VALLEY NATIONAL BANCORP
Form 8-K
October 26, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of report (Date of earliest event reported) October 22, 2004

VALLEY NATIONAL BANCORP

(Exact Name of Registrant as Specified in Charter)

New Jersey	1-11277	22-2477875
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification Number)**

1455 Valley Road, Wayne, New Jersey	07470
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code (973) 305-8800

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

___ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

___ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

___ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

___ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement

On October 22, 2004, Valley National Bank and Valley National Bancorp, entered into an Amended and Restated Change in Control Agreement with First Senior Vice President Walter M. Horsting which superseded his prior agreement. On October 25, 2004, Valley National Bank and Valley National Bancorp, entered into an Amended and Restated Change in Control Agreement with First Senior Vice President Kermit R. Dyke which superseded his prior agreement.

The initial term of each Agreement extends for three years with an automatic one-year extension at the end of each year. Pursuant to each Agreement, should Valley undergo a change-in-control while the executive s Agreement remains in effect, he shall have an employment contract for a term of one year, as a senior officer, at the same base salary, with a bonus at least equal to the average annual bonus paid to him over the most recent three years, and participation in fringe benefit plans.

If, during such one year period, the executive resigns for good reason as defined in the Agreement, or is terminated without cause, he is entitled to an immediate lump-sum payment equal to two times his base salary, a pro-rata bonus amount and continuation of medical, dental and life insurance benefit coverage for a two-year period. If the executive dies, is disabled, is terminated for cause, or resigns without good reason, the executive will not be entitled to benefits under the Agreement.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

10.1 Amended and Restated Change in Control Agreement among Valley National Bank, Valley National Bancorp and Walter M. Horsting, dated October 22, 2004.

10.2 Amended and Restated Change in Control Agreement among Valley National Bank, Valley National Bancorp and Kermit R. Dyke, dated October 25, 2004.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

VALLEY NATIONAL BANCORP

Dated: October 26, 2004

By: /s/ Alan D. Eskow

Name: Alan D. Eskow
Title: Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
10.1	Amended and Restated Change in Control Agreement among Valley National Bank, Valley National Bancorp and Walter M. Horsting, dated October 22, 2004.
10.2	Amended and Restated Change in Control Agreement among Valley National Bank, Valley National Bancorp and Kermit R. Dyke, dated October 25, 2004.

SIZE=2> Balance at end of period $2,700 $1,702

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

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

	September 28, 2007	September 29, 2006

80

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

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

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

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

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

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

Based on acquisitions completed as of September 28, 2007, the estimated future amortization expense of intangible assets, excluding the Company's unamortized tradenames, is as follows:

Fiscal Year	Amount
2008	$ 3,301
2009	2,799
2010	2,777
2011	2,777
2012	2,763
Thereafter	59,726
	$ 74,143

Goodwill: The following table sets forth the changes in goodwill by reportable segment during fiscal years 2007 and 2006:

	Reportable Segments			
	VED	Satcom	Other	Total
Balance at September 30, 2005	$ 131,617	$ 13,845	$	$ 145,462
Other	2,020	7		2,027
Balance at September 29, 2006	133,637	13,852		147,489
Malibu acquisition			14,856	14,856
Other	(740)	(22)	(10)	(772)
Balance at September 28, 2007	$ 132,897	$ 13,830	$ 14,846	$ 161,573

Other for fiscal year 2007 includes (1) a correction to reduce goodwill by $0.5 million for subsequently recognized deferred tax assets associated with the acquisition of Econco Broadcast Service, Inc., and (2) an adjustment of $0.3 million for tax benefit realized from the exercise of fully vested stock options that were acquired in connection with the January 23, 2004 merger pursuant to which CPI International acquired Communications & Power Industries Holding Corporation (the "January 2004 merger"). Other for fiscal year 2006 represents a purchase accounting adjustment of $2.0 million to correct a reduction in deferred tax assets as of the January 2004 merger.

Accrued Expenses: The following table provides details of accrued expenses:

	September 28, 2007	September 29, 2006
Payroll and employee benefits	$ 15,164	$ 14,239
Accrued interest	2,073	3,116
Other accruals	9,112	5,914
	$ 26,349	$ 23,269

Product Warranty: The following table summarizes the activity related to product warranty during fiscal years 2007 and 2006:

	Year Ended	
	September 28, 2007	September 29, 2006
Beginning accrued warranty	$ 5,958	$ 6,359
Malibu acquisition	273	
Actual costs of warranty claims	(5,328)	(5,794)
Estimates for product warranty, charged to cost of sales	4,675	5,393
Ending accrued warranty	$ 5,578	$ 5,958

3. Acquisitions

Malibu Research Associates

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

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

Under the purchase method of accounting, the assets and liabilities of Malibu were adjusted to their fair values and the excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The allocation of the purchase price to specific assets and liabilities was based, in part, upon internal estimates of cash flow and recoverability. The valuation of identifiable intangible assets acquired was based on management's estimates, currently available information and reasonable and supportable assumptions. This purchase price allocation was generally based on the fair value of these assets determined using the income approach.

The following table summarizes the allocation of the fair value of the Malibu's assets acquired and liabilities assumed:

Net current liabilities	$	(3,938)
Property, plant and equipment		719
Deferred tax liabilities		(703)
Identifiable intangible assets		8,790
Goodwill		14,856
	$	19,724

For financial reporting purposes, consideration of approximately $2.6 million, which is included in the initial cash consideration paid for Malibu, is excluded from the purchase price allocation above and is reported as other long-term assets in the consolidated balance sheet at September 28, 2007. This consideration amount represents the difference between the Company's initial calculation of the target working capital amount and actual working capital amount as of the acquisition closing date. In accordance with SFAS No. 141, any contingent consideration that has not been determined beyond a reasonable doubt is excluded from the purchase price allocation until the contingency is resolved. The Company intends to make a claim against the working capital escrow account of $1.0 million and, if necessary, the indemnity escrow account of $2.3 million to recover the working capital shortfall once the amount of such shortfall has been finally determined.

The following table presents details of the purchased intangible assets acquired:

	Weighted Average Useful Life (in years)		Amount
Non compete agreements	5	$	530
Tradename	Indefinite		1,800
Antenna and Telemetry technology	25		5,300
Backlog	1		580
Customer relationships	15		580
		$	8,790

Econco Broadcast Service

On October 8, 2004, CPI purchased all of the outstanding stock of Econco Broadcast Service, Inc. ("Econco") of Woodland, California for cash consideration of $18.3 million. Econco is a provider of rebuilding service for VEDs, 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 VED.

Under the purchase method of accounting, the assets and liabilities of Econco were adjusted to their fair values and the excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The allocation of the purchase price to specific assets and liabilities was based, in part, upon internal estimates of cash flow and recoverability. The valuation of identifiable intangible assets acquired was based on management's estimates, currently available information and reasonable and supportable assumptions. This allocation was generally based on the fair value of these assets determined using the income approach.

The following table summarizes the allocation of the fair value of the Econco's assets acquired and liabilities assumed:

Net current assets	$	2,049
Property, plant and equipment		3,239
Identifiable intangible assets		7,210
Goodwill		5,848
	$	18,346

The purchase price allocation above excludes the subsequently recognized deferred tax assets and the corresponding reduction in goodwill of $0.5 million.

Net current assets include $0.4 million for the revaluation of inventory. The following table presents details of the purchased intangible assets acquired:

	Weighted Average Useful Life (in years)		Amount
Non-compete agreement	5	$	110
Tradename	Indefinite		1,400
Customer list and programs	25		5,700
		$	7,210

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and indefinite lived intangibles will not be amortized but will be tested for impairment at least annually.

The Company's consolidated financial statements include Malibu's and Econco's financial results from the respective acquisition date of each acquired company.

Pro Forma Results

Pro forma information giving effect to the Malibu and Econco acquisitions has not been presented because the pro forma information would not differ materially from the historical results of the Company.

4. Sale of San Carlos Assets

In September 2006, the Company completed the sale of the land and building previously used by its operations in San Carlos, California for aggregate proceeds of $24.8 million, of which $11.3 million was received in September 2006 and $13.5 million was received as advance payments in fiscal year 2004. The aggregate sales proceeds of $24.8 million less the related selling costs of $1.3 million, offset by the land and building's net book value of approximately $23.5 million, resulted in no gain or loss on sale.

5. Long-Term Debt

Long-term debt comprises the following:

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

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

Except as provided in the following sentence, the Term Loan will mature on August 1, 2014 and the Revolver will mature on August 1, 2013. However, if, prior to August 1, 2011, CPI has not repaid or refinanced its $125 million 8% Senior Subordinated Notes due 2012, both the Term Loan and the Revolver will mature on August 1, 2011.

The Senior Credit Facilities replaced CPI's previous senior credit facilities of $130 million. On the closing date of the Senior Credit Facilities, CPI borrowed $100 million under the Term Loan, the proceeds of which were principally used to satisfy outstanding term loan amounts of $37.5 million under the previous senior credit facilities and to pay a dividend to CPI International to permit CPI International to repurchase and redeem $58 million aggregate principal amount of its Floating Rate Senior Notes due 2015 described below. Future borrowings under the Senior Credit Facilities may be used for general corporate purposes.

Borrowings under the Senior Credit Facilities bear interest at a rate equal to, at CPI's option, LIBOR or the ABR plus the applicable margin. The ABR is the greater of the (a) the prime rate and (b) the federal funds rate plus 0.50%. For Term Loans, the applicable margin will be 2.00% for LIBOR borrowings and 1.00% for ABR borrowings. The applicable margins under the Revolver vary depending on CPI's leverage ratio, as defined in the Senior Credit Facilities, and range from 1.25% to 2.00% for LIBOR borrowings and from 0.25% to 1.00% for ABR borrowings.

In addition to customary fronting and administrative fees under the Senior Credit Facilities, CPI will pay letter of credit participation fees equal to the applicable LIBOR margin per annum on the average daily amount of the letter of credit exposure, and a commitment fee on the average daily unused commitments under the Revolver. The commitment fee will vary depending on CPI's leverage ratio, as defined in the Senior Credit Facilities, and will range from 0.25% to 0.50%.

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

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

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

CPI made its initial scheduled payment of $250,000 on the Term Loan during the fourth quarter of fiscal year 2007, leaving a principal balance of $99.75 million as of September 28, 2007.

8% Senior Subordinated Notes due 2012 of CPI: In connection with the January 2004 merger, CPI issued $125.0 million in aggregate principal amount of its 8% Senior Subordinated Notes due 2012 (the

"8% Notes"). The proceeds of the 8% Notes were used to redeem acquired indebtedness and pay part of the consideration associated with the merger. The 8% Notes have no sinking fund requirements.

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

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

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

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

Upon a change of control, CPI may be required to purchase all or any part of the 8% Notes for a cash price equal to 101% of the principal amount, plus accrued and unpaid interest thereon, if any, to the date of purchase.

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

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

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

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

On September 5, 2007, CPI International, completed the redemption of an additional $19.8 million in principal amount of the FR Notes. The redemption price, including the call premium, paid to note holders was 103% of the principal amount of the notes. Including the call price and accrued and unpaid interest, the total cash paid was $20.6 million. The redemption price was funded from borrowings under the Senior Credit Facilities. Following this redemption, $22.0 million aggregate principal amount of the FR Notes remain outstanding.

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

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

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

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

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

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

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

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

Debt Maturities: As of September 28, 2007, maturities on long-term debt were as follows:

Fiscal Year	Term Loan	8% Senior Subordinated Notes	Floating Rate Senior Notes	Total
2008	$ 1,000	$	$	$ 1,000
2009	1,000			1,000
2010	1,000			1,000
2011	96,750			96,750
2012		125,000		125,000
Thereafter			22,000	22,000
	$ 99,750	$ 125,000	$ 22,000	$ 246,750

The above table assumes (1) that the respective debt instruments will be outstanding until their scheduled maturity dates, except for the Term Loan under the Senior Credit Facilities, which is assumed to mature on the earlier date of August 1, 2011 as described above under "Amended Senior Credit Facilities," and (2) a debt level based on mandatory repayments according to the contractual amortization schedule. The above table also excludes any optional prepayments.

As of September 28, 2007, the Company was in compliance with the covenants under the indentures governing the 8% Notes and FR Notes and the agreements governing the Senior Credit Facilities, and the Company expects to remain in compliance with those covenants throughout fiscal year 2008.

Loss on debt extinguishment: The debt refinancing during fiscal year 2007, as discussed above, resulted in a loss on debt extinguishment of approximately $6.3 million, including non-cash write-offs of $4.7 million of unamortized debt issue costs and issue discount costs and $1.9 million in cash payments for call premiums, partially offset by $0.3 million of cash proceeds from the early termination of interest rate swap on the FR Notes.

Interest rate swap agreements: See Note 7 for information on the interest rate swap agreements entered into by the Company to hedge the interest rate exposure associated with the Term Loan and the FR Notes.

6. Employee Benefit Plans

Retirement Plans: CPI provides a qualified 401(k) investment plan covering substantially all of its domestic employees, a pension contribution plan covering substantially all of its Canadian employees and a profit sharing plan covering substantially all of its Econco employees. These plans provide for CPI to contribute an amount based on a percentage of each participant's base pay. CPI also has a Non-Qualified Deferred Compensation Plan (the "Non-Qualified Plan") that allows eligible executives and directors to defer a portion of their compensation. The Non-Qualified Plan liability recorded by the Company amounted to approximately $0.2 million as of September 28, 2007 and September 29, 2006. Except for the Econco profit sharing plan, all participant contributions and Company matching contributions are 100% vested. For the Econco profit sharing plan, employee contributions are 100%

vested, while employer contributions vest ratably over a 5 year period beginning with the second year of service. Total CPI contributions to these retirement plans were $3.7 million, $3.8 million and $3.6 million for fiscal years 2007, 2006 and 2005, respectively.

Defined Benefit Pension Plan: The Company maintains a defined benefit pension plan for its Chief Executive Officer ("CEO"). The plan's benefits are based on the CEO's compensation earnings and are limited by statutory requirements of the Canadian Income Tax Act. All costs of the plan are borne by the Company. The Company utilizes actuarial methods required by SFAS No. 87 to account for its defined benefit pension plan.

Effective for fiscal year 2007, the Company adopted the provisions of SFAS No. 158. SFAS No. 158 requires that the funded status of defined-benefit postretirement plans be recognized on the Company's consolidated balance sheets, and changes in the funded status be reflected in comprehensive income. SFAS No. 158 also requires the measurement date of the plan's funded status to be the same as the Company's fiscal year-end. Although the measurement date provision was not required to be adopted until fiscal year 2008, the Company early-adopted this provision for fiscal year 2007.

The adoption of SFAS No. 158 resulted in an under-funded status of $197,000, which approximates the excess of the projected benefit obligation over plan assets of $787,000 as of September 28, 2007. The adoption of SFAS No. 158 also resulted in a decrease of $0.3 million on a pre-tax basis and a decrease of $0.2 million on an after-tax basis to the Company's accumulated other comprehensive income as of September 28, 2007. The Company's defined benefit pension plan is managed by an insurance company consistent with regulations or market practice in Canada, where the plan assets are invested. Net pension expense was not material for any period. Contributions to the plan are not expected to be significant to the financial position of the Company.

7. Derivative Financial Instruments

The Company uses forward exchange contracts to hedge the foreign currency exposure associated with forecasted manufacturing costs in Canada. As of September 28, 2007, the Company had outstanding forward contract commitments to purchase Canadian dollars for an aggregate U.S. notional amount of $15.8 million; the last forward contract expires on March 24, 2008. At September 28, 2007 and September 29, 2006, the fair value of foreign currency forward contracts was an asset of $1.3 million and $0.1 million, respectively, and the unrealized gain, net of related tax expense, was $1.2 million and $8,000, respectively.

The Company's foreign currency forward contracts are designated as a cash flow hedge and are considered highly effective, as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The unrealized gains and losses from foreign exchange forward contracts are included in "accumulated other comprehensive income" in the consolidated balance sheets, and the Company anticipates recognizing the entire unrealized gain in operating earnings within the next 12 months. Changes in the fair value of foreign currency forward contracts due to changes in time value are excluded from the assessment of effectiveness, and are immediately recognized in general and administrative in the consolidated statements of operations. The time value was not material for fiscal years 2007, 2006 or 2005. If the transaction being hedged fails to occur, or if a portion of any derivative is ineffective, then the Company promptly recognizes the gain or loss on the associated financial instrument in the consolidated statements of operations. No ineffective amounts were recognized due to anticipated transactions failing to occur in fiscal years 2007, 2006 and 2005. Realized gains and losses from foreign currency forward contracts are recognized in cost of sales and general and administrative in the consolidated statements of operations. Net income for fiscal year 2007 includes a recognized loss from foreign currency forward contracts of $0.4 million. Net income for fiscal year 2006 includes a recognized gain from foreign currency forward contracts of $1.2 million.

The Company also uses derivatives to hedge the interest rate exposure associated with its long- term debt. Most recently, on September 21, 2007, the Company entered into an interest rate swap contract (the "2007 Swap") to receive three-month USD-LIBOR-BBA (British Bankers' Association) interest and pay 4.77% fixed rate interest. Net interest positions are settled quarterly. The Company has structured the 2007 Swap with decreasing notional amounts to match the expected pay down of its Term Loan under the Senior Credit Facilities discussed in Note 5. The notional value of the 2007 Swap was $90.0 million at September 28, 2007 and represented approximately 90% of the aggregate Term Loan balance. The Swap agreement is effective through June 30, 2011. Under the provisions of SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended, this arrangement was initially designated and qualified as an effective cash flow hedge of interest rate risk related to the Term Loan, which permitted recording the fair value of the 2007 Swap and corresponding unrealized gain or loss to accumulated other comprehensive income in the consolidated balance sheets. The interest rate swap gain or loss is included in the assessment of hedge effectiveness. At September 28, 2007, the fair value of the short-term and long-term portions of the 2007 Swap was an asset of $0.1 million and a liability of $0.3 million, respectively, and included in other current assets and other long-term liabilities in the consolidated balance sheets accordingly. At September 28, 2007, the unrealized loss, net of tax, was $0.1 million.

On August 31, 2007, the Company completed an early settlement of its $80.0 million interest rate swap contract (the "2005 Swap") associated with its FR Notes as discussed in Note 5, for which the Company received $0.4 million in cash representing the final net swap interest originally due on January 31, 2008. Of the $0.4 million proceeds from the 2005 Swap settlement, $0.3 million was recognized immediately as a gain on the ineffective portion of the 2005 Swap effected by the recent repurchase and redemption of an aggregate of $58.0 million of the FR Notes. Recorded as an other long-term asset in the consolidated balance sheet as of September 29, 2006, the $0.5 million collateral deposit associated with the 2005 Swap was fully refunded during fiscal year 2007. Included in accumulated other comprehensive income in the consolidated balance sheet, the fair value of the unrealized gain on the 2005 Swap was approximately $51,000, net of tax, as of September 28, 2007.

8. Lease Commitments

The Company is committed to minimum rentals under non-cancelable operating lease agreements, primarily for land and facility space, that expire on various dates through 2050. Certain of the leases provide for escalating lease payments. Future minimum lease payments for all non-cancelable operating lease agreements at September 28, 2007 were as follows:

Fiscal Year	Operating Leases
2008	$ 1,891
2009	1,290
2010	1,052
2011	437
2012	358
Thereafter	3,094
Total future minimum lease payments	$ 8,122

Real estate taxes, insurance, and maintenance are also obligations of the Company. Rental expense under non-cancelable operating leases amounted to $1.9 million, $1.8 million and $1.3 million for fiscal years 2007, 2006 and 2005, respectively. Assets subject to capital leases at September 28, 2007 and September 29, 2006 were not material.

9. Contingencies and Commitments

Guarantees: The Company has restricted cash of $2.3 million and $1.7 million as of September 28, 2007 and September 29, 2006, consisting primarily of bank guarantees from customer advance payments to the Company's international subsidiaries. The bank guarantees become unrestricted cash when performance under the sales or supply contract is complete.

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

Contingent Earnout Consideration: As discussed in Note 3, in addition to the $22.2 million of net cash consideration paid for the Malibu acquisition, there is a potential earnout payable to the former stockholders of Malibu of up to $14.0 million, which is primarily contingent upon the achievement of certain financial objectives over the three years following the acquisition; and a discretionary earnout of up to $1.0 million contingent upon achievement of certain succession planning goals by June 30, 2010.

Indemnification: As permitted under Delaware law, the Company has agreements whereby the Company indemnifies its officers, directors and certain employees for certain events or occurrences while the employee, officer or director is, or was serving, at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has Director and Officer insurance policies that limit its exposure and may enable it to recover a portion of any future amounts paid.

The Company has entered into other standard indemnification agreements in its ordinary course of business. Pursuant to these agreements, the Company agrees to indemnify, defend, hold harmless, and to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company's business partners or customers, in connection with any patent, copyright or other intellectual property infringement claim by any third party with respect to its products. The term of these indemnification agreements is generally perpetual after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has not incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements. The Company believes that the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of September 28, 2007.

Employment Agreements: The Company has entered into employment agreements with certain members of executive management that include provisions for the continued payment of salary, benefits and a pro-rata portion of annual bonus upon employment termination for periods ranging from 12 months to 30 months.

Contingencies: From time to time, the Company may be subject to claims that arise in the ordinary course of business. In the opinion of management, all such matters involve amounts that would not have a material adverse effect on the Company's consolidated financial position if unfavorably resolved.

10. Stockholders' Equity

Common and Preferred Stock: On April 7, 2006, the Company amended and restated its certificate of incorporation to provide for 90,000,000 authorized shares of Common Stock, par value $0.01 per share, and 10,000,000 authorized shares of Preferred Stock, par value $0.01 per share. The holder of each share of Common Stock has the right to one vote. The board of directors has the authority to issue the undesignated Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. At September 28, 2007 and September 29, 2006, there were no shares of Preferred Stock outstanding.

On April 7, 2006, in connection with the amendment and restatement of its certificate of incorporation, the Company also effected a 3.059-to-1 stock split of its outstanding shares of common stock as of such date. All share and per share amounts in the accompanying consolidated financial statements and accompanying notes have been retroactively restated to reflect this stock split.

On May 3, 2006, the Company completed the initial public offering of its common stock. The Company sold 2,941,200 shares of common stock and the selling stockholders sold 4,117,670 shares, at an initial public offering price to the public of $18.00 per share, resulting in total proceeds to the Company of approximately $47.3 million, net of transaction costs of approximately $5.6 million. The Company used the net proceeds to repay $47.3 million of a term loan under its previous senior credit facilities.

Stock-Based Compensation Plans: The Company has four stock plans: the 2006 Equity and Performance Incentive Plan (the "2006 Plan"), the 2006 Employee Stock Purchase Plan (the "2006 ESPP"), the 2004 Stock Incentive Plan (the "2004 Plan") and the 2000 Stock Option Plan (the "2000 Plan").

2006 Plan: The 2006 Plan provides for an aggregate of up to 1,400,000 shares of CPI International's common stock to be available for awards, plus the number of shares subject to awards granted under the 2004 Stock Incentive Plan and the 2000 Stock Option Plan that are forfeited, expire or are cancelled after the effective date of the 2006 Plan. All of the Company's employees (including officers), directors, and consultants are eligible for awards under the 2006 Plan. The 2006 Plan is administered by the Compensation Committee of the Board of Directors ("Compensation Committee") and awards may consist of options, stock appreciation rights, restricted stock, other stock unit awards, performance awards, dividend equivalents or any combination of the foregoing. The exercise price for stock options generally cannot be less than 100% of the fair market value of the shares on the date of grant. Options available for grant as of September 28, 2007 were approximately 789,000 shares.

2006 ESPP: The 2006 ESPP permits eligible employees to purchase common stock at a discounted price. An aggregate of 760,000 shares of common stock is reserved for issuance under this plan. The stock purchase plan is administered by the Compensation Committee of the board of directors. Employees participating in the plan may purchase stock for their accounts according to a price formula set by the Compensation Committee, as administrator, before the applicable offering period, which cannot exceed 24 months. The price per share will equal a fixed percentage (which may not be lower than 85%) of the fair market value of a share of common stock on the last day of the purchase period in the offering, or the lower of (1) a fixed percentage (not to be less than 85%) of the fair market value of a share of common stock on the date of commencement of participation in the offering and (2) a fixed percentage (not to be less than 85%) of the fair market value of a share of common stock on the date of purchase. Under the 2006 ESPP, approximately 709,000 shares of common stock were available for issuance as of September 28, 2007.

2004 Plan: The Company issued both time ("Time") and performance ("Performance") stock option awards under the 2004 Plan. All stock option grants under the 2004 Plan were issued at exercise prices equal to or greater than the estimated market price of the Company's common stock at option grant date. Time stock option awards vested at a rate of 20% to 25% per fiscal year based on the grant date. In September 2005, the Compensation Committee approved the acceleration of vesting of all unvested Performance stock options as of September 30, 2005. Stock-based compensation expense associated with the acceleration of vesting of Performance stock options was $2.8 million, which was recognized in the fourth quarter of fiscal year 2005. In fiscal year 2005, total stock-based compensation expense of $7.0 million includes the expense from the acceleration of vesting of stock options. The Company has ceased making new grants under the 2004 Plan.

2000 Plan: The 2000 Plan was acquired by the Company in the January 2004 merger, and no further options are available for issuance thereunder. In accordance with the terms of the stock option agreements, the unvested stock options outstanding under the 2000 Plan became fully vested at the merger closing date in January 2004. The 2000 Plan option holders were offered the opportunity to either roll over their stock options into options to purchase common stock of CPI International or exercise their stock options. Management elected to roll over options to purchase 912,613 shares of common stock at prices ranging from $0.20 to $0.74 per share.

Stock Options: Options outstanding that have vested and are expected to vest as of September 28, 2007 are as follows:

	Number of Shares	Weighted-Average Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Vested	2,259,528	$ 3.00	6.0	$ 36,184
Expected to vest	884,206	12.08	8.1	6,125
Total	3,143,734	5.55	6.6	$ 42,309

Options outstanding that are expected to vest are net of estimated future option forfeitures in accordance with the provisions of SFAS No. 123(R). Options with a fair value of $23,000 vested during fiscal year 2007. As of September 28, 2007, there was $4.2 million of unrecognized compensation costs related to stock options granted under the Company's stock option plans. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.2 years.

A summary of the Company's stock option activity as of September 28, 2007 and September 29, 2006, and changes during fiscal year 2007 is presented below:

	Oustanding Options				Exercisable Options			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance at September 29, 2006	3,163,057	$ 4.51	7.24	$ 28,799	2,345,833	$ 2.85	6.90	$ 24,199
Granted	316,500	14.71						
Exercised	(262,123)	2.76						
Forfeited or cancelled	(46,353)	9.19						
Balance at September 28, 2007	3,171,081	$ 5.61	6.58	$ 42,513	2,259,528	$ 3.00	5.98	$ 36,184

The aggregate intrinsic value in the preceding tables represents the total intrinsic value, based on the Company's closing stock price of $19.01 as of September 28, 2007 or $13.17 as of September 29, 2006, which would have been received by the option holders had all option holders exercised their options and sold the shares received upon such exercises as of the respective dates. All exercisable options as of September 28, 2007 are in-the-money.

The weighted-average grant-date fair value of options granted during fiscal years 2007 and 2006 was $8.98 and $10.60 per share, respectively. During fiscal years 2007 and 2006, cash received from option exercises was approximately $0.7 million and $55,000, and total intrinsic value of options exercised was $3.6 million and $0.2 million, respectively. There were no options exercised during fiscal year 2005.

Outstanding and exercisable options presented by exercise price at September 28, 2007 are as follows:

	Options Outstanding		Exercisable Options	
Exercise Price	Number of Options Outstanding	Weighted-Average Remaining Contractual Term (Years)	Number of Options Exercisable	Weighted-Average Remaining Contractual Term (Years)
$0.20	621,287	5.4	621,287	5.4
$0.74	164,327	2.9	164,327	2.9
$1.08	8,000	6.4	8,000	6.4
$4.32	1,710,729	6.5	1,398,822	6.5
$6.61	49,032	7.0	49,032	7.0
$6.98	23,706	7.5	16,060	7.5
$14.22	285,000	9.2		
$17.09	6,000	9.4		
$18.00	277,500	8.6	2,000	8.6
$19.53	19,500	10.0		
$19.80	6,000	9.6		
Total	3,171,081	6.6	2,259,528	6.0

Stock Purchase Plan: Employees purchased approximately 51,000 shares in fiscal year 2007 for $0.8 million under the 2006 ESPP. The first purchase under the 2006 ESPP occurred in the first quarter of fiscal year 2007. As of September 28, 2007, there were no unrecognized compensation costs related to rights to acquire stock under the Company's stock purchase plan.

Restricted Stock Awards: There were 11,466 and 9,999 shares of nonvested restricted stock granted to directors outstanding as of September 28, 2007 and September 29, 2006, respectively. The restricted stock awards vest over periods of one to three years. A summary of the status of the

98

Company's nonvested restricted stock awards as of September 28, 2007 and September 29, 2006 and changes during the fiscal years then ended is presented below:

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share	Aggregate Fair Value*
Nonvested at September 30, 2005		$	
Granted	9,999	$ 18.00	
Vested		$	
Forfeited		$	
Nonvested at September 29, 2006	9,999	$ 18.00	
Granted	7,022	$ 17.09	
Vested	(5,555)	$ 18.00	$ 97
Forfeited		$	
Nonvested at September 28, 2007	11,466	$ 17.44	

* Based on the value of the Company's stock on the date that the restricted stock units vest.

As of September 28, 2007, there was $0.1 million of unrecognized compensation costs related to restricted stock awards. The unrecognized compensation cost is expected to be recognized over a weighted average period of 1.4 years.

The Company settles stock option exercises and restricted stock awards with newly issued shares of common stock.

Stock-Based Compensation Cost: On October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) or 123(R), "Share-Based Payment," which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company's employees and directors, including employee stock options, restricted stock awards and employee stock purchases related to the ESPP based on estimated fair values. The fair value of each option award is estimated on the date of grant using the Black-Scholes model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable and requires the input of subjective assumptions, including the expected stock price volatility and estimated option life. The Company currently does not intend to pay dividends and, accordingly, no dividends have been assumed in its Black-Scholes calculation. Since the Company's common stock has not been publicly traded for a sufficient time period, the expected volatility is based on expected volatilities of similar companies that have a longer history of being publicly traded. The expected life of options granted is based on the simplified method for plain vanilla options in accordance with SEC SAB No. 107. The risk-free rates are based on the U.S. Treasury yield in effect at the time of the grant.

Assumptions used in the Black-Scholes model to estimate the fair value of stock option grants during each period for which stock options were granted are presented below. In accordance with SFAS No. 123R, prior to becoming a public entity, the Company used the minimum value method to determine a calculated value, rather than a fair value, of share awards.

	Year Ended	
	September 28, 2007	September 29, 2006
Expected term (in years)	6.25	6.47
Expected volatility	49.33%	53.57%
Dividend yield	0.0%	0.0%
Risk-free rate	4.7%	4.7%

The following table summarizes stock-based compensation expense for fiscal years 2007, 2006 and 2005, which was allocated as follows:

	Year Ended		
	September 28, 2007	September 29, 2006	September 30, 2005
Share-based compensation cost recognized in the income statement by caption:			
Cost of sales	$ 274	$ 36	$
Research and development	94	15	
Selling and marketing	122	27	
General and administrative	749	196	6,985
	$ 1,239	$ 274	$ 6,985
Share-based compensation cost capitalized in inventory	$ 297	$ 25	$
Share-based compensation cost remaining in inventory at end of period	$ 48	$ 25	$
Share-based compensation expense by type of award:			
Stock options	$ 1,006	$ 224	$ 6,985
Restricted stock	110	50	
Stock purchase plan	123		
	$ 1,239	$ 274	$ 6,985

As stock-based compensation expense recognized in the consolidated statement of operations for fiscal years 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

100

Fiscal year 2005 stock-based compensation expense of $7.0 million represents a non-cash charge related to performance stock options, of which $2.8 million relates to the acceleration of vesting of all outstanding performance stock options as of September 30, 2005 that were expected to vest in fiscal years 2006 through 2008 assuming that the performance criteria would have been achieved.

The tax benefit realized from option exercises and restricted stock vesting totaled approximately $1.3 million and $0.1 million during fiscal years 2007 and 2006, respectively. There were no options exercised or restricted stock vested and therefore no tax benefit realized during fiscal year 2005.

11. Income Taxes

Income before income taxes consisted of the following:

	Year Ended		
	September 28, 2007	September 29, 2006	September 30, 2005
U.S.	$ 20,466	$ 16,432	$ 12,018
Foreign	13,785	9,845	10,792
	$ 34,251	$ 26,277	$ 22,810

Income tax expense consisted of the following:

	Year Ended		
	September 28, 2007	September 29, 2006	September 30, 2005
Current			
Federal	$ 4,946	$ 5,447	$ 8,093
State	2,320	1,967	1,796
Foreign	4,693	7,571	3,040
	11,959	14,985	12,929
Deferred			
Federal	117	(3,598)	(4,667)
State	(143)	(397)	23
Foreign	(185)	(1,932)	853
	(211)	(5,927)	(3,791)
Income tax expense	$ 11,748	$ 9,058	$ 9,138

The U.S. income tax expense for fiscal year 2007 includes a $1.8 million tax benefit from the filing of amended income tax returns for fiscal year 2003, which reflect a change in estimate with regard to reporting Canadian income earned in the U.S. based on the determination of the character of such income. U.S. income tax expense for fiscal year 2007 also includes a charge to deferred income tax expense of approximately $0.9 million to correct an error for a deferred tax asset that should have been expensed during the fourth quarter of fiscal year 2006. The Company believes that the impact of the $0.9 million charge to deferred income tax expense was not material to its consolidated financial statements for either fiscal year 2007 or 2006.

Income tax expense for fiscal year 2006 includes a $0.3 million charge attributable to the fourth quarter of fiscal year 2005, consisting of $0.5 million to correct the overstatement of tax benefits recorded in the fourth quarter of fiscal year 2005 for stock-based compensation expense that is not deductible for income tax purposes in a foreign tax jurisdiction, offset by the reversal of a $0.2 million tax contingency reserve that is no longer considered necessary. The Company believes that the impact of the $0.5 million tax benefit correction was not material to its consolidated financial statements for fiscal year 2007, 2006 or 2005.

The Company is currently under examination by the Canada Revenue Agency ("CRA") for its Canadian tax returns filed in fiscal years 2000 through 2003. On October 30, 2006, the Company received a proposed tax assessment, including interest expense, from the CRA for fiscal years 2001 and 2002. The tax assessment was based on tax deductions related to the valuation of the Satcom business, which was purchased by Communications & Power Industries Canada Inc. from CPI in fiscal years 2001 and 2002. Foreign income tax expense for fiscal year 2006 includes a $2.3 million tax expense related to the CRA tax assessment, including additional interest for fiscal years 2001 to 2006. Interest expense related to the proposed tax assessment continues to be accrued. Foreign income tax expense for fiscal year 2007 includes an interest expense accrual of $0.2 million. The Company intends to pursue available legal remedies to contest this matter.

As of September 28, 2007, the Company had total tax contingency reserves of approximately $6.3 million. The Company believes that adequate accruals have been provided for any adjustments that may result from the CRA examination. In addition, the Company has provided for probable amounts of anticipated tax audit adjustments in various jurisdictions based on its reasonable estimate of probable additional taxes and interest.

Deferred income taxes reflect the net tax effects of temporary differences between the basis of assets and liabilities for financial reporting and income tax purposes. The Company's deferred tax assets (liabilities) were as follows:

	September 28, 2007	September 29, 2006
Deferred tax assets:		
Inventory and other reserves	$ 5,642	$ 7,280
Accrued vacation	2,064	1,927
Deferred compensation and other accruals	4,179	3,929
Debt issuance costs	790	
Foreign jurisdictions, net	472	815
Land lease amortization	681	709
State taxes	561	549
Gross deferred tax assets	14,389	15,209
Valuation allowance		
Total deferred tax assets	$ 14,389	$ 15,209
Deferred tax liabilities:		
Accelerated depreciation	$ (7,536)	$ (7,621)
Acquisition-related intangibles	(23,950)	(25,242)
Other comprehensive income	(480)	(468)
Foreign jurisdictions, net	(973)	(291)
Total deferred tax liabilities	$ (32,939)	$ (33,622)
Net deferred tax liability	$ (18,550)	$ (18,413)

Realization of the Company's net deferred tax assets is based upon the weight of available evidence, including such factors as recent earnings history and expected future taxable income. The Company believes it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. The net deferred tax assets (liabilities) were classified in the consolidated balance sheet as follows:

	September 28, 2007	September 29, 2006
Current deferred tax assets	$ 9,744	$ 11,520
Long-term deferred tax assets (other long-term assets)	$ 100	$
Long-term deferred tax liabilities	(28,394)	(29,933)
Net deferred tax liability	$ (18,550)	$ (18,413)

The differences between the effective income tax rate and the federal statutory income tax rate were as follows:

	Year Ended		
	September 28, 2007	September 29, 2006	September 30, 2005
Statutory federal income tax rate	35.0%	35.0%	35.0%
Domestic manufacturing deduction	(0.7)	(1.0)	
Extraterritorial income exclusion benefit	(0.1)	(0.8)	(1.0)
Foreign tax rate differential	1.4	(3.4)	0.1
State taxes	3.8	3.9	5.2
Foreign tax credits	(3.2)	(2.1)	
Change in foreign filing position	(5.3)	(4.9)	
Change in state apportionment factors		(2.7)	
Tax contingency reserve accrual	0.1	8.9	
Non-deductible expenses	0.3	0.2	0.8
Correct prior year deferred tax assets	2.6		
Other differences	0.4	1.4	
Effective tax rate	34.3%	34.5%	40.1%

12. Segments, Geographic and Customer Information

The Company reports information about operating segments in accordance with SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." In accordance with SFAS No. 131, the Company has six divisions that meet the criteria of an operating segment, and the Company has two reportable segments: VED and satcom equipment. Segment information reported below is consistent with the manner in which it is reviewed and evaluated by the Company's chief operating decision maker ("CODM"), its chief executive officer, and is based on the nature of the Company's operations and products offered to customers.

The Company's reportable segments, VED and satcom equipment, are differentiated based on their underlying profitability and economic performance. The VED segment is made up of four divisions, that have been aggregated based on the similarity of their economic characteristics as measured by EBITDA, and the similarity of their products and services, production processes, types of customers and distribution methods, and nature of regulatory environments. The satcom equipment segment consists of one division. The Company's analysis of the similarity of economic characteristics was based on both a historical and anticipated future analysis of performance.

The VED segment develops, manufactures and distributes high power/high frequency microwave and radio frequency signal components. Its products include linear beam, cavity, power grid, crossed field and magnetron devices. These products are used in the communication, radar, electronic countermeasures, industrial, medical and scientific markets depending on the specific power and frequency requirements of the end-user and the physical operating conditions of the environment in which the VED will be located. These products are distributed through the Company's direct sales force, independent sales representatives and distributors.

The satcom equipment segment manufactures and supplies high power amplifiers and networks for satellite communication uplink and industrial applications. This segment also provides spares, service and other post sales support. Its products are distributed through the Company's direct sales force and independent sales representatives.

Amounts not reported as VED or satcom equipment are reported as Other. In accordance with quantitative and qualitative guidelines established by SFAS No. 131, Other includes the activities of the Company's recently acquired Malibu division and unallocated corporate expenses, such as business combination-related expenses, share-based compensation expense, and certain non-recurring or unusual expenses. The Malibu division is a designer, manufacturer and integrator of advanced antenna systems for radar, radar simulators and telemetry systems, as well as for data links used in ground, airborne, unmanned aerial vehicles (UAV) and shipboard systems.

Sales and marketing, and certain finance and administration expenses, are allocated to the divisions and are included in the results reported. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment product transfers are recorded at cost.

Summarized financial information concerning the Company's reportable segments is shown in the following tables:

	Year Ended		
	September 28, 2007	**September 29, 2006**	**September 30, 2005**
Sales from external customers			
VED	$ 280,010	$ 275,254	$ 262,291
Satcom equipment	67,965	64,463	58,441
Other	3,115		
	$ 351,090	$ 339,717	$ 320,732
Intersegment product transfers			
VED	$ 22,898	$ 23,220	$ 25,106
Satcom equipment	23	34	74
	$ 22,921	$ 23,254	$ 25,180
Capital expenditures			
VED	$ 7,649	$ 5,407	$ 7,362
Satcom equipment	341	559	456
Other	179	4,947	9,313
	$ 8,169	$ 10,913	$ 17,131
EBITDA			
VED	$ 75,230	$ 70,366	$ 69,675
Satcom equipment	6,056	4,967	6,421
Other	(16,998)	(16,237)	(18,799)
	$ 64,288	$ 59,096	$ 57,297

105

	September 28, 2007	September 29, 2006	September 30, 2005
Total assets			
VED	$ 335,926	$ 328,211	$ 344,552
Satcom equipment	49,266	43,604	38,365
Other	91,030	69,944	71,627
	$ 476,222	$ 441,759	$ 454,544

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

EBITDA is a component of the measures used by the Company's board of directors and management team to evaluate the Company's operating performance;

the Senior Credit Facilities contain a covenant that requires the Company to maintain a senior secured leverage ratio that contains EBITDA as a component, and the Company's management team uses EBITDA to monitor compliance with this covenant;

EBITDA is a component of the measures used by the Company's management team to make day-to-day operating decisions;

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

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

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

The following table reconciles net income to EBITDA:

	Year Ended		
	September 28, 2007	September 29, 2006	September 30, 2005
Net income	$ 22,503	$ 17,219	$ 13,672
Depreciation and amortization	9,098	9,013	14,177
Interest expense, net	20,939	23,806	20,310
Income tax expense	11,748	9,058	9,138
EBITDA	$ 64,288	$ 59,096	$ 57,297

Net property, plant and equipment by geographic area were as follows:

	September 28, 2007	September 29, 2006	September 30, 2005
United States	$ 51,704	$ 53,306	$ 75,589
Canada	14,308	10,475	7,924
Other	36	70	111
Total	$ 66,048	$ 63,851	$ 83,624

With the exception of goodwill, the Company does not identify or allocate assets by operating segment, nor does its CODM evaluate operating segments using discrete asset information.

Goodwill by geographic area was as follows:

	September 28, 2007	September 29, 2006
Geographic areas:		
United States	$ 113,310	$ 99,226
Canada	48,263	48,263
	$ 161,573	$ 147,489

Geographic sales for external customers by location were as follows for external customers:

	Year Ended		
	September 28, 2007	September 29, 2006	September 30, 2005
United States	$ 208,682	$ 214,650	$ 214,460
All foreign countries	142,408	125,067	106,272
Total sales	$ 351,090	$ 339,717	$ 320,732

There were no individual foreign countries with sales greater than 10% of total sales for the periods presented.

107

The United States Government is the only customer that accounted for 10% or more of the Company's consolidated sales in fiscal years 2007, 2006 and 2005. Direct sales to the United States Government were $56.8 million, $59.7 million and $58.0 million for fiscal years 2007, 2006 and 2005, respectively. Accounts receivable from this customer represented 15% and 14% of consolidated accounts receivable at September 28, 2007 and September 29, 2006, respectively.

13. Quarterly Financial Data (Unaudited)

In management's opinion, the unaudited data has been prepared on the same basis as the audited information and includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the data for the periods presented. The Company's results of operations have varied and may continue to fluctuate significantly from quarter to quarter. The results of operations in any period should not be considered indicative of the results to be expected from any future period.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended September 28, 2007				
Sales	$ 83,723	$ 88,444	$ 87,318	$ 91,605
Gross profit	26,581	27,705	28,651	30,364
Net income	5,835	5,760	8,131	2,777
Basic earnings per share	$ 0.36	$ 0.35	$ 0.50	$ 0.17
Diluted earnings per share	$ 0.33	$ 0.32	$ 0.46	$ 0.16
Year ended September 29, 2006				
Sales	$ 82,379	$ 86,929	$ 87,761	$ 82,648
Gross profit	25,208	25,744	26,894	25,808
Net income	2,215	4,345	4,468	6,191
Basic earnings per share	$ 0.17	$ 0.33	$ 0.30	$ 0.39
Diluted earnings per share	$ 0.15	$ 0.29	$ 0.27	$ 0.35

Net income for the fourth quarter of fiscal year 2007 includes approximately $3.9 million, net of related income tax expense, for loss on debt extinguishment and immaterial correction of errors for: (1) approximately $0.9 million for deferred income tax expense to correct an error that arose in the fourth quarter of fiscal year 2006 and (2) a favorable impact to cost of sales of approximately $1.1 million ($0.8 million, net of related income tax expense), as a result of the correction of an error in the accounting for inventory that was improperly expensed in prior periods.

Net income for the third quarter of fiscal year 2007 includes a discrete tax benefit of $1.8 million related to the filing of amended income tax returns for prior years to reflect a change in estimate with regard to reporting Canadian income earned in the U.S.

Net income for the first quarter of fiscal year 2006 includes approximately $2.0 million, net of related income tax expense, in special bonuses to the employees and directors (other than directors who are employees or affiliates of Cypress) to reward them for the increase in company value.

14. Supplemental Guarantors Condensed Consolidating Financial Information

On January 23, 2004, CPI issued $125.0 million of 8% Notes that are guaranteed by CPI International and all of CPI's domestic subsidiaries. Separate financial statements of the guarantors are not presented because (i) the guarantors are wholly-owned and have fully and unconditionally guaranteed the 8% Notes on a joint and several basis, and (ii) the Company's management has determined that such separate financial statements are not material to investors. Instead, presented below are the consolidating financial statements of: (a) the parent, CPI International or the Predecessor, (b) the issuer, CPI, (c) the guarantor subsidiaries (all of the domestic subsidiaries), (d) the non-guarantor subsidiaries, (e) the consolidating elimination entries, and (f) the consolidated totals. The accompanying consolidating financial information should be read in connection with the consolidated financial statements of CPI International.

Investments in subsidiaries are accounted for based on the equity method. The principal elimination entries eliminate investments in subsidiaries, intercompany balances, intercompany transactions and intercompany sales.

CONDENSED CONSOLIDATING BALANCE SHEET
As of September 28, 2007

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Assets						
Cash and cash equivalents	$ 1,378	$ 16,518	$ 958	$ 1,620	$	$ 20,474
Restricted cash			1,945	310		2,255
Accounts receivable, net		25,857	10,816	15,916		52,589
Inventories		43,949	7,092	17,084	(678)	67,447
Deferred tax assets		9,272	3	469		9,744
Intercompany receivable		23,323	2,076	2,725	(28,124)	
Prepaid and other current assets		3,250	545	844		4,639
Total current assets	1,378	122,169	23,435	38,968	(28,802)	157,148
Property, plant and equipment, net		48,327	3,382	14,339		66,048
Deferred debt issue costs, net	795	5,738				6,533
Intangible assets, net		67,008	6,465	8,270		81,743
Goodwill		107,462	5,848	48,263		161,573
Other long-term assets		3,077		100		3,177
Intercompany notes receivable		1,035			(1,035)	
Investment in subsidiaries	175,889	65,491			(241,380)	
Total assets	$ 178,062	$ 420,307	$ 39,130	$ 109,940	$ (271,217)	$ 476,222
Liabilities and stockholders' equity						
Current portion of long-term debt	$	$ 1,000	$	$	$	$ 1,000
Accounts payable	224	10,421	2,430	8,719		21,794
Accrued expenses	404	16,695	3,991	5,259		26,349
Product warranty		3,141	481	1,956		5,578
Income taxes payable		1,888	562	6,298		8,748
Advance payments from customers		5,926	4,933	1,273		12,132
Intercompany payable	28,124				(28,124)	
Total current liabilities	28,752	39,071	12,397	23,505	(28,124)	75,601
Deferred income taxes	31	22,833		5,530		28,394
Intercompany notes payable				1,035	(1,035)	
Long-term debt, less current portion	21,817	223,750				245,567
Other long-term liabilities		547		207		754
Total liabilities	50,600	286,201	12,397	30,277	(29,159)	350,316
Common stock	164					164
Parent investment		60,705	19,167	57,746	(137,618)	
Additional paid-in capital	68,763					68,763
Accumulated other comprehensive income	1,110	1,059		155	(1,387)	937
Retained earnings	57,425	72,342	7,566	21,762	(103,053)	56,042
Net stockholders' equity	127,462	134,106	26,733	79,663	(242,058)	125,906
Total liabilities and stockholders' equity	$ 178,062	$ 420,307	$ 39,130	$ 109,940	$ (271,217)	$ 476,222

CONDENSED CONSOLIDATING BALANCE SHEET
As of September 29, 2006

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Assets						
Cash and cash equivalents	$ 139	$ 28,299	$ 290	$ 1,425	$	$ 30,153
Restricted cash			941	805		1,746
Accounts receivable, net		22,642	7,132	13,854		43,628
Inventories		34,659	2,215	18,540	(1,383)	54,031
Deferred tax assets		10,703	3	814		11,520
Intercompany receivable		27,988	2,748		(30,736)	
Prepaid and other current assets	887	1,238	165	790		3,080
Total current assets	1,026	125,529	13,494	36,228	(32,119)	144,158
Property, plant and equipment, net		50,344	2,982	10,525		63,851
Deferred debt issue costs, net	3,123	6,521				9,644
Intangible assets, net		59,901	6,715	8,873		75,489
Goodwill		93,378	5,848	48,263		147,489
Other long-term assets	731	397				1,128
Intercompany notes receivable		1,035			(1,035)	
Investment in subsidiaries	204,778	55,247			(260,025)	
Total assets	$ 209,658	$ 392,352	$ 29,039	$ 103,889	$ (293,179)	$ 441,759
Liabilities and stockholders' equity						
Current portion of long-term debt	$	$ 1,714	$	$	$	$ 1,714
Accounts payable	199	9,667	490	8,745		19,101
Accrued expenses	1,298	16,130	921	4,920		23,269
Product warranty		3,506	204	2,248		5,958
Income taxes payable		4,778	204	5,711		10,693
Advance payments from customers		3,451	909	1,950		6,310
Intercompany payable	27,744			2,992	(30,736)	
Total current liabilities	29,241	39,246	2,728	26,566	(30,736)	67,045
Deferred income taxes	447	23,578		5,908		29,933
Intercompany notes payable				1,035	(1,035)	
Long-term debt, less current portion	79,281	165,786				245,067
Other long-term liabilities		41				41
Total liabilities	108,969	228,651	2,728	33,509	(31,771)	342,086
Common stock	160					160
Parent investment		120,705	22,228	57,536	(200,469)	
Additional paid-in capital	65,295					65,295
Accumulated other comprehensive income	679	8		(23)	15	679
Retained earnings	34,555	42,988	4,083	12,867	(60,954)	33,539
Net stockholders' equity	100,689	163,701	26,311	70,380	(261,408)	99,673
Total liabilities and stockholders' equity	$ 209,658	$ 392,352	$ 29,039	$ 103,889	$ (293,179)	$ 441,759

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended September 28, 2007

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$	$ 221,150	$ 64,375	$ 140,808	$ (75,243)	$ 351,090
Cost of sales		151,825	53,419	108,493	(75,948)	237,789
Gross profit		69,325	10,956	32,315	705	113,301
Operating costs and expenses:						
Research and development		2,729	95	5,734		8,558
Selling and marketing		7,958	3,398	7,902		19,258
General and administrative		14,801	1,644	5,074		21,519
Amortization of acquisition-related intangible assets		1,462	250	604		2,316
Net loss on disposition of fixed assets		70		59		129
Total operating costs and expenses		27,020	5,387	19,373		51,780
Operating income		42,305	5,569	12,942	705	61,521
Interest expense (income), net	7,301	13,833	(57)	(138)		20,939
Loss on debt extinguishment	4,279	2,052				6,331
(Loss) income before income tax expense and equity in income of subsidiaries	(11,580)	26,420	5,626	13,080	705	34,251
Income tax (benefit) expense	(4,390)	11,630	323	4,185		11,748
Equity in income of subsidiaries	29,693	14,198			(43,891)	
Net income	$ 22,503	$ 28,988	$ 5,303	$ 8,895	$ (43,186)	$ 22,503

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended September 29, 2006

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$	$ 223,154	$ 57,214	$ 130,439	$ (71,090)	$ 339,717
Cost of sales		160,646	46,993	99,147	(70,723)	236,063
Gross profit		62,508	10,221	31,292	(367)	103,654
Operating costs and expenses:						
Research and development		3,561		4,989		8,550
Selling and marketing		8,388	3,678	7,761		19,827
General and administrative		13,508	1,289	7,621		22,418
Amortization of acquisition-related intangible assets		1,336	250	604		2,190
Net loss on disposition of fixed assets		509	2	75		586
Total operating costs and expenses		27,302	5,219	21,050		53,571
Operating income		35,206	5,002	10,242	(367)	50,083
Interest expense (income), net	8,150	15,640	(14)	30		23,806
(Loss) income before income tax expense and equity in income of subsidiaries	(8,150)	19,566	5,016	10,212	(367)	26,277
Income tax (benefit) expense	(3,260)	5,225	1,454	5,639		9,058
Equity in income of subsidiaries	22,109	7,768			(29,877)	
Net income	$ 17,219	$ 22,109	$ 3,562	$ 4,573	$ (30,244)	$ 17,219

113

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended September 30, 2005

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$	$ 223,642	$ 45,782	$ 113,861	$ (62,553)	$ 320,732
Cost of sales, including $351 of amortization of acquisition-related inventory write-up		157,324	37,497	82,747	(61,537)	216,031