various types of military systems, including fire control, ground search, weather and tracking, and synthetic aperture 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 \$109.4 million in fiscal year 2005, compared to \$112.1 million in fiscal year 2004.

Our products include microwave and power grid sources, microwave amplifiers, radar receiver protectors, multifunction integrated microwave assemblies, as well as complete transmitter subsystems consisting of the microwave amplifier, power supply, and control system. Our products are used in air, ground and shipboard radar systems. We are a leading provider of power grid and microwave power sources for both commercial and defense radar applications, with a large installed base.

The growth in the U.S. defense budget, stemming principally from the DoD's emphasis on addressing terrorism and homeland security, has had a favorable impact on new radar system development as well as radar system upgrades, which involve the replacement of existing system components with new or upgraded components that satisfy the more advanced specifications of the newer systems. In addition, because of the large population of deployed systems and the DoD's increased focus on operational readiness, the spare and replacement market

continues to be a substantial part of the radar business. Our active participation in the upgrade, replacement, spare and repair portions of the radar market has helped us maintain a leadership position in numerous landmark programs, such as the Aegis SPY-1D and MK-99 systems, as well as the U.S. Navy's Phalanx close-in weapons system.

Electronic Warfare Market

We supply critical microwave power amplifiers to the electronic warfare market. Electronic warfare systems provide protection for ships, aircraft and high-value land targets against radar-guided munitions by deceiving or destroying enemy threats, and 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 are a leading provider of microwave power sources for the electronic warfare market, with a significant installed base, and a strong position in products for high power and multi-beam phased array systems and expendable decoys. The electronic warfare market also includes devices and subsystems being developed or supplied for high power microwave ("directed energy") applications. This consists of a number of non-lethal weapons system applications, including electronic attack, counter-IED and active denial. Our sales in the electronic warfare market were \$27.7 million in fiscal year 2005, compared to \$23.8 million in fiscal year 2004.

Protection of valuable military assets remains a high priority and has resulted in the continuing funding of new, upgrade and replenishment programs in the electronic warfare market. In towed decoy applications, we are the sole provider of the mini-traveling wave tubes ("TWTs") on the ALE-50 program and are a qualified supplier on the IDECM program. On shipboard decoy programs, we are the sole provider of the TWT on the MK-53 NULKA and the European DLH programs. We are also sole provider of the mini-TWTs in the U.S. Air Force's ALQ-184 electronic warfare jammers and multi-beam phased array systems such as the U.S. Navy's SLQ-32. Many of the electronic warfare programs on which we are a qualified supplier are existing programs that have survived previous reductions in defense budgets.

Communications Market

We divide the communications market into satellite, terrestrial broadcast and over-the-horizon communications applications. Our sales in the communications market were \$101.4 million in fiscal year 2005, compared to \$74.8 million in fiscal year 2004.

In each of the satellite, broadcast and over-the-horizon communications markets, our products amplify and transmit signals within an overall communications system. Current 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 television signals at very high ("VHF") and ultra high ("UHF") frequencies and radio signals at lower frequencies.

Satellite Communications

The majority of our communications products are sold into the satellite communications market. 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 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 and our ability to design and manufacture both the fully

integrated amplifier and the associated high power microwave device or solid state RF device allows us to introduce products to the market that we believe are more attractive to customers compared to that of our competitors.

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The entire communications market, including the market for satellite communications systems, had seen a reduction in demand for new equipment in the prior several years. We believe that this was due, in part, to the large overcapacity that was built up in the late 1990s in anticipation of the need for a rapid expansion of telecommunications infrastructure due to overly-optimistic forecasts for growth of the internet. During the last four years, that overcapacity has subsided as both military and commercial demands have increased, with a resulting increase in capacity requirements for satellite systems, and a resulting increase in demand for satellite amplifiers. In addition, we believe we are well equipped to participate in the newest growth areas which include amplifiers for the 30 gigahertz (“GHz”) band (“Ka band”), which is projected to be one of the major new satellite communications growth areas, as well as specialized amplifiers for the military communications market such as the Triband amplifiers that operate at three discrete frequency bands.

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. Our Eimac Division supplies power grid products to the transmitter OEMs directly, and offers immediate delivery of products to the end users through our distributors. Our Econco Division is a provider of rebuilding services, 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, the emerging shortwave digital radio technology will provide new opportunity for our high power products. Through the years, we have established a large installed base in the broadcast market, which provides us with opportunities for replacement, spare, upgrade and rebuilding business.

Over-the-Horizon Communications

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, an atmospheric layer above the earth's surface. Since no satellite is required, these systems can provide an easy-to-install and cost-efficient alternative to satellite-based communications. We expect demand for our products in this market to grow, due to advances in technology and renewed customer interest in this method of communication.

Medical Market

Within the medical market, we focus on diagnostic and treatment applications. We provide x-ray generators, including state-of-the-art, high-efficiency, lightweight 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 tube and therefore control the dose of radiation delivered to the patient during an x-ray imaging procedure. In addition, these generators include a user interface to facilitate the selection of technique factors, such as exposure times, or the selection of the anatomic region of the body to be imaged. 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. For treatment applications, we provide klystrons and electron guns for high-end cancer therapy machines. Klystrons provide the microwave energy to accelerate a beam of

energy towards a cancerous tumor. Sales in this market were \$50.7 million in fiscal year 2005, compared to \$41.6 million in fiscal year 2004.

Since 1995, when Varian sold us its electron devices business, we have been, and expect to continue to be, the sole provider of high power microwave devices to Varian Medical Systems Inc.'s oncology systems division for use in its High Energy Clinac® cancer therapy machines. Approximately 4,200 systems consisting of Varian Medical Systems' Clinac® accelerators, Ximatron® and Acuity® radiotherapy simulators are in place around the world, treating more than a million patients 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 OEMs who buy hundreds per year. We sell our x-ray generators and associated equipment worldwide and have been growing our geographic presence and product portfolio. We are a leading independent supplier of x-ray generators in the world and we believe this market provides continued growth opportunities for us. The installed base of radiographic x-ray equipment in most western countries is relatively

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old, and we believe there is a strong market for equipment modernization, both through the purchase of new equipment and upgrades of existing equipment. The upgrades are performed by our dealers or in some cases the OEMs.

There continues to be demand to expand the imaging capabilities in developing countries, and we are participating in this growth with sales in countries such as China. 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 recently introduced a new family of products that we believe will allow us to participate more fully in this part of the market.

A number of the large OEMs in this market use their in-house design and manufacturing capabilities to supply their own x-ray generator needs, but seldom sell these components to third parties. In recent years we have made sales to some of the larger OEMs who were outsourcing a larger portion of their x-ray equipment and generator requirements. We believe this trend should create additional sales opportunities for us.

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 and 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. Because there is a large installed base of our products in this market, the sale of replacements continues to be a substantial part of our industrial business. Recently, we have integrated vertically by introducing a line of fully integrated industrial RF generators using high power microwave technology for various industrial heating and material processing applications. Our sales in the industrial market were \$23.1 million in fiscal year 2005, compared to \$20.2 million in fiscal year 2004.

Scientific Market

The scientific market consists primarily of equipment used in reactor fusion programs and accelerators for 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 \$8.4 million in fiscal year 2005, compared to \$9.7 million in fiscal year 2004.

Our products generate microwave and RF energy to create a beam of electrons in order to study the atom and its elementary particles. Worldwide, there are over 60 high-energy particle accelerators that are in planning, design, development or construction. We believe these new accelerators will drive the demand for a significant number of very high power microwave sources. Examples include SNS, Tesla, 3rd and 4th generation light sources and High Energy Free Electron Lasers. Our products are also used in research related to the generation of electricity from fusion reactions. Activity in this area continues within the United States Department of Energy, as well as in Europe and Asia.

PRODUCTS

We have an extensive portfolio of over 4,500 products that includes microwave and power grid VEDs and other products such as satellite communications amplifier subsystems, radar and electronics warfare subsystems and 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 for medical imaging and for satellite communications applications with generally higher value added, and higher prices. Our products generally have selling prices ranging from \$2,000 to \$100,000, with certain limited products priced up to \$1,000,000.

VED Products

All of our VED products share similar basic characteristics. A high-energy beam of electrons is created and travels in a vacuum, through a region where it interacts with a low-level microwave input signal. As a result of the interaction, kinetic energy from the electron beam is transferred to the microwave signal. This produces an

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amplified microwave signal that is then extracted from the device at a much higher power level. The differences in the devices are related to the various techniques for creating interaction between the electron beam and the microwave signal, and various construction techniques.

VEDs, one of our key technologies, were initially developed for defense applications and have since been applied to many commercial markets. We use tailored variations of this key technology to address different frequency and power requirements in each of our target markets.

Our principal VED products are described below.

Klystrons & Gyrotrons

Klystron amplifiers are linear beam devices in which the interaction structure is comprised of a series of resonant cavities linked by a beam tunnel. Klystrons are typically high power, narrow bandwidth devices, with power output ranges from hundreds of watts to megawatts and frequencies from 500 kilohertz to over 30 GHz. We produce and manufacture klystrons for a variety of radar, communications, medical, industrial and scientific applications.

Satellite communications applications include DBS-band uplinks, which are used extensively in the direct-to-home satellite TV market. Radar applications include the Hawk missile system and the Phalanx close-in weapon system, a “last chance” anti-missile defense for many military vessels.

Gyrotron oscillators and amplifiers are devices that use cyclotron resonance as the fundamental mechanism for power extraction from the electron beam. These devices are characterized by very high power output capability at very high frequencies. Power output of 1 megawatt has been achieved at frequencies greater than 100 GHz. These characteristics have enabled applications such as fusion research for the Department of Energy, electronic warfare active denial and high-resolution radar.

Helix Traveling Wave Tubes

Helix TWTs are linear beam devices, where the interaction of the electron beam with a helix-shaped coil in the device enables very wide bandwidth operation at relatively moderate output power levels (tens to hundreds of watts). These characteristics make the Helix TWT ideal for communications applications and electronic countermeasures. In the communications market, our products are used in medium power satellite communications amplifiers. In the electronic warfare market, our mini-TWT technology is used for expendable decoy applications, such as ALE-50 and MK-53 NULKA, and shipboard and airborne electronic countermeasures systems, including SLQ-32 and ALQ-184.

Coupled Cavity Traveling Wave Tubes

Coupled cavity TWTs are linear beam amplifiers consisting of a series of coupled cavities that have the power generating capability of a klystron with some of the increased bandwidth properties of a Helix TWT. These amplifiers are characterized as medium bandwidth, high power devices, since power output levels can be as high as 1 megawatt. These devices are used primarily for high power and multi-function radars, including front line radar systems operating from S-band to Ka-band, most notably the Aegis shipboard radars (MK-99 Continuous Wave Illuminator and SPY-1D Simplified Driver Radar), the firefinder artillery locating radar and the Patriot Advanced Capability program.

Magnetrons

Magnetron products are cross-field oscillators capable of generating high power output. Power levels are as high as 20 megawatts and magnetrons cover frequencies up to the 40 GHz range. We design and manufacture magnetrons for radar, electronic warfare and missile seeker programs within the defense market. Our magnetrons are on the Harpoon missile system and U.S. military aircraft platforms including the B-52, C-130, F-15, P-3C, F-4 and F-5. 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 Systems. We are a major U.S. supplier of magnetrons for use in commercial weather radar. Potential new uses for magnetrons include high power microwave systems for electronic equipment disruption and the disabling or destruction of IEDs.

Cross-Field Amplifiers

Cross-field amplifiers operate like the magnetron, but have an input circuit and amplify a signal like a traveling wave device. These devices are 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 suite within the U.S. Navy and selected foreign naval vessels. We supply units for both new ships and replacements. Our cross-field amplifiers also have a significant presence in fire control radar systems used by the U.S. Coast Guard and U.S. Navy.

Power Grid Tubes

Power Grid Tubes are lower frequency devices that are used to generate, amplify and control electromagnetic energy. These devices are used in commercial and defense communications systems and radio and television broadcasts. We supply power grid tubes for the shortwave broadcast market, such as the International Broadcasting Bureau stations, formerly known as the Voice of America. They are also widely used in equipment that serves the industrial markets such as textile drying, pipe welding and semiconductor wafer fabrication.

Other Products

Our principal other products are described below.

Microwave Transmitter Subsystems

Our microwave transmitter products evolved as a natural outgrowth of our VED technology. We offer microwave transmitter subsystems built around our VEDs. These subsystems incorporate specialized high-voltage power supplies, cooling, and control systems that are uniquely designed to work in conjunction with our products 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 1 GHz all the way up to millimeter wave frequencies of 100 GHz 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 complete, integrated satellite communications amplifier which consists of the VED (or solid state microwave technology), a power supply for the VED (or solid state alternative), RF circuits, 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 RF components to meet specific customer requirements. We offer amplifiers for both defense and commercial applications. Our products include TWT amplifiers for both indoor and outdoor usage, klystron high power amplifiers, solid state amplifiers and millimeter amplifiers. In 2000, we introduced the Gen IV high power satellite communications klystron amplifier, which has gained almost 95% market share. In addition, we have recently introduced new Ka band amplifiers that are being used in new telecommunications and broadcast applications, and military communications tri-band amplifiers that will improve the reliability of key military communications systems. We are expanding our line of solid state amplifiers that are being designed and manufactured by us to address the market for lower power applications.

Receiver Protectors & Control Components

Receiver protectors are used in the defense market in radar systems to switch both high power transmit pulses and low power echo signals through a common antenna, and to protect sensitive receivers from any high power signals, thereby preventing damage to the receiver. We have been designing and manufacturing receiver protector products for over 50 years. We are the world's largest manufacturer of receiver protectors and the only manufacturer offering all existing receiver protector technologies including solid state, plasma, ferrite and multipactor designs. Current designs range from low-frequency coaxial, or stripline limiters, to complete pre-transmit/receive and transmit/receive limiters with attenuation and phase control at Ka-band. Our products are manufactured in all transmission line types including stripline, microstrip, coax and waveguide. Our receiver protectors and control components are integrated into

prominent fielded military programs including the Patriot

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Advanced Capability and Harpoon missile systems, the U.S. Navy's Aegis surface combatants, AWACS, F-14, F-15, F-16 and F/A-18 fighters and the U.S. Air Force's B-2 and C-130s. As radar systems have evolved to improve performance and reduce size and weight, we have invested heavily in solid state technology to develop the microwave control components and multifunction integrated assemblies required by modern radar systems.

Medical X-Ray Imaging Systems

We design and manufacture medical x-ray generators, consisting of power supplies, cooling, control and display subsystems that drive the x-ray equipment used by healthcare end-users within the medical imaging market. These generators use the high voltage and control systems expertise developed by us while designing power systems to drive VEDs. We have recently introduced the CMP200, a new line of x-ray generators intended to address the low tier, high volume, part of the market. We also provide the electronics and software that controls and ties together much of the other ancillary equipment in a typical x-ray imaging system.

Semiconductor Power Supplies

We manufacture power electronics equipment that drives semiconductor physical vapor deposition equipment used by semiconductor fabricators to apply specialized films to their wafers. The end application of this technology is the production of integrated circuits and LCD flat screens for televisions, displays and computers.

COMPETITIVE STRENGTHS

We believe we are well positioned in our end markets and that our key strengths and competitive advantages include:

Leader in microwave and RF technology. Since 1948 we have been a leader in microwave solutions, pioneering a breakthrough technology that led to the commercialization of radar. Since then, we have improved our solutions, enabling technological advances in radar, electronic warfare and communications systems, which have required higher power and higher frequency solutions and designing and producing cutting edge products that specifically address the evolving needs of our customers. In response to our customer needs, we have developed microwave systems that provide what we believe is a market-leading combination of power, frequency, bandwidth, control and reliability, making us a leading design house for our commercial and military customers. We have maintained our technological and production expertise through our experienced team of over 300 scientists and engineers, our recurring investment in research and development and our focus on continuous process improvement.

Leading positions in attractive end markets. We have developed leading market positions in the six end markets we serve by offering customers superior design expertise, product quality and customer service. We believe we are the market leader in the sale of high power, high frequency microwave devices and related products for the radar, communications medical, electronic warfare and industrial end markets and the number two supplier of these and other related products for the scientific end market. In conjunction with our leading market positions, we have

developed a diversified sales base, which reduces our dependence on any particular end market.

Diversified sales base. We sell our products to customers in six end markets. Within each of our markets, we also sell a variety of products. These products may be sold as stand-alone products or as part of a fully integrated subsystem. For example, we supply each U.S. Navy Destroyer with many different products, ranging from klystrons for the early warning radar system to power grid replacement products and services. Our product diversification reduces our dependence on any one part of any market for our overall success and profitability. Finally, our leadership in our markets is recognized worldwide, allowing us to penetrate other important geographic markets, as evidenced by the fact that 33% of our sales in fiscal year 2005 came from customers outside the U.S. These international customers provide us with further diversification, as they span all of our end markets.

Large installed product base with recurring sales of replacement parts, spares, repairs and upgrades. Our products are installed in a large and growing base of defense systems and commercial systems for which we supply replacement parts, spares, repairs and upgrades. We estimate that our products are installed on over 125 U.S. defense systems in addition to hundreds of commercial systems.

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Typically, once our products have been incorporated into the design of a government or commercial program, our products are not replaced in favor of a competitor's technology. We estimate that sales of replacement parts, spares, repairs and upgrades generate approximately 50% of our total sales. We believe that our large installed base will enable us to capture a long-term stream of spares, repairs and upgrade sales over the lives of these systems.

Substantial sole provider position. Our leading edge technology, customer focus, and long history as a reliable supplier to our government and commercial customers, has resulted in our products being designed into and installed on a large number of platforms and systems. In many cases, we are the sole provider of high power microwave equipment on these systems. In fiscal year 2005, we generated approximately 58% of our sales from products for which we believe we are the sole provider to our customers.

Significant barriers to entry. We compete in highly specialized markets with significant barriers to entry. We believe that the investments required for new or existing competitors to compete effectively against us in those markets where we are the dominant supplier are economically unattractive. We believe the sophisticated nature of microwave technology, our depth of customer relationships, large installed base and history of excellence, as well as the stringent product qualification requirements of our end markets all create significant barriers to entry for potential competitors.

Strong and experienced management team with a successful track record. Our current management team averages more than 22 years of experience with us. Since assuming its leadership responsibilities in 2002, our management team has instilled a culture that emphasizes cost control, profitable growth and cash generation. In addition, management has consolidated several facilities, reduced labor costs, overhead and general and administrative expenses and renewed our commitment to operational excellence principles in our laboratories and factories. As a result, this team has succeeded in increasing our sales at a CAGR of 8.5% since fiscal year 2002, with 7.1% organic growth. During the same time period, EBITDA has increased from \$28.7 million to \$57.3 million, for a CAGR of 26%, and net income (loss) has increased from \$(6.7) million to \$13.7 million. In addition, EBITDA as a percentage of sales has increased from 11.4% in fiscal year 2002 to 17.9% in fiscal year 2005.

BUSINESS STRATEGY

Our goal is to continually enhance our position as a leading supplier of microwave solutions, satellite communications amplifiers, x-ray medical generators and other related equipment for both commercial and defense applications. Our strategies to achieve these objectives include:

Taking advantage of opportunities in the military satellite communications market. Real-time network communications between intelligence agencies, military commands and soldiers on the front lines is a critical component of the U.S. military's transformational initiative to become a lighter, faster, more responsive and lethal force. The procurement of a significant number of new, military communications satellites is a critical component of this initiative. Microwave technology is uniquely suited to provide the significant bandwidth required to enable the rapid and seamless transfer of large quantities of voice, video and other forms of information that are critical to military communications. Military satellite communications programs such as the U.S. Air Force's Transformational Satellite Communications System (TSAT) and the evolution of current military satellite communications programs including the Advanced Extremely High Frequency (AEHF) and Wideband Gapfiller (WGS) satellite systems will drive the need for next generation microwave technologies. We believe we are well positioned to be a key supplier of microwave technology for the military satellite communications market, having made significant investments over the past several years to bring to market internally developed, proprietary microwave solutions tailored for military satellite communications use.

Supporting other emerging military initiatives. Military initiatives, such as directed energy, that use microwave or RF energy to disable or destroy enemies' electronic systems or deter unauthorized personnel

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from approaching high value targets also require high power microwave technology. We believe our leadership in microwave technology should allow us to benefit from the DoD's emerging applications of this technology.

Developing and expanding technologies. Through a combination of customer-funded research and development and our own internal research and development efforts, we intend to continue to enhance and expand our key technologies.

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In fiscal years 2005, 2004 and 2003 our total research and development spending was \$13.1, \$10.9, \$10.6 million, respectively. Of these amounts, \$5.9, \$3.5 and \$3.7 million, respectively were funded by our customers.

Pursuing attractive commercial opportunities. We intend to develop new products to pursue growth areas in the commercial markets we serve. Examples of our product innovation include our Gen IV satellite communications amplifier, which we believe has become the leading satellite uplink klystron power amplifier (KPA) in the market, and our new line of medical x-ray generators, which has gained broad customer acceptance.

Leveraging incumbent relationships. We have developed strong relationships with the U.S. Government, prime defense contractors and key commercial customers by continuing to deliver high levels of performance, reliability and service on our products and contracts. We believe these relationships will help to preserve our access to a valuable stream of spares and repairs business and enhance our ability to win new, upgrade and follow-on business.

Exploring strategic acquisitions. We intend to selectively explore strategic acquisitions in the rapidly consolidating defense and microwave components industries. Strategic acquisitions could permit us to acquire complementary technologies and products, achieve higher levels of system integration, grow our existing product base, increase facility utilization or increase our geographic coverage by leveraging our extensive corporate sales and marketing organization.

BACKLOG

As of September 30, 2005, we had an order backlog of \$193.5 million compared to an order backlog of \$179.7 million as of October 1, 2004. Based on current product delivery schedules, we expect to ship approximately 96% of order backlog at September 30, 2005 in fiscal year 2006. Although the 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, the amount of modifications and terminations has not been material compared to total contract volume.

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 direct sales professionals throughout the world. As of September 30, 2005, we had over 125 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 33% of our sales in fiscal year 2005. For financial information about geographic areas, see footnote 15 to the accompanying consolidated financial statements.

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 39 external sales organizations and one significant stocking distributor, Richardson Electronics, Ltd., to service the needs of low volume customers. 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 provide solutions with short turn-around times.

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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 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 fifteen strategically located service centers. These service centers are located in the United States (California and New Jersey), The Netherlands, Brazil, China (3), India (2), Taiwan, Japan, Russia, Singapore, Indonesia and South Africa. 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. Many of our customers specify our products in competitive bids based on our responsive global support and product quality.

FINANCIAL INFORMATION ABOUT SEGMENTS

Although we define and discuss our business by our end markets discussed above in “—Markets” in order to more clearly describe our business to our investors, we are internally organized into six operating divisions, differentiated based on products. For financial reporting purposes, we have two reportable segments: VED and satcom equipment. Our VED segment consists of five of our operating divisions and our satcom equipment segment consists of one division. For financial information about our segments, see footnote 15 to the accompanying consolidated financial statements.

RESEARCH AND DEVELOPMENT

Total research and development spending was \$13.1 million, \$10.9 million and \$10.6 million during fiscal years 2005, 2004 and 2003, respectively, consisting of company-sponsored research and development expense of \$7.2 million, \$7.5 million, and \$6.9 million during fiscal years 2005, 2004 and 2003, respectively, and customer-sponsored research and development of \$5.9 million, \$3.5 million, and \$3.7 million during fiscal years 2005, 2004 and 2003, respectively.

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, OFHC copper, and some cathodes, from a limited group of, or occasionally, sole suppliers. Except for our recently acquired Econco operation, our facilities have all achieved the ISO 9001 international certification standard.

Generally, each of our manufacturing divisions uses similar processes consisting of product development, purchasing, high-level assembly and testing. For satellite communications equipment, the process is primarily one of integration, and we use contract manufacturers whenever possible. Satellite communications equipment uses both VED and solid state technology, and the satellite communications division procures certain of the critical components that it

incorporates into its subsystems from our other manufacturing divisions.

EMPLOYEES

As of September 30, 2005, we had approximately 1,700 employees, including the employees that joined us as a result of the acquisition of Econco. 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.

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 ComStream Inc., and Thales Electron Devices, some of which have resources

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substantially greater than ours. Some of these competitors are also our customers. 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 must also continually engage in effective 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 microwave 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.

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.

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.

We maintain an intellectual property protection program designed to protect, preserve and enforce our intellectual property rights. Nevertheless, we cannot provide assurance that the steps taken by us will prevent misappropriation or loss of our technology.

U.S. GOVERNMENT CONTRACTS AND REGULATIONS

Our business is heavily regulated in many of our fields of endeavor. We deal with numerous U.S. Government agencies and entities, including the DoD. Similar government authorities exist with respect to our international business.

We must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. Government contracts. These laws and regulations, among other things:

require certification and disclosure of cost or pricing data in connection with certain contracts;

impose acquisition regulations that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts; and

restrict the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

U.S. Government contracts are conditioned upon the continuing availability of Congressional appropriations. Long-term government contracts and related orders are subject to cancellation if appropriations for subsequent performance periods are not approved. Congress usually appropriates funds on a fiscal year basis even though contract performance may extend over many years. Consequently, at the outset of a multi year program, the contract is usually partially funded, and Congress annually determines if additional funds are to be appropriated to the contract.

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The U.S. Government, and other governments, may terminate any of our government contracts and, in general, subcontracts, at their convenience, as well as for default based on performance. 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 or adjustment for loss if completion of performance would have resulted in a loss. 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.

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 is not satisfied with our performance of the contract. We do not include unexercised options or potential indefinite-delivery/indefinite-quantity orders in our backlog. If any of our contracts

are terminated by the U.S. Government, our backlog would be reduced by the expected value of the remaining term of such contracts. Additional risks associated with U.S. Government contracts are set forth in “Risk Factors.”

A portion of our business is in support of highly sensitive, or “classified” government programs and cannot be specifically described. The operating results of these classified programs are included in our consolidated financial statements.

Sales of our products and services internationally are subject to local government regulations and procurement policies and practices (including regulations relating to import-export control, investments, exchange controls and repatriation of earnings). Some international customers require contractors to comply with industrial cooperation regulations, sometimes referred to as offset programs. Offset programs may require in-country purchases, manufacturing and financial support projects as a condition to obtaining orders or other arrangements. Offset programs generally extend over several years and may provide for penalties in the event we fail to perform in accordance with offset requirements.

ENVIRONMENTAL MATTERS

We are subject to a variety of U.S. federal, state and local as well as foreign environmental laws and regulations relating, among other things, to wastewater discharge, air emissions, handling of hazardous materials, disposal of solid and hazardous wastes, and remediation of soil and groundwater contamination. We use a number of chemicals or similar substances, and generate wastes, that are classified as hazardous, and we require environmental permits to conduct certain of our operations. Violation of such laws and regulations can result in substantial fines, penalties, and other sanctions.

In connection with the sale of Varian Associates' electron devices business to us in 1995, Varian Medical Systems (as successor to Varian Associates) agreed to indemnify us for various environmental liabilities relating to Varian Associates' electron devices business prior to August 1995. With certain limited exceptions, we are 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 two of our manufacturing facilities, Palo Alto, California and Beverly, Massachusetts, that are known to require remediation. In addition, Varian Medical Systems has been sued or threatened with suit with respect to these two manufacturing facilities.

Our San Carlos California facility has soil and groundwater contamination that has been the subject of some remediation. We have entered into an agreement for the sale of our San Carlos real property. The closing of the sale of the property is subject to a number of conditions, including the requirement that we vacate our facilities and obtain regulatory closure of certain permitted equipment located on the property. In connection with the San Carlos property sale agreement, we agreed to relieve Varian Medical Systems of certain of its environmental indemnity obligations to us, and to reimburse Varian Medical Systems for certain potential environmental costs related to our San Carlos property that are not covered by insurance. In addition, we were named as an

additional insured on a pollution liability insurance policy obtained by the purchaser of the San Carlos property that is intended to fund the remediation of the contamination of the property to permit hospital and other “unrestricted” uses.

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. Although we believe that Varian Medical Systems currently has sufficient financial resources to satisfy its environmental indemnity obligations to us, there can be no assurance that Varian Medical Systems will continue to have the financial resources or be willing to comply fully with those obligations, or will continue to perform its obligations. In addition, although we believe that the insurance that has been acquired by the purchaser of our San Carlos property will be sufficient to cover the expected remediation costs and pollution liability associated with that property, there can be no assurance that such insurance proceeds or other sources of recovery will be adequate.

We believe that we have been and are in substantial compliance with environmental laws and regulations and that, subject to Varian Medical Systems fulfilling its environment indemnity obligations to us and the adequacy of the insurance obtained for the remediation of our San Carlos property, we do not expect to incur material costs relating to environmental compliance.

PROPERTIES

We own, lease or sublease manufacturing, assembly, warehouse, service and office properties having an aggregate floor space of approximately 1,165,000 square feet, of which approximately 2,950 square feet are leased or subleased to third parties. The table that follows provides summary information regarding principal properties owned or leased by us:

Location	Square Footage		Segments Using the Property
	Owned	Leased/Subleased	
San Carlos, California	322,000 ^(a)	—	VED
Beverly, Massachusetts	169,385 ^(b)	—	VED
Georgetown, Ontario, Canada	126,000	21,975	VED and satcom equipment
Woodland, California	36,900	9,900	VED
Palo Alto, California	—	369,500	VED and satcom equipment
Palo Alto, California	—	49,100 ^(c)	VED
Mountain View, California	—	42,470	VED
Various locations	—	18,249 ^(d)	VED and satcom equipment

(a)

As discussed in “Management's discussion and analysis of financial condition and results of operations—Liquidity and Capital Resources,” this property is subject to a contract for sale, and the sale is expected to close in fiscal year 2007.

(b)

The Beverly, Massachusetts square footage also includes approximately 2,950 square feet leased to two tenants.

(c)

This facility is 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 entirely 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 the tenant'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.

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LEGAL PROCEEDINGS

We may be involved from time to time in various legal proceedings and various cost accounting and other government pricing claims. We are not involved in any legal proceedings that individually or in the aggregate could have a significant effect on our business, financial condition, results of operation or liquidity. Varian Medical Systems, Inc. is obligated to indemnify us against certain liabilities arising from litigation and governmental claims pertaining to its electron devices business prior to August 1995, with certain exceptions and limitations. Accordingly, management believes that litigation and governmental claims pending against Varian Medical Systems and relating to the electron devices business prior to August 1995 will not have a material adverse effect on our financial condition or results of operations. See “—Environmental Matters.”

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The directors and officers of CPI Holdco, as well as their respective ages and positions are set forth below.

DIRECTORS AND EXECUTIVE OFFICERS OF CPI HOLDCO

Name	Age	Position(s)
Michael Targoff ⁽¹⁾⁽²⁾	61	Chairman of the Board of Directors
O. Joe Caldarelli	55	Chief Executive Officer and Director
Robert A. Fickett	45	President, Chief Operating Officer and Director
Joel A. Littman	53	Chief Financial Officer, Treasurer and Secretary
John R. Beighley	53	Vice President and Assistant Secretary
Don C. Coleman	51	Vice President
Mike Cheng	50	Vice President
Andrew E. Tafler	50	Vice President
Michael F. Finley ⁽¹⁾⁽²⁾	43	Director
Jeffrey P. Hughes ⁽¹⁾	65	Director

Chris Toffales 49 Director

(1)

Member of the Audit Committee. Mr. Targoff is the chairperson of the committee.

(2)

Member of the Compensation Committee. Mr. Finley is the chairperson of the committee.

Michael Targoff became a director of CPI Holdco in January 2004 and Chairman of the board of directors of CPI Holdco in March 2004. Mr. Targoff is the founder and Chief Executive Officer of Michael B. Targoff & Co., a company that seeks active or controlling investments in telecommunications and related industry early stage companies. Mr. Targoff currently serves as Vice Chairman and director of Loral Space & Communications Ltd., and serves on the board of directors of Infocrossing, Inc., ViaSat, Inc. and Leap Wireless International, Inc. From 1996 to 1998, Mr. Targoff was the President and Chief Operating Officer of Loral Space & Communications Ltd. Prior to that, Mr. Targoff served as Senior Vice President and Secretary of Loral Corporation. Mr. Targoff received a B.A. degree from Brown University and a J.D. from Columbia University School of Law.

O. Joe Caldarelli became Chief Executive Officer and a director of the Predecessor in March 2002. Prior to this, Mr. Caldarelli was a Co-Chief Operating Officer of CPI since October 2000 and Vice President of CPI since August 1995. Mr. Caldarelli is also the Division President of the Communications and Medical Products Division. Mr. Caldarelli was Vice President and General Manager for the Communications and Medical Products Division under the Electron Device Business of Varian Associates, Inc., from 1985 until August 1995 and was President and a director of Varian Canada, Inc. from 1992 until August 1995. From 1982 until 1985, Mr. Caldarelli was Marketing Manager of the Communications and Medical Products Division of Varian Associates, Inc. and served as its Equipment Operations Manager from 1979 until 1982. Prior to joining Varian Associates, Inc., Mr. Caldarelli served as Manufacturing Engineering Manager for Medtronic Canada, Inc. Mr. Caldarelli holds a B.S. degree in mechanical engineering from the University of Toronto.

Robert A. Fickett became President, Chief Operating Officer and a director of the Predecessor in March 2002. Prior to this, Mr. Fickett was a Co-Chief Operating Officer of CPI since October 2000 and Vice President of CPI since April 1998. Mr. Fickett has also been the Division President of the Microwave Power Products Division since April 1998. From January 1996 to April 1998, Mr. Fickett was Vice President of Operations for the Microwave Power Products Division. From 1993 until January 1996, he was President and Chief Executive Officer of Altair Technologies, Inc., a contract manufacturer. From 1982 until 1993, Mr. Fickett held a number of positions with Varian Associates, Inc., including Engineering Manager of the Microwave Power Products Division's Klystron Engineering Group, to which he was promoted in 1989. Mr. Fickett received a B.S. degree in mechanical engineering from the University of California, Berkeley.

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Joel A. Littman became Chief Financial Officer of the Predecessor in September 2001. Mr. Littman was Corporate Controller for CPI from November 1996 to September 2001. From September 1989 to November 1996 Mr. Littman served as Controller of the Microwave Power Products Division of Varian Associates, Inc. and CPI. Prior to that Mr. Littman held various finance positions with Varian Associates, Inc. and TRW Inc. Mr. Littman received a B.A. degree

in economics and an M.B.A., both from the University of California at Los Angeles.

John R. Beighley became a Vice President of the Predecessor in March 1997 and currently heads our Worldwide Field Sales Organization. From May 1992 to March 1997, Mr. Beighley was Western Hemisphere Sales Manager responsible for sales in the Americas, as well as the Far East and Australia. From June 1989 to May 1992, Mr. Beighley was the North American Sales Manager. From March 1981 to June 1989, Mr. Beighley held a number of Product Marketing and Field Sales positions with Varian Associates, Inc. Mr. Beighley received a B.S. degree in marketing from San Francisco State University and an M.B.A. from Santa Clara University.

Don C. Coleman became a Vice President of the Predecessor in February 1999 and also became Division President of the Beverly Microwave Division in February 1999. Mr. Coleman was Vice President of Manufacturing for the Beverly Microwave Division from February 1996 until accepting his current position. From 1990 until 1996, Mr. Coleman held the position of Engineering Manager for Receiver Protector Products at the Beverly Microwave Division. Mr. Coleman held a variety of manufacturing and development engineering positions at Varian Associates, Inc. from the time he joined us in 1976 until 1990. Mr. Coleman received a B.S. degree in engineering from the University of Massachusetts.

Mike Cheng became a Vice President of the Predecessor in August 2000 and currently heads our Eimac Division. From April 1999 to August 2000, Mr. Cheng was Vice President of Operations for the Microwave Power Products Division. From 1994 until April 1999, he was Vice President of Marketing for the Microwave Power Products Division. From 1980 until 1994, Mr. Cheng held a number of manufacturing and engineering positions with Varian Associates, Inc., including Production Manager of the Microwave Power Products Division's Klystron Engineering Group, to which he was promoted in 1989. Prior to joining Varian Associates, Inc., Mr. Cheng was an engineer in the Nuclear Energy Division of General Electric Corporation. Mr. Cheng received a B.S. degree in chemical engineering from the University of California, Berkeley and an M.B.A. from Golden Gate University.

Andrew E. Tafler became a Vice President of CPI Holdco in December 2005. Mr. Tafler became Division President of the Satcom Division in May 2004. Mr. Tafler was previously Vice President of Operations for the Satcom Division from 2000 to 2004. From 1989 to 2000, Mr. Tafler held the Business Development Manager and then the Operations Manager positions at the Communications and Medical Products Division of the Electron Device Group of Varian Associates Inc. Mr. Tafler held a number of manufacturing and marketing positions at Varian Associates Inc. from 1984 to 1989. Prior to joining Varian Associates, Inc., Mr. Tafler served in engineering and management positions with Bell Canada Inc. Mr. Tafler holds a B.A.Sc. degree in Electrical Engineering from the University of Toronto.

Michael F. Finley became a director of CPI Holdco in January 2004. Mr. Finley currently serves on the board of directors of Williams Scotsman International Inc., Affinia Group Inc. and Cooper Standard Automotive Inc. Mr. Finley has been a Managing Director of The Cypress Group since 1998 and has been a member of The Cypress Group since its formation in April 1994. Prior to joining The Cypress Group, he was a Vice President in the Merchant Banking Group at Lehman Brothers Inc. Mr. Finley received a B.A. degree from St. Thomas University and an M.B.A. from the University of Chicago's Graduate School of Business.

Jeffrey P. Hughes became a director of CPI Holdco in April 2005. Mr. Hughes currently serves on the Board of Directors of Financial Guaranty Insurance Company. Mr. Hughes is a Vice Chairman of The Cypress Group. Mr. Hughes helped found The Cypress Group in 1994, after 26 years at Lehman Brothers as a senior investment banker and merchant banker. Mr. Hughes started Lehman Brothers' private financing department and led early leveraged buyout financings; had senior investment banking coverage responsibilities for industrial, energy and consumer product companies; was co-head of the financial institutions group; and was a member of Lehman

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Brothers' investment committee. Mr. Hughes joined Lehman Brothers in 1968 and became a partner in 1976. Mr. Hughes received a B.A. degree from Wesleyan University and an L.L.B. degree from Duke University Law School.

Chris Toffales became a director of CPI Holdco in January 2004. Mr. Toffales currently serves on the board of directors of Irvine Sensors Corporation. Mr. Toffales is currently the President of CTC Aero, LLC, and is a consultant in the defense industry. From 1999 to 2003, Mr. Toffales was the Senior Vice President, Corporate Marketing and President of DRS Systems Company. From 1994 to 1999, Mr. Toffales was Vice President of Business Development and Advanced Programs at Lockheed Martin Fairchild Systems. Prior to that, Mr. Toffales was the Vice President of Imaging and Space Programs for Loral Corporation. Mr. Toffales received a B.E. degree in electrical engineering from the City College of New York.

BOARD STRUCTURE AND COMPENSATION

Board Composition

Our board of directors currently consists of six directors. Because Cypress will own more than 50% of our stockholder voting power after the consummation of this offering, we will qualify for the “controlled company” exception of Nasdaq National Market Rule 4350(c), which provides that so long as Cypress continues to own more than 50% of our stockholder voting power, we will be exempt from the rules that would otherwise require that our board of directors consist of a majority of “independent directors,” as defined under Nasdaq National Market rules, and that our compensation committee and nominating committee consist of only “independent directors.” We intend to avail ourselves of the “controlled company” exception for so long as Cypress continues to own more than 50% of our stockholder voting power. In the event that Cypress' stockholder voting power falls to 50%, we intend to comply with the Nasdaq National Market's majority independent director and compensation and nominating committee requirements.

The “controlled company” exception does not modify the independence requirements for the audit committee, and we intend to comply with the requirements that our audit committee be composed of three independent directors within the transition period provided by Securities and Exchange Commission rules and Nasdaq National Market rules.

Upon consummation of this offering, our board will consist of directors and will be divided into three classes as described below, with each director serving a three-year term and one class being elected at each year's annual meeting of stockholders. Messrs. _____ will serve initially as Class I directors (with a term expiring at our annual stockholders meeting to be held in 2007). Messrs. _____ will serve initially as Class II directors (with a term expiring at our annual stockholders meeting to be held in 2008). Messrs. _____ will serve initially as Class III directors (with a term expiring at our annual stockholders meeting to be held in 2009). Our amended and restated bylaws will provide that our board of directors consist of no less than or more than persons. The exact number of members on our board of directors will be determined from time to time by resolution of a majority of our full board of directors.

Board Committees

Our board of directors currently has a standing audit committee and compensation committee. Upon consummation of this offering our board of directors will establish a nominating and governance committee. On or prior to the consummation of this offering, our board will adopt new charters for each of these committees. The following is a brief description of our committees.

Audit Committee

Messrs. Finley, Hughes and Targoff are the current members of our audit committee. Mr. Targoff currently meets the independence and experience requirements of the Nasdaq National Market and the Securities and Exchange Commission rules and qualifies as an audit committee financial expert under the rules of the Securities and Exchange Commission. We will be required to have one independent director on the audit committee during the 90-day period beginning on the date of effectiveness of the registration statement filed with the Securities and Exchange Commission in connection with this offering and of which this prospectus is a part. After such 90-day period and until one year from the date of effectiveness of the registration statement, we are required to

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have a majority of independent directors on the audit committee. Thereafter, the audit committee will be required to be composed entirely of independent directors. Prior to, upon or following the consummation of this offering, our board of directors will appoint new independent members to the audit committee to replace Messrs. Finley and Hughes.

Following the consummation of this offering, the functions of our audit committee will include:

meeting with our management periodically to consider the adequacy of our internal controls and the objectivity of our financial reporting;

engaging, and pre-approving audit and non-audit services to be rendered by, our independent auditors;

recommending to our board of directors the engagement of our independent auditors and oversight of the work of our independent auditors;

reviewing our financial statements and periodic reports and discussing the statements and reports with our management, including any significant adjustments, management judgments and estimates, new accounting policies and disagreements with management;

establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls and auditing matters;

administering and discussing with management and our independent auditors our code of ethics; and

reviewing and approving all related-party transactions in accordance with the rules of The Nasdaq National Market.

Compensation Committee

Messrs. Targoff and Finley are the current members of our compensation committee. Upon the consummation of this offering, Messrs. _____ will serve as members of our compensation committee.

Following the consummation of this offering, the functions of our compensation committee will include:

reviewing and, as it deems appropriate, recommending to our board of directors, policies, practices and procedures relating to the compensation of our directors and executive officers and the establishment and administration of certain of our employee benefit plans;

exercising authority under certain of our employee benefit plans; and

reviewing and approving executive officer and director indemnification and insurance matters.

Nominating and Governance Committee

Prior to the consummation of this offering, we will establish a nominating and governance committee. Upon the consummation of this offering, Messrs. _____ will serve as members of our nominating and governance committee.

Following the consummation of this offering, the functions of our nominating and governance committee will include:

identifying qualified candidates to become members of our board of directors;

selecting nominees for election of directors at the next annual meeting of stockholders (or special meeting of stockholders at which directors are to be elected);

selecting candidates to fill vacancies on our board of directors;

developing and recommending to our board of directors our corporate governance guidelines; and

overseeing the evaluation of our board of directors.

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Director Compensation

Directors that are neither our officers nor principals or employees of Cypress (“outside directors”) currently receive compensation of \$32,500 per year, health care benefits paid on behalf of directors of \$15,790 per year plus \$1,250 for each board or committee meeting attended. Directors are reimbursed for out-of-pocket expenses incurred in connection with attending meetings of our board of directors and its committees. Outside directors also are entitled to receive options to purchase shares of common stock of CPI Holdco under the 2004 Stock Incentive Plan. During fiscal year 2004, 8,014 options were granted each to Mr. Targoff and Mr. Toffales. The exercise price of the options is the fair value on the date of grant, and such options vest at a rate of 20% per year and expire ten years from the date of grant. Directors that are not outside directors do not currently receive any compensation directly for their service on the board of directors.

During fiscal year 2004, Mr. Toffales also provided consulting services to us and was paid fees of \$22,500 plus related out-of-pocket expenses.

The following director compensation will apply following the consummation of this offering. Directors who are not executive officers will receive an annual fee of \$, as well as annual grants of \$ worth of restricted stock. The chairmen of the audit committee, compensation committee and nominating and governance committees will receive additional annual compensation of \$, \$ and \$, respectively. In addition, directors will receive a fee of \$ for each board meeting they attend (\$ if they attend telephonically). In addition, each member of a board committee will receive a fee of \$ for each committee meeting they attend (\$ if they attend telephonically). Directors will be reimbursed for out-of-pocket expenses incurred in connection with attending meetings of the board of directors and its committees.

Compensation Committee Interlocks and Insider Participation

In March 2004, our board of directors designated our compensation committee. Michael Finley and Michael Targoff are, and since March 2004 have been, the members of our compensation committee.

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EXECUTIVE COMPENSATION

Summary compensation table

The following table shows certain information concerning compensation earned by our Chief Executive Officer and our next four most highly compensated executive officers (the “named executive officers”) for each of the last three fiscal years.

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Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Securities Underlying Options	
		Salary	Bonus(a)	Other Annual Compensation(b)	# of shares	All Other Compensation(c)
O. Joe Caldarelli	2005	\$445,500	\$1,143,438		* —	\$ 35,938
Chief Executive Officer	2004	360,000	1,203,310		* 187,005	75,455
	2003	324,000	792,000	\$ 296,000	89,050	24,843
Robert A. Fickett	2005	280,000	650,750		* —	21,788
Chief Operating Officer and	2004	250,000	800,500		* 115,765	20,323
President	2003	255,008	421,875	216,458	53,430	20,697
Joel A. Littman	2005	200,000	385,750		* —	14,341
Chief Financial Officer, Treasurer and	2004	160,000	475,500		* 67,678	11,519
Secretary	2003	161,518	217,200	176,958	26,715	11,031
Don C. Coleman	2005	175,000	240,750		* —	12,704
Vice President	2004	159,000	327,720		* 35,620	11,421