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<br>(State or Other Jurisdiction of Incorporation or Organization) | 3670<br>(Primary Standard Industrial Classification Code Number) | 75-3142681<br>(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.<br>Irell & Manella LLP<br>1800 Avenue of the Stars, Suite 900 | Daniel J. Zubkoff, Esq.<br>Cahill Gordon & Reindel LLP<br>80 Pine Street<br>New York, New York 10005 |

Los Angeles, California 90067 (212) 701-3000
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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

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

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

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

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

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities To Be Registered | Amount To Be Registered | 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



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



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.



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 |

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| | As of October 3, 2003 (Predecessor) | October 1, 2004 (Successor) | September 30, 2005 (Successor) |
|---|---|---|---|
| | (dollars in thousands) | | |
| Balance Sheet Data (at period end): | | | |
| Working capital | $17,247 | $12,385 | $65,400 |
| Total assets | 181,963 | 481,207 | 455,882 |
| Long-term debt and redeemable preferred stock | 128,927 | 210,606 | 284,231 |
| Total stockholders' (deficit) equity | (65,446) | 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 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 (Predecessor) | 2004 (Pro Forma)[1] | 2005 (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:

9

Fiscal Year

| | 2003 (Predecessor) | 2004 (Pro Forma)[1] | 2005 (Successor) |
|---|---|---|---|
| | (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





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 reprocurement, modified contract, or reduced work.

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.





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



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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: