CPI INTERNATIONAL, INC.
Form 10-Q
August 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 27, 2008

or

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

For the transition period from ________ to ________

Commission file number: 00051928

CPI INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	75-3142681
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

811 Hansen Way, Palo Alto, California 94303
(Address of Principal Executive Offices and Zip Code)

(650) 846-2900
(Registrant’s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding for each of the registrant's classes of Common Stock, as of the latest practicable date: 16,393,356 shares of Common Stock, $0.01 par value, at August 5, 2008.

CPI INTERNATIONAL, INC.
and Subsidiaries
10-Q REPORT

INDEX

Part I:	FINANCIAL INFORMATION		4
Item 1.	Unaudited Condensed Consolidated Financial Statements		4
		Condensed Consolidated Balance Sheets	4
		Condensed Consolidated Statements of Operations and Comprehensive Income	5
		Condensed Consolidated Statements of Cash Flows	6
		Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations		39
Item 3.	Quantitative and Qualitative Disclosures About Market Risk		62
Item 4.	Controls and Procedures		64
Part II:	OTHER INFORMATION		65
Item 1.	Legal Proceedings		65
Item 1A.	Risk Factors		65
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds		65
Item 3.	Defaults Upon Senior Securities		65
Item 4.	Submission of Matters to a Vote of Security Holders		65
Item 5.	Other Information		65
Item 6.	Exhibits		66

2

CPI INTERNATIONAL, INC.
and Subsidiaries

Cautionary Statements Regarding Forward-Looking Statements

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

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

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

CPI INTERNATIONAL, INC.
and Subsidiaries

Part I: FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data – unaudited)

	June 27, 2008	September 28, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 26,197	$ 20,474
Restricted cash	1,205	2,255
Accounts receivable, net	48,379	52,589
Inventories	67,868	67,447
Deferred tax assets	10,023	9,744
Prepaid and other current assets	5,057	4,639
Total current assets	158,729	157,148
Property, plant, and equipment, net	63,487	66,048
Deferred debt issue costs, net	5,362	6,533
Intangible assets, net	79,355	81,743
Goodwill	162,392	161,573
Other long-term assets	795	3,177
Total assets	$ 470,120	$ 476,222
Liabilities and stockholders' equity		
Current Liabilities:		
Current portion of long-term debt	$ 2,000	$ 1,000
Accounts payable	21,950	21,794
Accrued expenses	26,373	26,349
Product warranty	4,533	5,578
Income taxes payable	7,594	8,748
Advance payments from customers	12,184	12,132
Total current liabilities	74,634	75,601
Deferred income taxes	26,760	28,394
Long-term debt, less current portion	228,642	245,567
Other long-term liabilities	1,199	754
Total liabilities	331,235	350,316
Commitments and contingencies		
Stockholders' equity		
Common stock ($0.01 par value, 90,000 shares authorized; 16,511 and 16,370 shares issued; 16,375 and 16,370 shares outstanding)	165	164

Additional paid-in capital		70,987		68,763
Accumulated other comprehensive (loss) income		(997)		937
Retained earnings		70,530		56,042
Treasury stock, at cost (136 and 0 shares)		(1,800)		-
Total stockholders’ equity		138,885		125,906
Total liabilities and stockholders' equity	$	470,120	$	476,222

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

CPI INTERNATIONAL, INC.
and Subsidiaries

CONDENSED CONSOLIDATED
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except per share data – unaudited)

	Three Months Ended		Nine Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Sales	$ 90,734	$ 87,318	$ 271,448	$ 259,485
Cost of sales	63,502	58,667	192,014	176,548
Gross profit	27,232	28,651	79,434	82,937
Operating costs and expenses:				
Research and development	2,766	2,232	8,420	6,475
Selling and marketing	5,012	4,911	15,512	14,539
General and administrative	5,136	5,835	16,781	16,085
Amortization of acquisition-related intangible assets	782	548	2,344	1,642
Net loss on disposition of fixed assets	128	16	203	74
Total operating costs and expenses	13,824	13,542	43,260	38,815
Operating income	13,408	15,109	36,174	44,122
Interest expense, net	4,627	5,143	14,244	15,757
Loss on debt extinguishment	121	-	514	-
Income before income taxes	8,660	9,966	21,416	28,365
Income tax expense	2,836	1,835	6,928	8,639
Net income	$ 5,824	$ 8,131	$ 14,488	$ 19,726
Other comprehensive income, net of tax				
Net unrealized gain (loss) on cash flow hedges	1,268	820	(1,934)	414
Comprehensive income	$ 7,092	$ 8,951	$ 12,554	$ 20,140
Earnings per share - Basic	$ 0.36	$ 0.50	$ 0.88	$ 1.22
Earnings per share - Diluted	$ 0.33	$ 0.46	$ 0.82	$ 1.11
Shares used to compute earnings per share - Basic	16,395	16,306	16,384	16,207
	17,669	17,796	17,719	17,696

Shares used to compute
earnings per share - Diluted

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

CPI INTERNATIONAL, INC.
and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands – unaudited)

	Nine Months Ended			
		June 27, 2008		June 29, 2007
Cash flows from operating activities				
Net cash provided by operating activities	$	24,699	$	19,259
Cash flows from investing activities				
Capital expenditures		(3,288)		(6,392)
Proceeds from adjustment to acquisition purchase price		1,615		-
Capitalized expenses relating to potential business acquisition		-		(395)
Payment of patent application fees		(147)		-
Net cash used in investing activities		(1,820)		(6,787)
Cash flows from financing activities				
Purchases of treasury stock		(1,800)		-
Repayments of debt		(16,000)		(5,000)
Proceeds from issuance of common stock to employees		639		520
Proceeds from exercise of stock options		3		604
Excess tax benefit on stock option exercises		2		671
Net cash used in financing activities		(17,156)		(3,205)
Net increase in cash and cash equivalents		5,723		9,267
Cash and cash equivalents at beginning of period		20,474		30,153
Cash and cash equivalents at end of period	$	26,197	$	39,420
Supplemental cash flow disclosures				

Cash paid for interest	$	10,020	$	11,562
Cash paid for income taxes, net of refunds	$	9,846	$	12,799

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

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(All tabular dollar amounts in thousands except share and per share amounts)

1. The Company and a Summary of its Significant Accounting Policies

The Company

Unless the context otherwise requires, “CPI International” means CPI International, Inc., and “CPI” means Communications & Power Industries, Inc. CPI is a direct subsidiary of CPI International. CPI International is a holding company with no operations of its own. The term the “Company” refers to CPI International and its direct and indirect subsidiaries on a consolidated basis.

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

Basis of Presentation and Consolidation

The Company’s fiscal year is the 52- or 53-week period that ends on the Friday nearest September 30. Fiscal year 2008 comprises the 53-week period ending October 3, 2008 and fiscal year 2007 comprised the 52-week period ending September 28, 2007. The third quarters of fiscal years 2008 and 2007 both include 13 weeks. The first three quarters of fiscal years 2008 and 2007 both include 39 weeks. All period references are to the Company’s fiscal periods unless otherwise indicated.

The accompanying unaudited condensed consolidated financial statements of the Company as of June 27, 2008 and for the three and nine months ended June 27, 2008 are unaudited and reflect all normal recurring adjustments which are, in the opinion of management, necessary for the fair statement of such financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 28, 2007. The condensed consolidated balance sheet as of September 28, 2007 has been derived from the audited financial statements at that date. The results of operations for the interim period ended June 27, 2008 are not necessarily indicative of results to be expected for the full year.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances, transactions, and stockholdings have been eliminated in consolidation.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of sales and costs and expenses during the reporting period. On an ongoing basis, the Company

evaluates its estimates, including those related to provision for revenue recognition; inventory and inventory reserves; product warranty; business combinations; recoverability and valuation of recorded amounts of long-lived assets and identifiable intangible assets, including goodwill; recognition of share-based compensation; and recognition and

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

measurement of current and deferred income tax assets and liabilities. The Company bases its estimates on various factors and information, which may include, but are not limited to, history and prior experience, experience of other enterprises in the same industry, new related events, current economic conditions and information from third party professionals that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

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

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

2. Recently Issued Accounting Standards

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48, "Accounting for Income Tax Uncertainties." FIN No. 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN No. 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. Effective in the first quarter of fiscal year 2008 starting September 29, 2007, the Company adopted FIN No. 48. The adoption of FIN No. 48 did not have any impact on the Company's financial position, net income or prior year financial statements. See Note 10, "Income Taxes," for further discussion.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. In particular, disclosures are required to provide information on: the extent to which fair value is used to measure assets and liabilities; the inputs used to develop measurements; and the effect of certain of the measurements on earnings (or changes in net assets). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities and for fiscal years beginning after November 15, 2008 for non-financial assets and liabilities. Early adoption, as of the beginning of an entity's fiscal

year, is also

8

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

permitted, provided interim financial statements have not yet been issued. The Company will be required to adopt SFAS No. 157 in its fiscal year 2009 commencing October 4, 2008 for financial assets and liabilities and in its fiscal year 2010 commencing October 2, 2009 for non-financial assets and liabilities. The Company is currently evaluating the potential impact, if any, that the adoption of this new standard will have on its consolidated financial statements.

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

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statement—amendments of ARB No. 51." SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company will be required to adopt SFAS No. 160 in its fiscal year 2010 commencing October 3, 2009. The Company does not believe the adoption of SFAS No. 160 will have a material impact on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS No. 141(R)"), "Business Combinations," which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company will be required to adopt SFAS No. 141(R) in its fiscal year 2010 commencing October 3, 2009.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosures about an entity's derivative instruments and hedging activities including: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. The Company will be required to adopt SFAS No. 161 in its

9

second quarter of fiscal year 2009 commencing January 3, 2009. This standard is not expected to have a material effect on the Company's financial position or results of operations, and will likely result in additional disclosures related to the Company's derivatives.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3 ("FSP FAS 142-3"), "Determination of the Useful Life of Intangible Assets." FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." More specifically, FSP FAS 142-3 removes the requirement under paragraph 11 of SFAS No. 142 to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions and instead, requires an entity to consider its own historical experience in renewing similar arrangements. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company will be required to adopt FSP FAS 142-3 in its fiscal year 2010 commencing October 3, 2009 and is currently evaluating the impact, if any, that the adoption of this new standard will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles, or GAAP, in the U.S. for non-governmental entities. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission's ("SEC") approval of the Public Company Accounting Oversight Board amendments to AU Section 411, the meaning of "Present Fairly in Conformity with GAAP." Any effect of applying the provisions of SFAS No. 162 is to be reported as a change in accounting principle in accordance with SFAS No. 154, "Accounting Changes and Error Corrections." The Company is currently evaluating the impact that the adoption of SFAS No. 162, once effective, will have on its financial position and results of operations.

In June 2008, the FASB Issued Emerging Issues Task Force ("EITF") No. 08-3, "Accounting by Lessees for Nonrefundable Maintenance Deposits." EITF No. 08-3 requires that nonrefundable maintenance deposits paid by a lessee under an arrangement accounted for as a lease be accounted for as a deposit asset until the underlying maintenance is performed. When the underlying maintenance is performed, the deposit may be expensed or capitalized in accordance with the lessee's maintenance accounting policy. If finalized, EITF No. 08-3 would be effective for fiscal years beginning after December 15, 2008, including interim periods within those fiscal years, and would be adopted by making a cumulative-effect adjustment to beginning retained earnings in the period of adoption. The Company will be required to adopt EITF No. 08-3 in its fiscal year 2010 commencing October 3, 2009 and is currently evaluating the impact, if any, that the adoption of this new standard will have on its consolidated financial statements.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

3. Supplemental Balance Sheet Information

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

	June 27, 2008	September 28, 2007
Accounts receivable	$ 48,477	$ 52,678
Less: Allowance for doubtful accounts	(98)	(89)
Accounts receivable, net	$ 48,379	$ 52,589

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

	June 27, 2008	September 28, 2007
Raw material and parts	$ 39,168	$ 40,725
Work in process	20,899	18,168
Finished goods	7,801	8,554
	$ 67,868	$ 67,447

Reserve for excess, slow moving and obsolete inventory: The following table summarizes the activity related to reserves for excess, slow moving and obsolete inventory:

	Nine Months Ended	
	June 27, 2008	June 29, 2007
Balance at beginning of fiscal year	$ 9,784	$ 8,822
Inventory provision, charged to cost of sales	988	803
Inventory write-offs	(1,619)	(710)
Balance at end of period	$ 9,153	$ 8,915

Reserve for loss contracts: The following table summarizes the activity related to reserves for loss contracts:

Nine Months Ended	
June 27,	June 29,

	2008	2007
Balance at beginning of fiscal year	$ 2,700	$ 1,702
Provision for loss contracts, charged to cost of sales	1,932	970
Reduction upon revenue recognition	(2,702)	(1,202)
Balance at end of period	$ 1,930	$ 1,470

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

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

	June 27, 2008	June 29, 2007
Inventories	$ 1,112	$ 1,294
Accrued expenses	818	176
	$ 1,930	$ 1,470

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

	Weighted Average Useful Life (in years)	June 27, 2008 Cost	June 27, 2008 Accumulated Amortization	June 27, 2008 Net	September 28, 2007 Cost	September 28, 2007 Accumulated Amortization	September 28, 2007 Net
VED Core Technology	50	$ 30,700	$ (2,734)	$ 27,966	$ 30,700	$ (2,273)	$ 28,427
VED Application Technology	25	19,800	(3,515)	16,285	19,800	(2,921)	16,879
X-ray Generator and Satcom Application Technology	15	8,000	(2,374)	5,626	8,000	(1,974)	6,026
Antenna and Telemetry Technology	25	5,300	(188)	5,112	5,300	(29)	5,271
Customer backlog	1	580	(513)	67	580	(78)	502
Land lease	46	11,810	(1,118)	10,692	11,810	(928)	10,882
Tradename	Indefinite	7,600	-	7,600	7,600	-	7,600
Customer list and programs	25	6,280	(884)	5,396	6,280	(684)	5,596
Noncompete agreement	5	640	(176)	464	640	(80)	560
Patent application fees	-	147	-	147	-	-	-
		$ 90,857	$ (11,502)	$ 79,355	$ 90,710	$ (8,967)	$ 81,743

Intangible assets, net as of June 27, 2008 include a total of approximately $0.1 million of application costs and associated legal costs incurred to obtain certain patents. Upon obtaining these patents, these costs will be amortized on a straight-line basis and charged to operations over their estimated useful lives, not to exceed 17 years.

The amortization of intangible assets amounted to $0.8 million and $2.5 million for the three and nine months ended June 27, 2008, respectively, and $0.6 million and $1.8 million for the corresponding periods of fiscal year 2007.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

The estimated future amortization expense of intangible assets, excluding the Company's unamortized tradenames, is as follows:

Fiscal Year	Amount
2008 (remaining three months)	$ 769
2009	2,808
2010	2,786
2011	2,786
2012	2,772
Thereafter	59,834
	$ 71,755

Goodwill: The following table sets forth the changes in goodwill by reportable segment:

	VED	Satcom	Other	Total
Balance at September 28, 2007	$ 132,897	$ 13,830	$ 14,846	$ 161,573
Malibu purchase price and allocation adjustment	-	-	925	925
Other adjustments	-	-	(106)	(106)
Balance at June 27, 2008	$ 132,897	$ 13,830	$ 15,665	$ 162,392

During the first nine months of fiscal year 2008, the Company finalized the purchase price valuation and allocation associated with its acquisition of Malibu Research Associates, Inc. in August 2007, resulting in a $0.9 million increase in goodwill. See Note 4 for details. Other adjustments primarily represent the change in Malibu goodwill recognized in connection with the filing of the 2007 income tax return during the third quarter of fiscal year 2008.

Product Warranty: The following table summarizes the activity related to product warranty:

	Nine Months Ended	
	June 27, 2008	June 29, 2007
Balance at beginning of fiscal year	$ 5,578	$ 5,958
Estimates for product warranty, charged to cost of sales	2,171	3,801

Actual costs of warranty claims		(3,216)		(4,232)
Balance at end of period	$	4,533	$	5,527

13

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

4. Acquisition

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, at the closing of the acquisition, 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 estimated working capital amount as of the acquisition closing date and the actual working capital amount at the acquisition closing date.

For financial reporting purposes, consideration of approximately $2.6 million, which was part of the cash consideration paid for Malibu at the closing of the acquisition, was excluded from the purchase price allocation and was reported as other long-term assets in the consolidated balance sheet at September 28, 2007. This amount represents the difference between the estimated working capital amount as of the acquisition closing date and the 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 intended 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 had been finally determined.

During the second quarter of fiscal year 2008, the valuation of Malibu’s net working capital amount as of the acquisition closing date was finalized, resulting in a disbursement of cash to the Company of $1.6 million from the escrow accounts. The remaining $1.0 million of consideration was allocated to goodwill as the working capital contingency was resolved, which resulted in an adjusted cash purchase price of $20.7 million. The remaining $1.8 million, including interest, held in the indemnity escrow account is available to cover potential indemnification claims asserted prior to January 1, 2009.

During the third quarter of fiscal year 2008, Malibu’s income tax return for its short fiscal period ended immediately preceding the closing date of the acquisition was finalized, resulting in a decrease in the assumed income tax payable and an offsetting reduction to goodwill of approximately $0.1 million.

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 (“Financial Earnout”); and a discretionary earnout of up to $1.0 million contingent upon achievement of certain succession planning goals by June 30, 2010. As of June 27, 2008, the Company has not accrued any of these contingent earnout amounts as achievement of the objectives and goals has not occurred. 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. Preliminary calculations of the first year’s Financial Earnout as of June 27, 2008 indicate that no earnout was earned for the first

14

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

earnout period, and the maximum potential Financial Earnout that could be earned over the three years following the acquisition is reduced from $14.0 million to $12.3 million.

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 Malibu’s assets acquired and liabilities assumed:

Net current liabilities	$	(3,854)
Property, plant and equipment		719
Deferred tax liabilities		(703)
Identifiable intangible assets		8,790
Goodwill		15,781
	$	20,733

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

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 financial results from the acquisition date.

Pro Forma Results

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

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

5. Long-Term Debt

Long-term debt comprises the following:

	June 27, 2008	September 28, 2007
Term loan, expiring 2014	$ 91,750	$ 99,750
8% Senior subordinated notes due 2012	125,000	125,000
Floating rate senior notes due 2015, net of issue discount of $108 and $183	13,892	21,817
	230,642	246,567
Less: Current portion	2,000	1,000
Long-term portion	$ 228,642	$ 245,567
Standby letters of credit	$ 4,986	$ 3,725

Senior Credit Facilities: On August 1, 2007, CPI amended and restated its then 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. 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%.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

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 repayments on the Term Loan of $8.0 million during the first nine months of fiscal year 2008 and $250,000 during the fourth quarter of fiscal year 2007, leaving a principal balance of $91.75 million as of June 27, 2008. The $8.0 million Term Loan repayment during the first nine months of fiscal year 2008 comprised the scheduled amortization payment of $250,000 for the first quarter of fiscal year 2008 and an optional prepayment of $7.75 million. A portion of the optional prepayment was applied against the scheduled amortization payment due for the second and third quarters of fiscal year 2008. Another portion of the optional prepayment will be applied against the scheduled amortization payment due for the fourth quarter of fiscal year 2008 and those scheduled amortization payments due through fiscal year 2014.

At June 27, 2008, the amount available for borrowing under the Revolver, after taking into account the Company's outstanding letters of credit of $5.0 million, was approximately $55.0 million.

See Note 13 "Subsequent Event" for a discussion of the additional $2.0 million prepayment of the Term Loan made in July 2008.

8% Senior Subordinated Notes due 2012 of CPI: As of June 27, 2008, CPI had $125.0 million in aggregate principal amount of its 8% Senior Subordinated Notes due 2012 (the "8% Notes"). The 8% Notes have no sinking fund requirements.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

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%

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: As of June 27, 2008, $14.0 million of aggregate principal amount remained outstanding under CPI International's Floating Rate Senior Notes due 2015 (the "FR Notes") after giving effect to the redemption of $6.0 million and $2.0 million in the second and third quarters of fiscal year 2008, respectively. The FR Notes were originally issued at a 1% discount. The FR Notes have no sinking fund requirements.

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 August 1, 2008 is 8.9% 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,

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

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.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

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 June 27, 2008, maturities on long-term debt were as follows:

Fiscal Year	Term Loan	8% Senior Subordinated Notes	Floating Rate Senior Notes	Total
2008 (remaining three months)	$ 2,000	$ -	$ -	$ 2,000
2009	-	-	-	-
2010	-	-	-	-
2011	89,750	-	-	89,750
2012	-	125,000	-	125,000
Thereafter	-	-	14,000	14,000
	$ 91,750	$ 125,000	$ 14,000	$ 230,750

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 “Senior Credit Facilities,” and (2) a debt level based on mandatory repayments according to the contractual amortization schedule. The $2.0 million amount shown for fiscal year 2008 for the Term Loan is an optional prepayment made on July 30, 2008. See Note 13.

As of June 27, 2008, 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 the remainder of fiscal year 2008 and fiscal year 2009.

Loss on debt extinguishment: The redemption of $8.0 million in aggregate principal amount of the FR Notes in the second and third quarters of fiscal year 2008, as discussed above, resulted in a loss on debt extinguishment of approximately $0.5 million, including non-cash write-offs of $0.3 million of unamortized debt issue costs and issue discount costs and $0.2 million in cash payments primarily for call premiums.

Interest rate swap agreements: See Note 6 for information on the interest rate swap agreements entered into by the Company to hedge the interest rate exposure associated with the Term Loan.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

6. Derivative Financial Instruments

The Company uses forward exchange contracts to hedge the foreign currency exposure associated with forecasted manufacturing costs in Canada. As of June 27, 2008, the Company had outstanding forward contract commitments to purchase $17.0 million Canadian dollars. The last forward contract expires on December 29, 2008. At June 27, 2008 and September 28, 2007, the fair value of foreign currency forward contracts was a net asset of $0.2 million and $1.3 million, respectively, and the unrealized gain, net of related tax expense, was $0.2 million and $1.2 million, 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 condensed 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 the first three quarters of fiscal years 2008 and 2007. 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 the first three quarters of fiscal years 2008 and 2007. Realized gains and losses from foreign currency forward contracts are recognized in cost of sales and general and administrative in the condensed consolidated statements of operations. Net income for the three and nine months ended June 27, 2008 includes a recognized loss of $0.1 million and gain of $0.3 million, respectively, from foreign currency forward contracts. Net income in the three and nine months ended June 29, 2007 includes a recognized loss from foreign currency forward contracts of $0.2 million.

The Company also uses derivatives to hedge the interest rate exposure associated with its long- term debt. 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 $80.0 million at June 27, 2008 and represented approximately 87% 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 condensed consolidated balance sheets. The interest rate swap gain or loss is included in the assessment of hedge effectiveness. At June 27, 2008, the fair value of the short-term and long-term portions of the 2007 Swap was a liability of $1.0 million (accrued expenses) and $0.7 million (other long-term liabilities), respectively. 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 (other current assets) and a liability of $0.3 million (other long-term liabilities), respectively. At June 27, 2008 and September 28, 2007, the unrealized loss, net of tax, was $1.0 million and $0.1 million, respectively.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

7. Commitments and Contingencies

Leases: 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 June 27, 2008 were as follows:

Fiscal Year	Operating Leases
2008 (remaining three months)	$ 573
2009	1,966
2010	1,657
2011	552
2012	456
Thereafter	3,094
	$ 8,298

Real estate taxes, insurance, and maintenance are also obligations of the Company. Rental expense under non-cancelable operating leases amounted to $0.5 million and $1.7 million for the three and nine months ended June 27, 2008, respectively, and to $0.5 million and $1.4 million for the corresponding periods of fiscal year 2007. Assets subject to capital leases at June 27, 2008 and September 28, 2007 were not material.

Guarantees: The Company has restricted cash of $1.2 million and $2.3 million as of June 27, 2008 and September 28, 2007, respectively, 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: As of June 27, 2008, the Company had the following known purchase commitments, 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:

Fiscal Year	Purchase Contracts
2008 (remaining three months)	$ 24,328
2009	11,939
2010	1,350
2011	419
	$ 38,036

Contingent Earnout Consideration: As discussed in Note 4, in addition to the $20.5 million of net cash consideration paid for the Malibu acquisition, there is a potential Financial 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. Preliminary calculations of the first year's Financial Earnout as of June 27,

---

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

2008 indicate that no earnout was earned for the first earnout period, and the maximum potential Financial Earnout that could be earned over the three years following the acquisition is reduced from $14.0 million to $12.3 million.

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 June 27, 2008.

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.

8. Stock Repurchase Program

On May 28, 2008, the Company announced that its board of directors authorized the Company to implement a program to repurchase up to $12.0 million of the Company's common stock from time to time, funded entirely from cash on hand. Repurchases made under the program are subject to the terms and limitations of Company's debt covenants, as well as market conditions and share price, and will be made at management's discretion in open market trades, through block trades or in privately negotiated transactions. The program may be modified or terminated by the Company's board of directors at any time. During the three months ended June 27, 2008, the Company repurchased 136,215 shares recorded as treasury stock, at an average per share price of $13.17, plus brokerage commissions of $0.04 per share, for an aggregate cost of $1.8 million.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

9. Stock-based Compensation Plans

As of June 27, 2008, the Company had an aggregate of 1.2 million shares of its common stock available for future grant, and approximately 3.4 million options were outstanding, under its various equity plans. Awards are subject to terms and conditions as determined by the Company's Board of Directors.

Stock Options: The following table summarizes stock option activity as of June 27, 2008, and changes during the nine months ended June 27, 2008 under the Company's stock option plans:

	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 28, 2007	3,171,081	$ 5.61	6.58	$ 42,513	2,259,528	$ 3.00	5.98	$ 36,184
Granted	208,750	16.79						
Exercised	(599)	4.32						
Forfeited or cancelled	(4,400)	16.58						
Balance at June 27, 2008	3,374,832	$ 6.29	6.04	$ 25,131	2,565,069	$ 3.83	5.41	$ 23,774

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on the Company's closing stock price of $12.91 as of June 27, 2008, that would have been received by the option holders had all option holders exercised their options as of that date. As of June 27, 2008, 2,417,394 exercisable options were in-the-money.

During the three and nine months ended June 27, 2008, cash received from option exercises was approximately $2,600, and the total intrinsic value of options exercised was $5,500. During the three and nine months ended June 29, 2007, cash received from option exercises was approximately $0.1 million and $0.6 million, respectively, and the total intrinsic value of options exercised was $0.5 million and $3.2 million, respectively. As of June 27, 2008, there was approximately $4.6 million of total unrecognized compensation costs related to nonvested stock options, which is expected to be recognized over a weighted-average vesting period of 1.9 years.

Stock Purchase Plan: Employees purchased 25,946 shares for $0.2 million and 52,689 shares for $0.6 million in the three and nine months ended June 27, 2008, respectively, under the 2006 Employee Stock Purchase Plan (the "2006 ESPP"). As of June 27, 2008, there were no unrecognized compensation costs related to rights to acquire stock under the 2006 ESPP.

Restricted Stock and Restricted Stock Units: As of June 27, 2008 there were outstanding 119,554 shares of nonvested restricted stock and restricted stock units, and as of September 28, 2007 there were outstanding 11,466 shares of nonvested restricted stock, in each case granted to directors and employees. The restricted stock and restricted stock

units vest over periods of one to four years and have a 10 year contractual life. Upon vesting, each restricted stock unit will automatically convert into one share of common stock of CPI International.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

A summary of the status of the Company's nonvested restricted stock and restricted stock unit awards as of June 27, 2008, and changes during the nine months then ended is presented below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested at September 28, 2007	11,466	$ 17.44
Granted	114,461	15.22
Vested	(5,848)	17.60
Forfeited	(525)	16.79
Nonvested at June 27, 2008	119,554	$ 15.31

Aggregate intrinsic value of the nonvested restricted stock and restricted stock unit awards at June 27, 2008 was $1.5 million. As of June 27, 2008, there was $1.6 million of total unrecognized compensation costs related to nonvested restricted stock and restricted stock units, which is expected to be recognized over a weighted average vesting period of 2.0 years.

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

Valuation and Expense Information under SFAS No. 123(R)

On October 1, 2005, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"), 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, restricted stock units and employee stock purchases related to the 2006 ESPP based on estimated fair values. The following table summarizes stock-based compensation expense for the three and nine months ended June 27, 2008 and June 29, 2007, which was allocated as follows:

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

	Three Months Ended		Nine Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Share-based compensation cost recognized in the income statement by caption:				
Cost of sales	$ 116	$ 75	$ 307	$ 196
Research and development	43	25	112	68
Selling and marketing	61	28	165	87
General and administrative	374	209	984	538
	$ 594	$ 337	$ 1,568	$ 889
Share-based compensation cost capitalized in inventory	$ 120	$ 78	$ 335	$ 206
Share-based compensation cost remaining in inventory at end of period	$ 74	$ 39	$ 74	$ 39
Share-based compensation expense by type of award:				
Stock options	$ 421	$ 277	$ 1,153	$ 712
Restricted stock and restricted stock units	134	27	301	85
Stock purchase plan	39	33	114	92
	$ 594	$ 337	$ 1,568	$ 889

The tax benefit realized from option exercises and restricted stock vesting totaled approximately $3,000 and $22,000 during the three and nine months ended June 27, 2008, respectively. The tax benefit realized from option exercises and restricted stock vesting totaled approximately $0.1 million and $1.1 million during the three and nine months ended June 29, 2007, respectively.

There were no stock options granted during the three months ended June 27, 2008. The weighted-average estimated fair value of stock options granted during the nine months ended June 27, 2008 was $7.83 per share. The weighted-average estimated fair value of stock options granted during the three and nine months ended June 29, 2007 was $10.71 and $7.75 per share, respectively. Assumptions used in the Black-Scholes model to estimate the fair value of stock option grants during each period are presented below.

	Three Months Ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Expected term (in years)	*	6.25	6.25	6.00 – 6.25
Expected volatility	*	49.33%	41.20%	49.33%
Risk-free rate	*	4.69%	3.82%	4.56% – 4.71%

Dividend yield	*	0%	0%	0%

* No new stock options were granted during the three months ended June 27, 2008.

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 risk-free rates are based on the U.S. Treasury yield in effect at the time of the grant. Since the Company's historical data is limited, the expected term of options granted is based on the simplified method for plain vanilla options in accordance with SEC Staff Accounting Bulletin ("SAB")

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

No. 107. In December 2007, the SEC issued SAB No. 110, an amendment of SAB No. 107. SAB No. 110 states that the staff will continue to accept, under certain circumstances, the continued use of the simplified method beyond December 31, 2007. Accordingly, the Company will continue to use the simplified method until it has enough historical experience to provide a reasonable estimate of expected term.

Based on the 15% discount received by the employees, the weighted-average fair value of shares issued under the 2006 ESPP was $1.50 and $2.14 per share during the three and nine months ended June 27, 2008, respectively, and $2.88 and $2.33 per share during the three and nine months ended June 29, 2007, respectively.

Using the market price of the Company's common stock on the date of grant, the weighted-average estimated fair value of restricted stock and restricted stock units granted was $15.22 and $17.09 per share during the nine months ended June 27, 2008 and June 29, 2007, respectively. There were no restricted stock or restricted stock units granted during the three months ended June 27, 2008 and June 29, 2007.

As stock-based compensation expense recognized in the condensed consolidated statement of operations for the three and nine months ended June 27, 2008 and for the corresponding periods of fiscal year 2007 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.

10. Income Taxes

The Company recorded an income tax provision of $6.9 million and $8.6 million for the nine months ended June 27, 2008 and June 29, 2007, respectively. The Company's effective tax rate was approximately 32% for the nine months ended June 27, 2008 as compared to approximately 30% for the corresponding period of fiscal year 2007.

Income tax expense for the three and nine months ended June 27, 2008 includes a reduction to the Company's annual tax rate of approximately 1% to reflect a change in estimate for Canadian tax credits. Income tax expense for the nine months ended June 27, 2008 also includes a tax benefit of approximately $0.4 million attributable to the correction of an immaterial error that arose in the fourth quarter of fiscal year 2007 relating to the warranty expense tax deduction in a foreign tax jurisdiction.

Income tax expense for the three and nine months ended June 29, 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.

CPI International adopted FIN No. 48, "Accounting for Uncertainty in Income Taxes," in the first quarter of fiscal year 2008 commencing on September 29, 2007. In connection with the Company's adoption of FIN No. 48, there was no cumulative effect adjustment necessary to the September 29, 2007 balance of retained earnings. The total unrecognized tax benefit, excluding any related interest accrual, was $5.9 million and $4.9 million as of June 27, 2008 and September 29, 2007, respectively, and is reported as a current liability (income taxes payable) since it is expected to be settled within 12 months of

27

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

the reporting date. Of the total unrecognized tax benefit balance, $4.8 million and $4.4 million would reduce the effective tax rate if recognized as of June 27, 2008 and September 29, 2007, respectively. The Company's policy to classify interest and penalties on unrecognized tax benefits as a component of income tax expense in the statements of operations and comprehensive income did not change upon the adoption of FIN No. 48. As of June 27, 2008 and September 29, 2007, the Company had accrued $1.7 million and $1.3 million of interest, respectively. The Company had minimal penalties accrued in income tax expense.

The Company is subject to U.S. federal, California, Massachusetts and Canada income tax as well as income tax in various other states, local and international jurisdictions. Fiscal years 2004 to 2007 remain open to examination by the foregoing taxing jurisdictions. The Company has not been audited for U.S. federal income tax matters. The Company has income tax audits in progress in Canada and in several states, local and international jurisdictions in which it operates. The years under examination by the Canadian taxing authorities are 2001 to 2002. The years under examination by other taxing authorities vary, with the earliest year being 2004.

Based on the outcome of examinations of the Company, the result of the expiration of statutes of limitations for specific jurisdictions, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in the statement of financial position. The majority of the Company's unrecognized tax benefit is attributable to the Canada Revenue Agency ("CRA") income tax contingency. The CRA is conducting an audit of the Company's income tax returns in Canada for fiscal years 2001 and 2002. The Company received a proposed tax assessment, including interest expense from the CRA for fiscal years 2001 and 2002. The tax assessment is 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. While the Company believes that it has meritorious defenses and intends to vigorously defend its position, it is reasonably possible that the CRA may issue a formal tax assessment requiring the Company to settle the tax deficiency within 12 months.

11. Earnings Per Share

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

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

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

	Three Months Ended		Nine Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Weighted average common shares outstanding -- Basic	16,395	16,306	16,384	16,207
Effect of dilutive stock options and nonvested restricted stock awards and units	1,274	1,490	1,335	1,489
Weighted average common shares outstanding -- Diluted	17,669	17,796	17,719	17,696

The calculation of diluted net income per share excludes all anti-dilutive shares. For the three and nine months ended June 27, 2008, the number of anti-dilutive shares, as calculated based on the weighted average price of the Company’s common stock for the periods, was approximately 0.9 million and 0.8 million shares, respectively. For the three and nine months ended June 29, 2007, the number of anti-dilutive shares, as calculated based on the weighted average price of the Company’s common stock for the periods, was approximately 0.5 million shares.

12. Segments, Geographic and Customer Information

The Company’s reportable segments are VED and satcom equipment. The VED segment develops, manufactures and distributes high power/high frequency microwave and radio frequency signal components. The satcom equipment segment manufactures and supplies high power amplifiers and networks for satellite communication uplink and industrial applications. 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.

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, UAV and shipboard systems.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

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

	Three Months Ended		Nine Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Sales to external customers				
VED	$ 68,770	$ 70,651	$ 206,504	$ 209,842
Satcom equipment	18,550	16,667	53,259	49,643
Other	3,414	-	11,685	-
	$ 90,734	$ 87,318	$ 271,448	$ 259,485
Intersegment product transfers				
VED	$ 7,799	$ 6,903	$ 20,947	$ 16,608
Satcom equipment	9	1	72	10
	$ 7,808	$ 6,904	$ 21,019	$ 16,618
Capital expenditures				
VED	$ 529	$ 1,009	$ 1,873	$ 6,240
Satcom equipment	-	13	654	35
Other	201	24	761	117
	$ 730	$ 1,046	$ 3,288	$ 6,392
EBITDA				
VED	$ 17,548	$ 19,231	$ 49,835	$ 54,747
Satcom equipment	1,332	1,842	3,709	4,460
Other	(2,814)	(3,739)	(9,713)	(8,478)
	$ 16,066	$ 17,334	$ 43,831	$ 50,729

	June 27, 2008	September 28, 2007
Total assets		
VED	$ 326,311	$ 335,926
Satcom equipment	49,583	49,266
Other	92,712	91,030
	$ 468,606	$ 476,222

EBITDA represents earnings before net interest expense, provision for income taxes 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;

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

- 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:

	Three Months Ended		Nine Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Net income	$ 5,824	$ 8,131	$ 14,488	$ 19,726
Depreciation and amortization	2,779	2,225	8,171	6,607
Interest expense, net	4,627	5,143	14,244	15,757
Income tax expense	2,836	1,835	6,928	8,639
EBITDA	$ 16,066	$ 17,334	$ 43,831	$ 50,729

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

	June 27, 2008	September 28, 2007
United States	$ 49,414	$ 51,704
Canada	14,019	14,308
Other	54	36
	$ 63,487	$ 66,048

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.

31

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

Goodwill by geographic area was as follows:

	June 27, 2008	September 28, 2007
United States	$ 114,078	$ 113,310
Canada	48,314	48,263
	$ 162,392	$ 161,573

The increase in goodwill from September 28, 2007 to June 27, 2008 was primarily due to a purchase price valuation and allocation adjustment associated with the acquisition of Malibu. See Note 4.

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

	Three Months Ended		Nine Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
United States	$ 58,131	$ 50,896	$ 174,860	$ 152,977
All foreign countries	32,603	36,422	96,588	106,508
	$ 90,734	$ 87,318	$ 271,448	$ 259,485

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

The U.S. Government is the only customer that accounted for 10% or more of the Company’s consolidated sales in the three and nine months ended June 27, 2008 and in the corresponding periods of fiscal year 2007. Direct sales to the U.S. Government were $18.2 million and $49.2 million for the three and nine months ended June 27, 2008, respectively, and $14.6 million and $43.6 million for the three and nine months ended June 29, 2007, respectively. Accounts receivable from this customer represented 18% and 15% of consolidated accounts receivable as of June 27, 2008 and September 28, 2007, respectively.

13. Subsequent Event

On July 30, 2008, the Company made another optional prepayment of $2.0 million on its Term Loan, further reducing the balance of the Term Loan to $89.75 million. The $2.0 million prepayment brings the total Term Loan repayments made in fiscal year 2008 to $10.0 million, including those that were applied against the scheduled amortization payments for the first three quarters of fiscal year 2008. Including the July 30, 2008 $2.0 million Term Loan prepayment and the redemption of $8.0 million in aggregate principal amount of CPI International’s FR Notes made in the second and third quarters of fiscal year 2008, the Company has made an aggregate of $18.0 million in repayments of its debt to date in fiscal year 2008.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

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, (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 condensed 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.

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

CONDENSED CONSOLIDATING BALANCE SHEET
As of June 27, 2008

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Assets						
Cash and cash equivalents	$ 193	$ 23,128	$ 859	$ 2,017	$ -	$ 26,197
Restricted cash	-	-	1,023	182	-	1,205
Accounts receivable, net	-	23,455	10,791	14,133	-	48,379
Inventories	-	43,212	8,079	17,617	(1,040)	67,868
Deferred tax assets	-	9,415	-	608	-	10,023
Prepaid and other current assets	-	3,481	922	654	-	5,057
Intercompany receivable	-	12,715	5,404	9,240	(27,359)	-
Total current assets	193	115,406	27,078	44,451	(28,399)	158,729
Property, plant and equipment, net	-	46,248	3,171	14,068	-	63,487
Deferred debt issue costs, net	470	4,892	-	-	-	5,362
Intangible assets, net	-	57,152	14,386	7,817	-	79,355
Goodwill	-	92,498	21,631	48,263	-	162,392
Other long-term assets	-	417	278	100	-	795
Intercompany notes receivable	-	1,035	-	-	(1,035)	-
Investment in subsidiaries	180,237	100,320	-	-	(280,557)	-
Total assets	$ 180,900	$ 417,968	$ 66,544	$ 114,699	$ (309,991)	$ 470,120
Liabilities and stockholders' equity						
Current portion of long-term debt	$ -	$ 2,000	$ -	$ -	$ -	$ 2,000
Accounts payable	253	11,367	2,634	7,696	-	21,950
Accrued expenses	511	17,683	3,093	5,086	-	26,373
Product warranty	-	2,154	503	1,876	-	4,533
Income taxes payable	-	1,904	164	5,526	-	7,594
Advance payments from customers	-	6,476	4,299	1,409	-	12,184
Intercompany payable	27,359	-	-	-	(27,359)	-
Total current liabilities	28,123	41,584	10,693	21,593	(27,359)	74,634
Deferred income taxes	-	21,472	-	5,288	-	26,760
Intercompany notes payable	-	-	-	1,035	(1,035)	-
Long-term debt, less current portion	13,892	214,750	-	-	-	228,642
Other long-term liabilities	-	1,002	-	197	-	1,199

Total liabilities	42,015	278,808	10,693	28,113	(28,394)	331,235
Common stock	165	-	-	-	-	165
Additional paid-in capital	70,987	-	-	-	-	70,987
Parent investment	-	52,808	43,824	58,030	(154,662)	-
Accumulated other comprehensive (loss) income	(997)	(997)	-	(89)	1,086	(997)
Retained earnings	70,530	87,349	12,027	28,645	(128,021)	70,530
Treasury stock	(1,800)	-	-	-	-	(1,800)
Total stockholders’ equity	138,885	139,160	55,851	86,586	(281,597)	138,885
Total liabilities and stockholders' equity	$ 180,900	$ 417,968	$ 66,544	$ 114,699	$ (309,991)	$ 470,120

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

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	-	23,312	2,076	2,736	(28,124)	-
Prepaid and other current assets	-	3,250	545	844	-	4,639
Total current assets	1,378	122,158	23,435	38,979	(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	174,333	64,641	-	-	(238,974)	-
Total assets	$ 176,506	$ 419,446	$ 39,130	$ 109,951	$ (268,811)	$ 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	16,684	3,991	5,270	-	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	39,060	12,397	23,516	(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	286,190	12,397	30,288	(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	937	886	-	155	(1,041)	937
Retained earnings	56,042	71,665	7,566	21,762	(100,993)	56,042
Total stockholders’ equity	125,906	133,256	26,733	79,663	(239,652)	125,906
Total liabilities and stockholders' equity	$ 176,506	$ 419,446	$ 39,130	$ 109,951	$ (268,811)	$ 476,222

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Three Months Ended June 27, 2008

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$ -	$ 56,694	$ 18,355	$ 34,492	$ (18,807)	$ 90,734
Cost of sales	-	39,343	15,562	27,127	(18,530)	63,502
Gross profit	-	17,351	2,793	7,365	(277)	27,232
Operating costs and expenses:						
Research and development	-	817	5	1,944	-	2,766
Selling and marketing	-	1,838	1,000	2,174	-	5,012
General and administrative	-	3,472	1,077	587	-	5,136
Amortization of acquisition-related intangible assets	-	334	296	152	-	782
Net loss on disposition of fixed assets	-	128	-	-	-	128
Total operating costs and expenses	-	6,589	2,378	4,857	-	13,824
Operating income	-	10,762	415	2,508	(277)	13,408
Interest expense (income), net	357	4,266	(10)	14	-	4,627
Loss on debt extinguishment	121	-	-	-	-	121
(Loss) income before income tax expense and equity in income of subsidiaries	(478)	6,496	425	2,494	(277)	8,660
Income tax (benefit) expense	(181)	2,592	106	319	-	2,836
Equity in income of subsidiaries	6,121	2,217	-	-	(8,338)	-
Net income	$ 5,824	$ 6,121	$ 319	$ 2,175	$ (8,615)	$ 5,824

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Three Months Ended June 29, 2007

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$ -	$ 55,453	$ 15,073	$ 37,186	$ (20,394)	$ 87,318
Cost of sales	-	38,210	12,660	28,182	(20,385)	58,667
Gross profit	-	17,243	2,413	9,004	(9)	28,651

Operating costs and expenses:						
Research and development	-	716	-	1,516	-	2,232
Selling and marketing	-	2,019	924	1,968	-	4,911
General and administrative	-	3,453	246	2,136	-	5,835
Amortization of acquisition-related intangible assets	-	334	62	152	-	548
Net loss on disposition of fixed assets	-	1	-	15	-	16
Total operating costs and expenses	-	6,523	1,232	5,787	-	13,542
Operating income	-	10,720	1,181	3,217	(9)	15,109
Interest expense (income), net	1,950	3,198	(15)	10	-	5,143
(Loss) income before income tax expense and equity in income of subsidiaries	(1,950)	7,522	1,196	3,207	(9)	9,966
Income tax (benefit) expense	(765)	1,448	321	831	-	1,835
Equity in income of subsidiaries	9,316	3,242	-	-	(12,558)	-
Net income	$ 8,131	$ 9,316	$ 875	$ 2,376	$ (12,567)	$ 8,131

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Nine Months Ended June 27, 2008

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$ -	$ 166,793	$ 59,306	$ 103,820	$ (58,471)	$ 271,448
Cost of sales	-	119,652	50,038	80,433	(58,109)	192,014
Gross profit	-	47,141	9,268	23,387	(362)	79,434
Operating costs and expenses:						
Research and development	-	2,438	426	5,556	-	8,420
Selling and marketing	-	5,831	3,187	6,494	-	15,512
General and administrative	-	11,007	3,165	2,609	-	16,781
Amortization of acquisition-related intangible assets	-	1,002	889	453	-	2,344
Net loss on disposition of fixed assets	-	172	12	19	-	203
Total operating costs and expenses	-	20,450	7,679	15,131	-	43,260
Operating income	-	26,691	1,589	8,256	(362)	36,174
Interest expense (income), net	1,414	12,865	(47)	12	-	14,244
Loss on debt extinguishment	514	-	-	-	-	514
(Loss) income before income tax expense and equity in income of subsidiaries	(1,928)	13,826	1,636	8,244	(362)	21,416
Income tax (benefit) expense	(732)	6,074	225	1,361	-	6,928
Equity in income of subsidiaries	15,684	7,932	-	-	(23,616)	-
Net income	$ 14,488	$ 15,684	$ 1,411	$ 6,883	$ (23,978)	$ 14,488

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Nine Months Ended June 29, 2007

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$ -	$ 163,484	$ 46,004	$ 105,872	$ (55,875)	$ 259,485
Cost of sales	-	113,916	38,367	80,863	(56,598)	176,548
Gross profit	-	49,568	7,637	25,009	723	82,937

Operating costs and expenses:						
Research and development	-	2,261	-	4,214	-	6,475
Selling and marketing	-	6,003	2,622	5,914	-	14,539
General and administrative	-	11,546	968	3,571	-	16,085
Amortization of acquisition-related intangible assets	-	1,002	187	453	-	1,642
Net loss on disposition of fixed assets	-	18	-	56	-	74
Total operating costs and expenses	-	20,830	3,777	14,208	-	38,815
Operating income	-	28,738	3,860	10,801	723	44,122
Interest expense (income), net	6,070	9,817	(30)	(100)	-	15,757
(Loss) income before income tax expense and equity in income of subsidiaries	(6,070)	18,921	3,890	10,901	723	28,365
Income tax (benefit) expense	(2,331)	6,669	1,058	3,243	-	8,639
Equity in income of subsidiaries	23,465	11,213	-	-	(34,678)	-
Net income	$ 19,726	$ 23,465	$ 2,832	$ 7,658	$ (33,955)	$ 19,726

CPI INTERNATIONAL, INC.
and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All tabular dollar amounts in thousands except share and per share amounts)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Nine Months Ended June 27, 2008

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities						
Net cash (used in) provided by operating activities	$ (2,127)	$ 25,560	$ 271	$ 995	$ -	$ 24,699
Cash flows from investing activities						
Capital expenditures	-	(2,467)	(223)	(598)	-	(3,288)
Proceeds from adjustment to acquisition purchase price	-	1,615	-	-	-	1,615
Payment of patent application fees	-	-	(147)	-	-	(147)
Net cash used in investing activities	-	(852)	(370)	(598)	-	(1,820)
Cash flows from financing activities						
Purchases of treasury stock	(1,800)	-	-	-	-	(1,800)
Repayments of debt	(8,000)	(8,000)	-	-	-	(16,000)
Proceeds from issuance of common stock to employees	639	-	-	-	-	639
Proceeds from exercise of stock options	3	-	-	-	-	3
Excess tax benefit on stock option exercises	-	2	-	-	-	2
Intercompany dividends	10,100	(10,100)	-	-	-	-
Net cash provided by (used in) financing activities	942	(18,098)	-	-	-	(17,156)
Net (decrease) increase in cash and cash equivalents	(1,185)	6,610	(99)	397	-	5,723
Cash and cash equivalents at beginning of period	1,378	16,518	958	1,620	-	20,474
Cash and cash equivalents at end of period	$ 193	$ 23,128	$ 859	$ 2,017	$ -	$ 26,197

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Nine Months Ended June 29, 2007

	Parent	Issuer	Guarantor	Non-Guarantor	Consolidating	Consolidated

	(CPI Int'l)	(CPI)	Subsidiaries	Subsidiaries	Eliminations	Total
Cash flows from operating activities						
Net cash (used in) provided by operating activities	$ (619)	$ 14,898	$ 872	$ 4,108	$ -	$ 19,259
Cash flows from investing activities						
Capital expenditures	-	(2,423)	(24)	(3,945)	-	(6,392)
Capitalized expenses relating to potential business acquisition	-	(395)	-	-	-	(395)
Net cash used in investing activities	-	(2,818)	(24)	(3,945)	-	(6,787)
Cash flows from financing activities						
Repayments of debt	-	(5,000)	-	-	-	(5,000)
Proceeds from issuance of common stock to employees	520	-	-	-	-	520
Proceeds from exercise of stock options	604	-	-	-	-	604
Excess tax benefit on stock option exercises	-	671	-	-	-	671
Intercompany dividends	2,800	(2,800)	-	-	-	-
Net cash provided by (used in) financing activities	3,924	(7,129)	-	-	-	(3,205)
Net increase in cash and cash equivalents	3,305	4,951	848	163	-	9,267
Cash and cash equivalents at beginning of period	139	28,299	290	1,425	-	30,153
Cash and cash equivalents at end of period	$ 3,444	$ 33,250	$ 1,138	$ 1,588	$ -	$ 39,420

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our fiscal years are the 52- or 53-week periods that end on the Friday nearest September 30. Fiscal year 2008 comprises the 53-week period ending October 3, 2008 and fiscal year 2007 comprised the 52-week period ended September 28, 2007. The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements, and the notes thereto, of CPI International, Inc.

Overview

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

Unless the context otherwise requires, "CPI International" means CPI International, Inc., and "CPI" means Communications & Power Industries, Inc. CPI is a direct subsidiary of CPI International. CPI International is a holding company with no operations of its own. The terms "we," "us," "our" and the "Company" refer to CPI International and its direct and indirect subsidiaries on a consolidated basis.

Acquisition of Malibu Research Associates, Inc.

On August 10, 2007, we completed the acquisition of all of the outstanding common stock of 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 ("UAVs") and shipboard systems. Under the terms of the purchase agreement, at the closing of the acquisition, we paid cash of approximately $22.4 million, which included $2.3 million and $1.0 million placed into indemnity and working capital escrow accounts, respectively. The indemnity escrow amount was provided to ensure funds are available to satisfy potential indemnification claims asserted prior to January 1, 2009, and the working capital escrow amount was provided to satisfy any negative differences between the estimated working capital amount as of the acquisition closing date and the actual working capital amount at the acquisition closing date.

For financial reporting purposes, consideration of approximately $2.6 million, which was part of the cash consideration paid for Malibu at the closing of the acquisition, was excluded from the purchase price allocation and was reported as other long-term assets in the consolidated balance sheet at September 28, 2007. This consideration amount represents the difference between the estimated working capital amount as of the acquisition closing date and the 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. We intended to make a claim against the working capital escrow account of $1.0

39

million and, if necessary, the indemnity escrow account of $2.3 million to recover the working capital shortfall once the amount of such shortfall had been finally determined.

During the second quarter of fiscal year 2008, the valuation of Malibu's net working capital amount as of the acquisition closing date was finalized, resulting in a disbursement of cash to us of $1.6 million from the escrow accounts. The remaining $1.0 million of consideration was allocated to goodwill as the working capital contingency was resolved, which resulted in an adjusted cash purchase price of $20.7 million. The remaining $1.8 million, including interest, held in the indemnity escrow account is available to cover potential indemnification claims asserted prior to January 1, 2009.

During the third quarter of fiscal year 2008, Malibu's income tax return for its short fiscal period ended immediately preceding the closing date of the acquisition was finalized, resulting in a decrease in the assumed income tax payable and an offsetting adjustment to goodwill of approximately $0.1 million.

Additionally, we may be required to pay a potential earnout to the former stockholders of Malibu of up to $14.0 million, which is primarily contingent upon the achievement of certain financial objectives over the three years following the acquisition ("Financial Earnout"); and a discretionary earnout of up to $1.0 million contingent upon achievement of certain succession planning goals. Preliminary calculations of the first year's Financial Earnout as of June 27, 2008 indicate that no earnout was earned for the first earnout period, and the maximum potential Financial Earnout that could be earned over the three years following the acquisition is reduced from $14.0 million to $12.3 million.

Orders

We sell our products into six end markets: radar, electronic warfare, medical, communications, industrial and scientific. Because they have similar characteristics, our radar and electronic warfare markets together are frequently referred to as "defense markets."

Our customer sales contracts are recorded as orders when we accept written customer purchase orders or contracts. Customer purchase orders with an undefined delivery schedule, or blanket purchase orders, are not reported as orders until the delivery date is determined. Our government sales contracts are not reported as orders until we have been notified that the contract has been funded. Total orders for a fiscal period represent the total dollar amount of customer orders recorded by us during the fiscal period, reduced by the dollar amount of any order cancellations or terminations during the fiscal period.

Our orders by market for the nine months ended June 27, 2008 and June 29, 2007 are summarized as follows (dollars in millions):

	Nine Months Ended					
	June 27, 2008		June 29, 2007		Increase (Decrease)	
	Amount	% of Orders	Amount	% of Orders	Amount	Percent
Radar and Electronic Warfare	$ 109.3	39%	$ 109.4	40%	$ (0.1)	(0) %
Medical	48.3	17	53.9	20	(5.6)	(10)
Communications	92.8	33	81.7	31	11.1	14
Industrial	19.8	8	16.1	6	3.7	23
Scientific	9.7	3	8.3	3	1.4	17

$	279.9	100%	$	269.4	100%	$	10.5	4%

40

In the nine months ended June 27, 2008, our new Malibu division received orders totaling $13.8 million, of which approximately one-third was in the radar market and approximately two-thirds were in the communications market. As we acquired Malibu in August 2007, orders from the Malibu division are not included in our results for the nine months ended June 29, 2007.

Orders for the nine months ended June 27, 2008 of $279.9 million were $10.5 million, or 4%, higher than orders of $269.4 million for the corresponding period of fiscal year 2007. Explanations for the order increase or decrease by market for the nine months ended June 27, 2008 compared to the corresponding period of fiscal year 2007 are as follows:

- Radar and Electronic Warfare: The majority of our sales in the radar and electronic warfare markets are for products for domestic and international defense and government end uses. Orders in these markets are characterized by many smaller orders in the $0.5 million to $3.0 million range by product or program, and the timing of these orders may vary from year to year. On a combined basis, orders for the radar and electronic warfare markets for the nine months ended June 29, 2007 and the nine months ended June 27, 2008 were approximately equal, totaling an aggregate of $109.4 million and $109.3 million, respectively. In the nine months ended June 27, 2008, radar orders received by our recently acquired Malibu division and increased demand for radar products to support the HAWK missile system were partially offset by decreased demand for radar products to support the Aegis weapons system, continued delays in the placement of defense orders and an expected decrease in orders to support the EarthCARE cloud-profiling radar program due to the timing of that program.

  Demand for our products to support ships with the Aegis weapons system has two components: we support new ship builds and we provide spare and repair products for previously fielded ships. Over the past several years, we have seen high demand for products to support a significant number of new ship builds for the Aegis weapons program for U.S. and international military customers. We have now received all orders for our products required to support these new ship builds. As a result, we expect the near-term demand to be primarily for spare and repair products and, therefore, at overall lower levels than in the past several years. We expect demand for our products to increase again as the new ships are commissioned, deployed and added to the installed base, after which they will require spare and repair products.

  During fiscal year 2008, delays in the receipt of orders for radar and electronic warfare programs have subsequently impacted the timing of our sales for these programs. We expect these delays to continue for the foreseeable future.

- Medical: Orders for our medical products consist of orders for medical imaging applications, such as x-ray imaging, positron emission tomography (“PET”) and magnetic resonance imaging (“MRI”), and for radiation therapy applications for the treatment of cancer. The 10% decrease in medical orders was attributable to the timing of a Russian tender program and orders for MRI products, and was partially offset by an increase in orders for x-ray generators from one large customer and other international customers, as well as an increase in orders for products for radiation therapy applications.

  A Russian tender program in which we participated in fiscal years 2006 and 2007 will not recur in fiscal year 2008. In the nine months ended June 29, 2007, we received approximately $5.0 million of the fiscal year’s $5.8 million in orders for the Russian tender program; we received no such orders in the nine months ended June 27, 2008.

In addition, in fiscal year 2007, demand for products for MRI applications was very strong, as a large customer ordered a two-year supply of these products in one fiscal year, and we shipped a significant amount of these products during that fiscal year. As a result, in the nine months ended June 27, 2008, orders for products for MRI applications decreased approximately $6.7 million as compared to the corresponding period of fiscal year 2007.

- Communications: The 14% increase in communications orders was primarily attributable to telemetry orders received by our recently acquired Malibu division, as well as the receipt of our first production orders, totaling approximately $12 million, for Increment One of the Warfighter Information Network Tactical (“WIN-T”) military communications program. These increases were partially offset by a decrease in orders for certain military communications programs, including WIN-T’s predecessor program, the now-completed Joint Network Node (“JNN”) military communications program, for which we had strong demand in the nine months ended June 29, 2007, and a decrease in orders for direct-to-home broadcast applications due to order timing.

  In the nine months ended June 27, 2008, as the WIN-T program began to ramp up for production, orders to support the predecessor JNN program decreased $4.3 million due to the completion of that program. Once the WIN-T program is fully ramped up for production, we expect that our overall participation levels in the WIN-T program will be significantly higher than our participation levels in the previous JNN program.

- Industrial: Orders in the industrial market are cyclical. The $3.7 million increase in industrial orders was attributable to orders for products used in a wide variety of industrial applications, including industrial fabrication applications, international test systems and food processing, cargo screening and other industrial applications.

- Scientific: Orders in the scientific market are historically one-time projects and can fluctuate significantly from period to period. The $1.4 million increase in scientific orders was primarily the result of orders for products to support a new accelerator project for fusion research at an international scientific institute.

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

Backlog

As of June 27, 2008, we had an order backlog of $205.8 million compared to an order backlog of $196.4 million as of September 28, 2007. Approximately $1.8 million of the $9.4 million increase in backlog during the nine months ended June 27, 2008 was due to orders at our recently acquired Malibu division. Because our orders for government end-use products generally have much longer delivery terms than our orders for commercial business (which require quicker turn-around), our backlog is primarily composed of government orders.

Backlog represents the cumulative balance, at a given point in time, of recorded customer sales orders that have not yet been shipped or recognized as sales. Backlog is increased when an order is received, and backlog is decreased when we recognize sales. We believe backlog and orders information is helpful to investors because this information may be indicative of future sales results. Although backlog consists of firm orders for which goods and services are yet to be provided, customers can, and

sometimes do, terminate or modify these orders. However, historically the amount of modifications and terminations has not been material compared to total contract volume.

Results of Operations

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

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

Three Months Ended June 27, 2008 Compared to Three Months Ended June 29, 2007

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

	Three Months Ended				
	June 27, 2008		June 29, 2007		Increase (Decrease)
	Amount	% of Sales	Amount	% of Sales	Amount
Sales	$ 90.7	100.0%	$ 87.3	100.0%	$ 3.4
Cost of sales	63.5	70.0	58.7	67.2	4.8
Gross profit	27.2	30.0	28.7	32.9	(1.5)
Research and development	2.8	3.1	2.2	2.5	0.6
Selling and marketing	5.0	5.5	4.9	5.6	0.1
General and administrative	5.1	5.6	5.8	6.6	(0.7)
Amortization of acquisition-related intangibles	0.8	0.9	0.5	0.6	0.3
Net loss on disposition of assets	0.1	0	-	-	0.1
Operating income	13.4	14.8	15.1	17.3	(1.7)
Interest expense, net	4.6	5.1	5.1	5.8	(0.5)
Loss on debt extinguishment	0.1	0.1	-	-	0.1
Income before taxes	8.7	9.6	10.0	11.5	(1.3)
Income tax expense	2.8	3.1	1.8	2.1	1.0
Net income	$ 5.8	6.4%	$ 8.1	9.3%	$ (2.3)
Other Data:					
EBITDA (a)	$ 16.1	17.8%	$ 17.3	19.8%	$ (1.2)

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

(a) EBITDA represents earnings before net interest expense, provision for income taxes and depreciation and amortization. For the reasons listed below, we believe that GAAP-based financial information for leveraged businesses such as ours should be supplemented by EBITDA so that investors better understand our financial

performance in connection with their analysis of our business:

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

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

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

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

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

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

For a reconciliation of Net Income to EBITDA, see Note 12 of the accompanying unaudited condensed consolidated financial statements.

Sales. Our sales by market for the three months ended June 27, 2008 and June 29, 2007 are summarized as follows (dollars in millions):

	Three Months Ended					
	June 27, 2008		June 29, 2007		Increase (Decrease)	
	Amount	% of Sales	Amount	% of Sales	Amount	Percent
Radar and Electronic Warfare	$ 38.2	42%	$ 36.5	42%	$ 1.7	5%
Medical	16.8	19	18.0	21	(1.2)	(7)
Communications	28.0	31	27.3	31	0.7	3
Industrial	5.8	6	4.7	5	1.1	23
Scientific	1.9	2	0.8	1	1.1	138
	$ 90.7	100%	$ 87.3	100%	$ 3.4	4%

In the three months ended June 27, 2008, our new Malibu division generated sales totaling $3.4 million, of which approximately one-third was in the radar market and approximately two-thirds were in the communications market. As we acquired Malibu in August 2007, sales from the Malibu division are not included in our results for the three months ended June 29, 2007.

Sales for the three months ended June 27, 2008 of $90.7 million were $3.4 million, or approximately 4%, higher than sales of $87.3 million for the third quarter of fiscal year 2007. Explanations for the sales increase or decrease by market for the third quarter of fiscal year 2008 compared to the third quarter of fiscal year 2007 are as follows:

- Radar and Electronic Warfare: The majority of our sales in the radar and electronic warfare markets are for products for domestic and international defense and government end uses. The timing of orders receipts and subsequent shipments in these markets may vary from year to year. On a combined basis, sales for these two markets increased

approximately 5% from $36.5 million in the three months ended June 29, 2007 to $38.2 million in the three months ended June 27, 2008, primarily due to increased sales of products to support military radar systems, including the HAWK missile system, as well as sales of radar products by our recently acquired Malibu division.

- Medical: Sales of our medical products consist of sales for medical imaging applications, such as x-ray imaging, PET and MRI, and for radiation therapy applications for the treatment of cancer. Sales levels in this market decreased 7%, primarily due to a Russian tender program in which we participated in fiscal years 2006 and 2007 that will not recur in fiscal year 2008. In the three months ended June 29, 2007, we shipped $2.9 million of x-ray generators for this program; we made no such shipments in the three months ended June 27, 2008. These sales decreases were partially offset by an increase in sales of x-ray generators to one large customer and other international customers, as well as an increase in sales of products for radiation therapy applications.

- Communications: The 3% increase in sales in the communications market was primarily the result of sales of telemetry products by our recently acquired Malibu division, as well as the recently begun production shipments for Increment One of the WIN-T military communications program. These increases were partially offset by a decrease in sales of products for another military communications program and certain broadcast applications.

  In the three months ended June 27, 2008, we shipped $2.3 million in products to support the WIN-T military communications program as it began to ramp up for production. These sales were partially offset by an approximately $1 million decrease in sales of products to support its predecessor, the JNN military communications program, due to the completion of that program. We expect that our overall participation levels in the WIN-T program will be significantly higher than our participation levels in the previous JNN program.

- Industrial: Sales in the industrial market are cyclical. The $1.1 million increase in industrial sales was due to sales of products used in a wide variety of industrial applications, including industrial fabrication applications and domestic and international test systems.

- Scientific: Sales in the scientific market are historically one-time projects and can fluctuate significantly from period to period. The $1.1 million increase in scientific sales was primarily the result of increased product shipments for the Spallation Neutron Source at Oakridge National Laboratory. We received approximately $5 million in orders for this program in fiscal year 2007 and expect to complete our shipments of products for this program in the second quarter of fiscal year 2009.

Gross Profit. Gross profit was $27.2 million, or 30.0% of sales, for the three months ended June 27, 2008, a $1.5 million decrease from $28.7 million, or 32.9% of sales, for the three months ended June 29, 2007. The lower gross profit for the three months ended June 27, 2008 as compared to the corresponding period of fiscal year 2007 was primarily the result of the sales mix of lower margin products and the currency impact from the weakness of the U.S. dollar, partially offset by additional gross profit from the $3.4 million increase in sales volume. The sales mix of lower margin products was primarily due to an increase in sales from new products and engineering development programs that generally have lower gross margins, including sales from our recently acquired Malibu division's advanced antenna programs. The weakness of the U.S. dollar for the three months ended June 27, 2008 as compared to the corresponding period of fiscal year 2007 caused a reduction in gross profit of approximately $1.0 million from the translation of Canadian dollar denominated manufacturing expenses to U.S. dollars, net of currency hedging contracts.

Research and Development. Research and development expenses were $2.8 million, or 3.1% of sales, for the three months ended June 27, 2008, a $0.6 million increase from $2.2 million, or 2.5% of sales, for the three months ended June 29, 2007. The increase in research and development expenses for the three months ended June 27, 2008 compared to the corresponding period of fiscal year 2007 was due

primarily to increased spending on medical diagnostic imaging products. Total spending on research and development was as follows (dollars in millions):

	Three Months Ended	
	June 27, 2008	June 29, 2007
Company funded costs	$ 2.8	$ 2.2
Customer funded costs, charged to cost of sales	2.2	1.7
	$ 5.0	$ 3.9

Selling and Marketing. Selling and marketing expenses were $5.0 million, or 5.5% of sales, for the three months ended June 27, 2008, a $0.1 million increase from the $4.9 million, or 5.6% of sales, for the three months ended June 29, 2007. The increase in selling and marketing expenses for the three months ended June 27, 2008 compared to the corresponding period of fiscal year 2007 primarily reflects $0.2 million of selling and marketing expenses at our recently acquired Malibu division.

General and Administrative. General and administrative expenses were $5.1 million, or 5.6% of sales, for the three months ended June 27, 2008, a $0.7 million decrease from the $5.8 million, or 6.6% of sales, for the three months ended June 29, 2007. The reduction in general and administrative expenses in the three months ended June 27, 2008 was primarily due to favorable foreign currency translation of $0.6 million and lower accrual for management incentive bonuses of $0.4 million, partially offset by $0.4 million of administrative expenses for our recently acquired Malibu division. Foreign currency translation gains and losses are a result of the effect of exchange rate changes on certain foreign currency denominated balance sheet accounts translated into U.S. dollars.

Amortization of Acquisition-Related Intangibles. Amortization of acquisition-related intangibles consists of purchase accounting charges for technology and other intangible assets. Amortization of acquisition-related intangibles was $0.8 million for the three months ended June 27, 2008 and $0.5 million for the three months ended June 29, 2007. The $0.3 million increase in amortization of acquisition-related intangibles is due to amortization of intangible assets for our recently acquired Malibu division.

Interest Expense, Net (“Interest Expense”). Interest Expense was $4.6 million for the three months ended June 27, 2008, a $0.5 million decrease from the $5.1 million for the three months ended June 29, 2007. The reduction in interest expense for the three months ended June 27, 2008 was primarily due to lower interest rates on our debt obligations during this period compared to the corresponding period of fiscal year 2007 and the redemption of a portion of our floating rate senior notes during the fourth quarter of fiscal year 2007. The reduction in interest rates was primarily due to the refinancing of our senior credit facilities during the fourth quarter of fiscal year 2007.

Loss on Debt Extinguishment. Loss on debt extinguishment of $0.1 million for the three months ended June 27, 2008 resulted from the redemption of $2.0 million of our floating rate senior notes in June 2008. The loss on debt extinguishment consists of $84,000 in non-cash write-offs of deferred debt issue costs and issue discount costs and $37,000 in cash payments for call premiums.

Income Tax Expense. We recorded income tax expense of $2.8 million and $1.8 million for the three months ended June 27, 2008 and June 29, 2007, respectively. Our effective tax rate was approximately 33% for the three months ended June 27, 2008 as compared to approximately 18% for the three months ended June 29, 2007. The effective tax rate for the three months ended June 27, 2008 includes a reduction to our annual tax rate of approximately 1% to reflect a change in estimate for

Canadian tax credits. The effective tax rate for the three months ended June 29, 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. Net income was $5.8 million, or 6.4% of sales, for the three months ended June 27, 2008 as compared to $8.1 million, or 9.3% of sales, in the three months ended June 29, 2007. The $2.3 million decrease in net income for the three months ended June 27, 2008 as compared to the corresponding period of fiscal year 2007 was primarily due to the unfavorable sales mix resulting from increased sales of products from engineering programs with lower gross margins, higher income tax expense resulting from a $1.8 million discrete tax benefit in the third quarter of fiscal year 2007 and incremental operating expenses for the recently acquired Malibu division for the three months ended June 27, 2008, partially offset by additional gross profit from the increase in sales volume for the three months ended June 27, 2008. The unfavorable currency impact from Canadian dollar denominated manufacturing expenses was mostly offset by the favorable impact of foreign currency translation gains and losses for the three months ended June 27, 2008 as compared to the three months ended June 29, 2007.

EBITDA. EBITDA was $16.1 million, or 17.8% of sales, for the three months ended June 27, 2008 as compared to $17.3 million, or 19.8% of sales, for the three months ended June 29, 2007. The $1.2 million decrease in EBITDA for the three months ended June 27, 2008 as compared to the corresponding period of fiscal year 2007 was primarily due to the unfavorable sales mix resulting from increased sales of products from engineering programs with lower gross margins and incremental operating expenses for the recently acquired Malibu division for the three months ended June 27, 2008, partially offset by additional gross profit from the increase in sales volume for the three months ended June 27, 2008.

Nine Months Ended June 27, 2008 Compared to Nine Months Ended June 29, 2007

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

	Nine Months Ended				Increase (Decrease)
	June 27, 2008		June 29, 2007		
	Amount	% of Sales	Amount	% of Sales	Amount
Sales	$ 271.4	100.0%	$ 259.5	100.0%	$ 11.9
Cost of sales	192.0	70.7	176.5	68.0	15.5
Gross profit	79.4	29.3	82.9	31.9	(3.5)
Research and development	8.4	3.1	6.5	2.5	1.9
Selling and marketing	15.5	5.7	14.5	5.6	1.0
General and administrative	16.8	6.2	16.1	6.2	0.7
Amortization of acquisition-related intangibles	2.3	0.8	1.6	0.6	0.7
Net loss on disposition of assets	0.2	0.1	0.1	0.0	0.1
Operating income	36.2	13.3	44.1	17.0	(7.9)
Interest expense, net	14.2	5.2	15.8	6.1	(1.6)
Loss on debt extinguishment	0.5	0.2	-	-	0.5
Income before taxes	21.4	7.9	28.4	10.9	(7.0)
Income tax expense	6.9	2.5	8.6	3.3	(1.7)
Net income	$ 14.5	5.3%	$ 19.7	7.6%	$ (5.2)
Other Data:					
EBITDA (a)	$ 43.8	16.1%	$ 50.7	19.5%	$ (6.9)

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

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

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

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

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

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

-

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

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

For a reconciliation of EBITDA to Net Income, see Note 12 of the accompanying unaudited condensed consolidated financial statements.

Sales. Our sales by market for the nine months ended June 27, 2008 and June 29, 2007 are summarized as follows (dollars in millions):

	Nine Months Ended					
	June 27, 2008		June 29, 2007		Increase (Decrease)	
	Amount	% of Sales	Amount	% of Sales	Amount	Percent
Radar and Electronic Warfare	$ 114.1	42%	$ 106.7	41%	$ 7.4	7%
Medical	49.5	18	52.1	20	(2.6)	(5)
Communications	82.5	30	80.5	31	2.0	2
Industrial	17.9	7	16.1	6	1.8	11
Scientific	7.4	3	4.1	2	3.3	80
	$ 271.4	100%	$ 259.5	100%	$ 11.9	5%

In the nine months ended June 27, 2008, our new Malibu division generated sales totaling $11.7 million, of which approximately 40% was in the radar market and approximately 60% was in the communications market. As we acquired Malibu in August 2007, sales from the Malibu division are not included in our results for the first nine months of fiscal year 2007.

Sales for the nine months ended June 27, 2008 of $271.4 million were $11.9 million, or 5%, higher than sales of $259.5 million for the corresponding period of fiscal year 2007. Explanations for the sales increase or decrease by market are as follows:

- Radar and Electronic Warfare: The majority of our sales in the radar and electronic warfare markets are for products for domestic and international defense and government end uses. The timing of orders receipts and subsequent shipments in these markets may vary from year to year. On a combined basis, sales for these two markets increased approximately 7% from $106.7 million in the nine months ended June 29, 2007 to $114.1 million in the corresponding period of fiscal year 2008. The increase in sales was due primarily to sales of radar products by our recently acquired Malibu division and increased sales to support the HAWK missile system and other radar systems.

- Medical: Sales of our medical products consist of sales for medical imaging applications, such as x-ray imaging, PET and MRI, and for radiation therapy applications for the treatment of cancer. The 5% decrease in sales of our medical products was primarily due to a Russian tender program in which we participated in fiscal years 2006 and 2007 that will not recur in fiscal year 2008. In the nine months ended June 29, 2007, we shipped approximately $3.7 million of the fiscal year’s $5.9 million in sales for the Russian tender program; we made no such sales in the nine months ended June 27, 2008.

  In addition, in fiscal year 2007, a large customer ordered a two-year supply of products for MRI applications in one fiscal year, resulting in unusually strong demand for these products, and we shipped a significant amount of these products during that fiscal year. As a result, in the nine months ended June 27, 2008, sales of products for MRI applications were solid but decreased approximately $1.6 million.

  We are seeing some softening in demand for x-ray generators for U.S. customers due the impact of the phasing in of the Deficit Reduction Act of 2005 and currently challenging credit

conditions. Sales of x-ray generators for U.S. customers in the nine months ended June 27, 2008 were $0.8 million lower than in nine months ended June 29, 2007.

These decreases were partially offset by an increase in sales of x-ray generators for one large customer and other international customers.

- Communications: The 2% increase in sales in the communications market was primarily the result of sales of telemetry products by our recently acquired Malibu division, as well as the start of our first production shipments for Increment One of the WIN-T military communications program. These increases were partially offset by a decrease in sales of products for certain military communications programs, including the now-completed JNN program, and certain broadcast network applications for which we had strong sales in the first nine months of fiscal year 2007.

In the nine months ended June 27, 2008, the $3.9 million increase in sales of products to support the WIN-T military communications program as it began to ramp up for production was offset by a $3.4 million decrease in sales of products to support its predecessor, the JNN military communications program, due to the completion of that program. We expect that our overall participation levels in the WIN-T program will be significantly higher than our participation levels in the previous JNN program.

- Industrial: Sales in the industrial market are cyclical. The $1.8 million increase in industrial sales was due to sales of products used in a wide variety of industrial applications, including industrial fabrication applications and domestic and international test systems.

- Scientific: Sales in the scientific market are historically one-time projects and can fluctuate significantly from period to period. The $3.3 million increase in scientific sales was primarily the result of increased product shipments for the Spallation Neutron Source at Oakridge National Laboratory. We received approximately $5 million in orders for this program in fiscal year 2007 and expect to complete our shipments of products for this program in the second quarter of fiscal year 2009.

Gross Profit. Gross profit was $79.4 million, or 29.3% of sales, for the nine months ended June 27, 2008, a $3.5 million decrease from $82.9 million, or 31.9% of sales, in the nine months ended June 29, 2007. For the nine months ended June 27, 2008 as compared to the corresponding period of fiscal year 2007, gross profit was unfavorably impacted by the sales mix of lower margin products and the currency impact from the weakness of the U.S. dollar, partially offset by additional gross profit from the $11.9 million increase in sales volume. The sales mix of lower margin products was primarily due to an increase in sales from new products and engineering development programs. The weakness of the U.S. dollar for the nine months ended June 27, 2008 as compared to the corresponding period of fiscal year 2007 caused a reduction in gross profit of approximately $1.7 million from the translation of Canadian dollar denominated manufacturing expenses to U.S. dollars, net of currency hedging contracts.

In fiscal year 2008, we engaged in a higher level of new product and engineering development programs than in fiscal year 2007 in order to continue to grow our business. These programs typically result in lower gross margins and higher period-to-period variability of our financial results. Notable new product and engineering development programs currently include Increment One of the WIN-T military communications program, the EarthCARE cloud-profiling program and products to support the Active Denial System, counter-IED systems, cargo screening programs, high-resolution NMR programs, next generation weather radar systems and higher-power medical applications, as well as our recently acquired Malibu division’s advanced antenna programs.

Research and Development. Research and development expenses were $8.4 million, or 3.1% of sales, for the nine months ended June 27, 2008, a $1.9 million increase from $6.5 million, or 2.5% of sales, for the nine months ended June 29, 2007. The increase in research and development expenses for the nine months ended June 27, 2008 compared to the corresponding period of fiscal year 2007 was due primarily to expenditures of $1.0 million on the Army's WIN-T program, increased spending of $0.7 million on medical diagnostic imaging products and $0.4 million in development costs at our recently acquired Malibu division. Total spending on research and development was as follows (dollars in millions):

	Nine Months Ended			
	June 27, 2008		June 29, 2007	
Company funded costs	$	8.4	$	6.5
Customer funded costs, charged to cost of sales	$	9.5	$	5.0
	$	17.9	$	11.5

Selling and Marketing. Selling and marketing expenses were $15.5 million, or 5.7% of sales, for the nine months ended June 27, 2008, a $1.0 million increase from the $14.5 million, or 5.6% of sales, for the nine months ended June 29, 2007. The increase in selling and marketing expenses for the nine months ended June 27, 2008 compared to the corresponding period of fiscal year 2007 reflects selling and marketing expenses of $0.7 million at our recently acquired Malibu division, as well as the unfavorable impact of the weaker U.S. dollar on foreign-based expenses.

General and Administrative. General and administrative expenses were $16.8 million, or 6.2% of sales, for the nine months ended June 27, 2008, a $0.7 million increase from the $16.1 million, or 6.2% of sales, for the nine months ended June 29, 2007. The increase in general and administrative expenses in the nine months ended June 27, 2008 was primarily due to $1.4 million of expenses for our recently acquired Malibu division and $0.7 million of expenses for a new enterprise resource planning system at our Beverly Microwave Division, partially offset by lower accrual for management incentive bonuses of $0.9 million, favorable foreign currency translation of $0.3 million and lower expenses of $0.5 million associated with the evaluation of potential acquisition candidates in fiscal year 2007. Foreign currency translation gains and losses are a result of the effect of exchange rate changes on certain foreign currency denominated balance sheet accounts translated into U.S. dollars.

Amortization of Acquisition-Related Intangibles. Amortization of acquisition-related intangibles consists of purchase accounting charges for technology and other intangible assets. Amortization of acquisition-related intangibles was $2.3 million for the nine months ended June 27, 2008 and $1.6 million for the nine months ended June 29, 2007. The $0.7 million increase in amortization of acquisition-related intangibles is due to amortization of intangible assets for our recently acquired Malibu division.

Interest Expense, Net (“Interest Expense”). Interest Expense of $14.2 million for the nine months ended June 27, 2008 was $1.6 million lower than interest expense of $15.8 million for the nine months ended June 29, 2007. The reduction in interest expense for the nine months ended June 27, 2008 was primarily due to lower interest rates on our debt obligations during the 2008 period compared to the corresponding period of fiscal year 2007 and redemption of a portion of our floating rate senior notes during the fourth quarter of fiscal year 2007. The reduction in interest rates was primarily due to the refinancing of our senior credit facilities during the fourth quarter of fiscal year 2007.

Loss on Debt Extinguishment. Loss on debt extinguishment of $0.5 million in the nine months ended June 27, 2008 resulted from the redemption of $6.0 million of our floating rate senior notes in March 2008 and $2.0 million in June 2008. The loss on debt extinguishment consists of $0.3 million in non-cash write-offs of deferred debt issue costs and issue discount costs and $0.2 million in cash payments for call premiums.

Income Tax Expense. We recorded income tax expense of $6.9 million and $8.6 million for the nine months ended June 27, 2008 and June 29, 2007, respectively. Our effective tax rate was approximately 32% for the nine months ended June 27, 2008 as compared to approximately 30% for the corresponding period of fiscal year 2007. The effective income tax rate in the nine months ended June 27, 2008 includes a discrete tax benefit of $0.4 million that is attributable to the fourth quarter of fiscal year 2007 related to the correction of an immaterial error in the computation of the warranty expense tax deduction in a foreign tax jurisdiction. The effective tax rate for the nine months ended June 29, 2007 includes a discrete tax benefit of $1.8 million that was recorded in the third quarter of fiscal year 2007 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.

Our estimated effective income tax rate for the fourth quarter of fiscal year 2008 is expected to be approximately 36%.

Net Income. Net income was $14.5 million, or 5.3% of sales, for the nine months ended June 27, 2008 as compared to $19.7 million, or 7.6% of sales, in the nine months ended June 29, 2007. Lower net income for the nine months ended June 27, 2008 was primarily due to higher income tax expense resulting primarily from a $1.8 million discrete tax benefit in fiscal year 2007, the unfavorable sales mix resulting primarily from increased sales of products from engineering development programs with lower gross margins, incremental operating expenses for the recently acquired Malibu division, higher research and development expenses and the unfavorable impact from the weakness of the U.S. dollar, partially offset by additional gross profit from the increase in sales volume and lower income tax expense and interest expense.

EBITDA. EBITDA was $43.8 million, or 16.1% of sales, for the nine months ended June 27, 2008 as compared to $50.7 million, or 19.5% of sales, for the nine months ended June 29, 2007. Lower EBITDA for the nine months ended June 27, 2008 was primarily due to the unfavorable sales mix resulting from increased sales of products from engineering programs with lower gross margins, incremental operating expenses for the recently acquired Malibu division, higher research and development expenses and the unfavorable impact from the weakness of the U.S. dollar, partially offset by additional gross profit from the increase in sales volume.

Liquidity and Capital Resources

Overview

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

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

Cash and Working Capital

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

	June 27, 2008	September 28, 2007
Cash and cash equivalents	$ 26,197	$ 20,474
Working capital	84,095	81,547

We invest cash balances in excess of operating requirements in overnight U.S. Government securities and money market accounts. In addition to the above cash and cash equivalents, we had restricted cash of $1.2 million as of June 27, 2008, consisting primarily of bank guarantees from customer advance payments to our international subsidiaries. The bank guarantees become unrestricted cash when performance under the sales or supply contract is complete.

The significant factors underlying the $5.7 million net increase in cash and cash equivalents during the nine months ended June 27, 2008 were the net cash provided by our operating activities of $24.7 million, a purchase price adjustment of $1.6 million for the Malibu acquisition and $0.6 million proceeds from employee stock purchases, partially offset by repayment of $8.0 million of the outstanding balance on our senior term loan, the redemption of $8.0 million in principal amount of our floating rate senior notes, capital expenditures of $3.3 million and purchase of treasury stock for $1.8 million.

We had total principal amount of debt outstanding of $230.75 million and $246.75 million as of June 27, 2008 and September 28, 2007, respectively. As of June 27, 2008, we had borrowing availability of $55.0 million under the revolver under our senior credit facilities.

As of July 30, 2008, after giving effect to an additional optional prepayment of $2.0 million on our senior term loan on such date, we had $228.75 million in total principal amount of debt outstanding.

Historical Operating, Investing and Financing Activities

Operating Activities

During the nine months ended June 27, 2008 and June 29, 2007, we funded our operating activities through cash generated internally.

Operating activities provided cash of $24.7 million in the nine months ended June 27, 2008, which was attributable to net income of $14.5 million, depreciation, amortization and other non-cash charges of $9.9 million, and $0.3 million cash provided by working capital items. The primary items providing cash from working capital in the first nine months of fiscal year 2008 were for $4.2 million decrease in accounts receivable and the release of $1.0 million restricted cash, partially offset by $1.5 million of prepaid income tax and $1.0 million decreases in each of income tax payable, product warranty and accrued expenses.

Operating activities provided cash of $19.3 million in the nine months ended June 29, 2007, which was attributable to net income of $19.7 million and depreciation, amortization and other non-cash charges of $8.8 million, partially offset by $9.2 million for cash used for working capital. The primary uses of cash for working capital in the nine months ended June 29, 2007 were for increases in inventories of $6.3 million, accounts receivable of $3.0 million due to the timing of customer shipments, and reduction in income taxes payable of $3.9 million due primarily to income tax payments from the taxable gain on the sale of our San Carlos property in fiscal year 2006. The total amount of cash used for working capital was partially offset by increases in accounts payable and accrued expenses of $4.3 million.

Investing Activities

For the nine months ended June 27, 2008, net cash used in investing activities was $1.8 million, compared to $6.8 million for the nine months ended June 29, 2007.

Investing activities for the nine months ended June 27, 2008 consisted primarily of $3.3 million capital expenditures and $0.1 million payment of patent application fees. The amount of cash used in investing activities was partially offset by cash received as a result of a $1.6 million adjustment to the purchase price of Malibu based on the actual working capital of Malibu as of the acquisition closing date.

The primary investing activities for the nine months ended June 29, 2007 was for $6.4 million capital expenditures, which included $3.7 million incurred for the building expansion of our Canadian manufacturing facility.

Financing Activities

For the nine months ended June 27, 2008, net cash used in financing activities was $17.2 million, compared to $3.2 million for the nine months ended June 29, 2007.

Net cash used in financing activities for the nine months ended June 27, 2008 consisted primarily of $1.8 million treasury stock purchases under the stock repurchase program discussed below, redemption of $8.0 million in principal amount of our floating rate senior notes and term loan repayments aggregating $8.0 million. The $8.0 million term loan repayments during the first nine months of fiscal year 2008 comprised the scheduled amortization payment of $250,000 for the first quarter of fiscal year 2008 and optional prepayments aggregating $7.75 million. The cash used in financing activities for the first nine

months of fiscal year 2008 was partially offset by $0.6 million in proceeds from employee stock purchases.

Financing activities for the nine months ended June 29, 2007 consisted primarily of a $5.0 million term loan repayment in December 2006 using available operating cash, partially offset by proceeds of $1.1 million from the stock option exercises and shares purchases under our employee stock purchase plan, and $0.7 million of excess tax benefits from stock option exercises. The $5.0 million term loan repayment included a $1.7 million required annual excess cash flow prepayment for fiscal year 2006 and an optional prepayment of $3.3 million.

If the leverage ratio under our amended and restated senior credit facilities exceeds 3.5:1 at the end of any fiscal year, then we are required to make an annual prepayment within 90 days after the end of the fiscal year based on a calculation of excess cash flow, as defined in the senior credit facilities, multiplied by a factor of 50%, less any optional prepayments made during the fiscal year. There was no excess cash flow payment due for fiscal year 2007, and, therefore, no excess cash flow payment was made in the nine months ended June 27, 2008.

Stock Repurchase Program

On May 28, 2008, we announced that our board of directors authorized us to implement a program to repurchase up to $12 million of our common stock from time to time, funded entirely from cash on hand. Repurchases made under the program are subject to the terms and limitations of our debt covenants, as well as market conditions and share price, and will be made at management's discretion in open market trades, through block trades or in privately negotiated transactions. The program may be modified or terminated by our board of directors at any time. During the three months ended June 27, 2008, we repurchased 136,215 shares recorded as treasury stock, at an average per share price of $13.17, plus brokerage commissions of $0.04 per share, for an aggregate cost of $1.8 million.

Capital Expenditures

Our continuing operations typically do not have large recurring capital expenditure requirements. Capital expenditures are generally made to replace existing assets, increase productivity, facilitate cost reductions or meet regulatory requirements. Total capital expenditures for the nine months ended June 27, 2008 were $3.3 million. We expect total fiscal year 2008 capital expenditures to be approximately $4.0 to $5.0 million.

Recently Released Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation (“FIN”) No. 48, “Accounting for Income Tax Uncertainties.” FIN No. 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as “more-likely-than-not” to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN No. 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. Effective September 29, 2007, we adopted FIN No. 48. The adoption of FIN No. 48 did not have any impact on our financial position, net income or prior year financial statements. See Note 10, "Income Taxes," to the consolidated condensed financial statements included in this Form 10-Q for further discussion.

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

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

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statement—amendments of ARB No. 51." SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. We will be required to adopt SFAS No. 160 in our fiscal year 2010 commencing October 3, 2009. We do not believe the adoption of SFAS No. 160 will have a material impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS No. 141(R)"), "Business Combinations," which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. We will be required to adopt SFAS No. 141(R) in our fiscal year 2010 commencing October 3, 2009.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced

disclosures about an entity's derivative instruments and hedging activities including: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. We will be required to adopt SFAS No. 161 in our second quarter of fiscal year 2009 commencing January 3, 2009. This standard is not expected to have a material effect on our financial position or results of operations, and will likely result in additional disclosures related to our derivatives.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3 ("FSP FAS 142-3"), "Determination of the Useful Life of Intangible Assets." FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." More specifically, FSP FAS 142-3 removes the requirement under paragraph 11 of SFAS No. 142 to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions and instead, requires an entity to consider its own historical experience in renewing similar arrangements. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. We will be required to adopt FSP FAS 142-3 in our fiscal year 2010 commencing October 3, 2009 and are currently evaluating the impact, if any, that the adoption of this new standard will have on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles, or GAAP, in the United States of America for non-governmental entities. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission's ("SEC") approval of the Public Company Accounting Oversight Board amendments to AU Section 411, the meaning of "Present Fairly in Conformity with GAAP." Any effect of applying the provisions of SFAS No. 162 is to be reported as a change in accounting principle in accordance with SFAS No. 154, "Accounting Changes and Error Corrections." We are currently evaluating the impact that the adoption of SFAS No. 162, once effective, will have on our financial position and results of operations.

In June 2008, the FASB Issued Emerging Issues Task Force ("EITF") No. 08-3, "Accounting by Lessees for Nonrefundable Maintenance Deposits." EITF No. 08-3 requires that nonrefundable maintenance deposits paid by a lessee under an arrangement accounted for as a lease be accounted for as a deposit asset until the underlying maintenance is performed. When the underlying maintenance is performed, the deposit may be expensed or capitalized in accordance with the lessee's maintenance accounting policy. If finalized, EITF No. 08-3 would be effective for fiscal years beginning after December 15, 2008, including interim periods within those fiscal years, and would be adopted by making a cumulative-effect adjustment to beginning retained earnings in the period of adoption. We will be required to adopt EITF No. 08-3 in our fiscal year 2010 commencing October 3, 2009 and are currently evaluating the impact, if any, that the adoption of this new standard will have on our consolidated financial statements.

Critical Accounting Policies and Estimates

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

We believe the following critical accounting policies are the most significant to the presentation of our financial statements and require the most subjective and complex judgments. These matters, and the judgments and uncertainties affecting them, are also essential to understanding our reported and future operating results.

Revenue recognition

We generally recognize revenue upon shipment of product, following receipt of written purchase orders, when the price is fixed or determinable, title has transferred and collectibility is reasonably assured. Value of sales under the percentage of completion method of accounting is determined on the basis of costs incurred and estimates of costs at completion, which require management estimates of future costs. Changes in estimated costs at completion over time could have a material impact on our operating results.

Inventory reserves

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

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

Product warranty

Our products are generally warranted for a variety of periods, typically one to three years or a predetermined product usage life. A provision for estimated future costs of repair, replacement or customer accommodations is reflected in the consolidated condensed financial statements included in this

report. We assess the adequacy of our preexisting warranty liabilities and adjust the balance based on actual experience and changes in future expectations. The determination of product warranty reserves requires us to make estimates of product return rates and expected cost to repair or replace the products under warranty. If actual repair and replacement costs differ significantly from our estimates, then adjustments to recognize additional cost of sales may be required.

Business combination and related goodwill and intangibles

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

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

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

Recoverability of long-lived assets

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

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

At June 27, 2008 and September 28, 2007, the carrying amount of goodwill and other intangible assets, net was $241.7 million and $243.3 million, respectively. As of June 27, 2008, no significant changes in the underlying business assumptions or circumstances that drive the impairment analysis led us to believe that goodwill might have been impaired. We will continue to evaluate the need for impairment if changes in circumstances or available information indicate that impairment may have occurred, and at least annually in the fourth quarter.

At June 27, 2008 and September 28, 2007, the carrying amount of property, plant and equipment was $63.5 million and $66.0 million, respectively. We assess the recoverability of property, plant and equipment to be held and used by a comparison of the carrying amount of an asset or group of
assets to the future net undiscounted cash flows expected to be generated by the asset or group of assets. If such assets are considered impaired, then the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. This process requires the use of cash flow models that utilize estimates of future revenue and expenses. There is inherent uncertainty in these estimates, and changes in these factors over time could result in an impairment charge.

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

Accounting for stock-based compensation

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

The fair value of each option award is estimated on the date of grant using the Black-Scholes model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable and requires the input of subjective assumptions, including the expected stock price volatility and estimated option life. For purposes of this valuation model, no dividends have been assumed.

In accordance with SFAS No. 123R, prior to becoming a public entity in April 2006, we used the minimum value method to determine a calculated value, rather than a fair value, of share awards. Under the minimum value method, stock price volatility was assumed to be zero. The estimated fair value (or calculated value, as applicable) of our stock-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis for awards granted after the adoption of SFAS No. 123R. Since our common stock has not been publicly traded for a sufficient time period, the expected volatility is based on expected volatilities of similar companies that have a longer history of being publicly traded.

The risk-free rates are based on the U.S. Treasury yield in effect at the time of the grant. Since our historical data is limited, the expected life of options granted is based on the simplified method for plain vanilla options in accordance with SAB No. 107. In December 2007, the SEC issued SAB No. 110, an amendment of SAB No. 107. SAB No. 110 states that the staff will continue to accept, under certain circumstances, the continued use of the simplified method beyond December 31, 2007. Accordingly, we will continue to use the simplified method until we have enough historical experience to provide a reasonable estimate of expected term. For the three and nine months ended June 27, 2008, we recognized $0.6 million and $1.6 million, respectively, in stock-based compensation expense. For the three and nine months ended June 29, 2007, we recognized $0.4 million and $0.9 million, respectively, in stock-based compensation expense.

Income taxes

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

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

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. In the first quarter of fiscal year 2008, we adopted FIN No. 48 and related guidance. See Note 10 to the consolidated condensed financial statements included in this Form 10-Q for further discussion. FIN No. 48 requires that we recognize liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to our long-term debt. As of June 27, 2008, we had fixed rate senior subordinated notes of $125.0 million due in 2012, bearing interest at 8% per year and variable rate debt consisting of $14.0 million floating rate senior notes due in 2015 and a $91.75 million term loan under our amended and restated senior credit facilities due in 2014. Our variable rate debt is subject to changes in the prime rate and the LIBOR rate.

We use derivative instruments from time to time in order to manage interest costs and risk associated with our long-term debt. On September 21, 2007, we entered into an interest rate swap contract to receive three-month USD-LIBOR-BBA interest and pay 4.77% fixed rate interest. Net interest positions are settled quarterly. We have structured the swap with decreasing notional amounts to match the expected pay down of the term loan. The notional value of the swap was $80.0 million at June 27, 2008 and represented approximately 87% of the aggregate term loan balance. The swap agreement is effective through June 30, 2011. Under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, this arrangement was initially designated and qualified as an effective cash flow hedge of interest rate risk related to the term loan under our senior credit facilities which permitted recording the fair value of the swap and corresponding unrealized gain or loss to accumulated other comprehensive income in the consolidated balance sheets. At June 27, 2008, the unrealized loss, net of tax, on the swap was $1.0 million.

We performed a sensitivity analysis to assess the potential loss in future earnings that a 10% increase in interest rates over a one-year period would have on our floating rate senior notes and term loan under our senior credit facilities. The impact was determined based on the hypothetical change from the end of period market rates over a period of one year and results in a net decrease of future annual earnings of approximately $0.1 million.

Foreign currency exchange risk

Although the majority of our revenue and expense activities are transacted in U.S. dollars, we do transact business in foreign countries. Our primary foreign currency cash flows are in Canada and several European countries. In an effort to reduce our foreign currency exposure to Canadian dollar denominated expenses, we enter into Canadian dollar forward contracts to hedge the Canadian dollar denominated costs for our manufacturing operation in Canada. Our Canadian dollar forward contracts are designated as a cash flow hedge and are considered highly effective, as defined by SFAS No. 133. The unrealized gains and losses from foreign exchange forward contracts are included in "accumulated other comprehensive income" in the consolidated balance sheets. If the transaction being hedged fails to occur, or if a portion of any derivative is ineffective, then we promptly recognize the gain or loss on the associated financial instrument in the consolidated statements of operations. No ineffective amounts were recognized due to anticipated transactions failing to occur in the three and nine months ended June 27, 2008 and June 29, 2007.

As of June 27, 2008, we entered into Canadian dollar forward contracts for approximately $17.0 million (Canadian dollars), or approximately 68% of estimated Canadian dollar denominated expenses for July 2008 through December 2008, at an average rate of approximately $0.975 U.S. dollar to Canadian dollar. We estimate the impact of a 1 cent change in the U.S. dollar to Canadian dollar

exchange rate (without giving effect to our Canadian dollar forward contracts) to be approximately $0.3 million annually to our net income or approximately 2.0 cents to basic earnings per share and 1.9 cents to diluted earnings per share.

Net income for the three and nine months ended June 27, 2008 includes a recognized loss of $0.1 million and gain of $0.3 million, respectively, from foreign currency forward contracts. Net income for the three and nine months ended June 29, 2007 includes a recognized loss from foreign currency forward contracts of $0.2 million. At June 27, 2008 and September 28, 2007, the unrealized gain, net of tax, on Canadian dollar forward contracts was $0.2 million and $1.2 million, respectively.

Item 4. Controls and Procedures

Management, including our principal executive officer and principal financial officer, has evaluated, as of the end of the period covered by this report, the effectiveness of the design and operation of our disclosure controls and procedures with respect to the information generated for use in this report. Based upon, and as of the date of that evaluation, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective to provide reasonable assurances that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

There have been no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II: OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

For a discussion of risk factors, see "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended September 28, 2007. There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our 2007 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below shows our repurchase of the Company's common stock during the three months ended June 27, 2008:

Period	Total Number of Shares Purchased	Average Price Paid per Share1	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)2
March 29-April 25, 2008	-	$ -	-	-
April 26-May 23, 2008	-	$ -	-	-
May 24-June 27, 2008	136,215	$ 13.17	136,215	$ 10,200
	136,215	$ 13.17	136,215	$ 10,200

1 Excludes brokerage commission of $0.04 per share.

2 On May 28, 2008, the Company announced the approval of its common stock repurchase program, which authorizes the Company to repurchase up to $12.0 million of its common stock from time to time. The program may be modified or terminated by the Company’s board of directors at any time.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

No.	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-15(e) and Rule 15d-15(e), promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-15(e) and Rule 15d-15(e), promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certifications of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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 thereunto duly authorized.

CPI INTERNATIONAL, INC.

Dated: August 6, 2008	/s/ JOEL A. LITTMAN Joel A. Littman Chief Financial Officer, Treasurer and Secretary (Duly Authorized Officer and Chief Financial Officer)