CPI INTERNATIONAL, INC.
Form 10-K
December 10, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended October 1, 2010

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: 000-51928

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)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Yes ¨ No x

Rule 405 of the Securities Act.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	Yes ¨ No x
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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	Yes ¨ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.	x

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 the definitions of "large accelerated filer," "accelerated filer" and "small 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 Act).	Yes ¨ No x

The aggregate market value of common stock held by non-affiliates of the registrant as of April 1, 2010 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $96 million, based on the closing sale price of $13.09 per share of common stock as reported on the Nasdaq Stock Market.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 16,820,741 shares of the registrant's common stock, par value $0.01 per share, were outstanding at December 1, 2010.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive 2011 proxy statement, anticipated to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

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Cautionary Statements Regarding Forward-Looking Statements

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that relate to future events or our future financial performance. In some cases, readers can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative 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, risks associated with our pending merger agreement with an affiliate of The Veritas Capital Fund IV (including the risk that the merger may not be consummated); competition in our end markets; our significant amount of debt and our ability to refinance our debt; changes or reductions in the United States defense budget; currency fluctuations; goodwill impairment considerations; customer cancellations of sales contracts; U.S. Government contracts; export restrictions and other laws and regulations; international laws; changes in technology; the impact of unexpected costs; the impact of a general slowdown in the global economy; the impact of environmental laws and regulations; 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.

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PART I

Item 1. Business

Background

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

Approximately half of our product sales for fiscal year 2010 were for United States and foreign government and military end use, particularly for radar, electronic warfare and communications applications. We are one of three companies in the U.S. that have the facilities and expertise to produce a broad range of high-power microwave products to the demanding specifications required for advanced military applications. Our products are critical elements of high-priority U.S. and foreign military programs and platforms, including numerous planes, ships and ground-based platforms. Defense applications of our products include transmitting and receiving radar signals for locating and tracking threats, weapons guidance and navigation, as well as transmitting decoy and jamming signals for electronic warfare, transmitting and receiving command and control data between airborne platforms and ground-based or ship-based terminals, and transmitting signals for satellite communications. The U.S. Government is our only customer that accounted for more than 10% of our sales in the last three fiscal years.

In addition to our strong presence in defense applications, we have successfully applied our key technologies to commercial end markets, including communications, medical, industrial and scientific applications, which provide us with a diversified base of sales. Approximately half of our product sales for fiscal year 2010 were for commercial applications.

We continue to develop higher-power, wider-bandwidth and higher-frequency microwave products that enable technological advances for our defense and commercial customers. In fiscal year 2010, we generated approximately 58% of our total sales from products for which we believe that we are the sole provider to our customers, enhancing our reputation and the stability of our business.

Having average lives of between three and seven years, many of our products "wear out" and require replacement. We estimate that approximately 36% of our total sales for fiscal year 2010 were generated from recurring sales of replacements, spares and repairs, including upgraded replacements for existing products, providing us with a stable, predictable business that is partially insulated from dramatic shifts in market conditions. We regularly work with our customers to create upgraded products with enhanced bandwidth, power and reliability. We estimate that our products are installed on more than 125 U.S. defense systems and more than 180 commercial systems. This installed base and our sole-provider position on high-profile U.S. military and commercial programs provide us with a reputation and market visibility that we believe will help us generate profitable future sales growth.

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

Unless otherwise noted or dictated by context, (1) “CPI International” means CPI International, Inc., (2) “Communications & Power Industries” means Communications & Power Industries, Inc., the direct, wholly owned operating subsidiary of CPI International and (3) the terms “we,” “us” and “our” refer to CPI International and its direct and indirect subsidiaries on a consolidated basis.

We are organized into six operating divisions: Microwave Power Products Division (Palo Alto, California), Beverly Microwave Division (Beverly, Massachusetts), Satcom Division (Ontario, Canada), Communications & Medical Products Division (Ontario, Canada), Econco Division (Woodland, California) and Malibu Division (Camarillo, California).

Merger Agreement

We entered into an Agreement and Plan of Merger dated as of November 24, 2010 ("Merger Agreement") with Catalyst Holdings, Inc., a Delaware corporation (“Parent”) and Catalyst Acquisition, Inc., a wholly-owned subsidiary of Parent ("Merger Sub"). Parent and Merger Sub are affiliates of The Veritas Capital Fund IV ("Veritas").

The Merger Agreement contemplates that Merger Sub will be merged with and into CPI International, Inc., with CPI International, Inc. surviving as a wholly-owned subsidiary of Parent (the "Merger"), and each outstanding share of our common stock will be converted in the Merger into the right to receive $19.50 per share in cash.

We have made customary representations, warranties and covenants in the Merger Agreement, including (i) our agreement, subject to certain exceptions, to conduct business in the ordinary course and not to engage in certain activities between the execution of the Merger Agreement and the consummation of the merger and (ii) our agreement to not solicit or knowingly encourage alternative transactions or, subject to certain exceptions, enter into discussions concerning, or provide information in connection with, alternative transactions.

The completion of the Merger is subject to certain conditions, including, among others, (i) the adoption of the Merger Agreement by our stockholders, (ii) the absence of certain legal impediments to the consummation of the merger, (iii) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and certain approvals under foreign anti-competition laws, (iv) subject to certain materiality exceptions, the accuracy of the representations and warranties made by Parent and us, respectively, and (v) compliance by Parent and us with the respective obligations under the Merger Agreement. The completion of the Merger is not subject to a financing condition. However, generally, Parent will not be required to close the merger until completion of a marketing period set forth in the Merger Agreement.

The Merger Agreement contains typical mutual termination rights, including termination by mutual agreement of the parties, for any final and nonappealable order or law enjoining or prohibiting or making illegal the Merger or for failure to obtain our stockholder approval. In addition, either party may terminate the Merger Agreement if the Merger is not consummated by April 15, 2011. In addition, the Merger Agreement may be terminated by Parent in the event that our board of directors changes its recommendation. We may terminate the Merger Agreement in order to enter into a superior acquisition proposal. We may also terminate the Merger agreement if all of the conditions precedent to Parent’s obligation to close have been satisfied or waived (other than conditions that by their terms are to be satisfied at the closing) and Parent does not complete the closing by the required date.

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We have agreed to pay a termination fee upon termination of the merger agreement if, among other things, (i) Parent terminates the merger agreement due to a recommendation change by our board of directors, (ii) either party terminates the merger agreement because of the failure to obtain stockholder approval and before termination, our board of directors changes its recommendation, or (iii) we terminate the merger agreement to enter into a superior acquisition proposal. If the merger agreement is terminated in connection with a superior acquisition proposal, then the termination fee payable by us is $13 million. A termination by Parent following a change of recommendation resulting from certain events, circumstances or developments unknown or not understood as of the date of the merger agreement results in a termination fee of $15 million. In addition, if the termination by Parent following a change in recommendation resulting from certain events, circumstances or developments unknown or not understood as of the date of the merger agreement occurs after the stockholder meeting to approve the merger agreement and the stockholders fail to approve the merger agreement, we will also be required to reimburse up to $2.5 million of Parent's fees and expenses.

If we terminate the merger agreement under certain circumstances (including Parent's failure to consummate the merger by the required date following satisfaction or waiver of all conditions precedent to Parent's obligation to close (other than conditions that by their terms are to be satisfied at the closing)), Parent must pay us a termination fee of $22.5 million; provided that this termination fee will be increased to $27.5 million if Parent has committed willful breach of the merger agreement.

In connection with the proposed transaction, we will file a proxy statement with the Securities and Exchange Commission (“SEC”). Before making any voting or investment decision, investors and security holders are urged to carefully read the entire proxy statement and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information about the proposed transaction.

Our stockholders will be mailed copies of the proxy statement. Stockholders will also be able to obtain the proxy statement, as well as other filings containing information about CPI International, at no cost on our Web site at www.cpii.com as soon as reasonably practicable after they are filed or furnished to the Securities and Exchange Commission (the “SEC”). They will also be available at no cost by contacting our Investor Relations Department at investor.relations@cpii.com and are also accessible on the SEC’s Web site at www.sec.gov.

Markets

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

- the transmission of radar signals for navigation and location;
- the transmission of deception signals for electronic countermeasures;
- the transmission, reception and amplification of voice, data and video signals for broadcasting, data links, Internet, flight testing and other types of commercial and military communications;

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- providing power and control for medical diagnostic imaging;
- generating microwave energy for radiation therapy in the treatment of cancer; and
- generating microwave energy for various industrial and scientific applications.

Our end markets are described below.

Radar and Electronic Warfare Market

We supply products used in various types of military radar systems, including search, fire control, tracking and weather radar systems. In radar systems, our products are used to generate or amplify electromagnetic energy pulses, which are transmitted via the radar system's antenna through the air until they strike a target. The return "echo" is read and analyzed by the receiving portion of the radar system, which then enables the user to locate and identify the target. Our products have been an integral element of radar systems for more than five decades.

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

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

Our sales in the radar and electronic warfare market, which we also call our defense market, were $131.6 million, $135.9 million and $151.8 million in fiscal years 2010, 2009 and 2008, respectively. On average, approximately 56% of our sales in the radar and electronic warfare market are generated from recurring sales of replacements, spares and repairs, including upgraded replacements for existing products.

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Medical Market

Within the medical market, we focus on diagnostic and treatment applications. For diagnostic applications, we provide products for medical imaging applications, such as x-ray imaging, magnetic resonance imaging (“MRI”) and positron emission tomography (“PET”). For these applications, we provide x-ray generators, subsystems, software and user interfaces, including state-of-the-art, high-efficiency, compact power supplies and modern microprocessor-based controls and operator consoles for diagnostic imaging. We also provide power grid devices for PET Isotope production systems. These systems are linac-based proton accelerators used in the detection of cancer and other diseases.

X-ray generators are used to generate and control the electrical energy being supplied to an x-ray vacuum electron device (“VED”) and, therefore, control the dose of radiation delivered to the patient during an x-ray imaging procedure. In addition, these x-ray generators include a user interface to control the operation of the equipment, including exposure times and the selection of the anatomic region of the body to be examined. These generators are interfaced with, and often power and control, auxiliary devices, such as patient positioners, cameras and automatic exposure controls, to synchronize the x-ray examination with this other equipment.

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

Sales in the medical market were $70.2 million, $61.2 million and $65.8 million in fiscal years 2010, 2009 and 2008, respectively.

For many years, we have been the sole provider of klystron high-power microwave devices to Varian Medical Systems Inc.’s oncology systems division for use in its High Energy Clinac® radiation therapy machines for the treatment of cancer, and we expect this relationship to continue. We also provide x-ray generators for use on the On-Board Imager accessory for the Clinac and Trilogy™ medical linear accelerators. This automated system for image-guided radiation therapy uses high-resolution x-ray images to pinpoint tumor sites. Recently, we have also begun providing x-ray generators for use on the TrueBeam™ radiotherapy systems for the treatment of cancer. More than 5,900 of Varian Medical Systems’ medical linear accelerators for cancer radiotherapy are in service around the world, delivering more than 30 million cancer treatments each year.

The market for our x-ray generators and associated products is broad, ranging from dealers who buy only a few generators per year, up to large original equipment manufacturers (“OEMs”) who buy hundreds per year. We sell our x-ray generators and associated equipment worldwide and have been growing both our geographic presence and our product portfolio. We have introduced new products, including x-ray generators with image processing systems, to assist customers in their migration from film-based radiology systems to digital radiology systems. We believe that we are one of the leading independent supplier of x-ray generators in the world, and we believe that this market provides continued long-term growth opportunities for us.

We have traditionally focused on hospital, or “mid- to high-end,” applications, and have become a premier supplier to this part of the market. There also exists substantial demand for “lower-end” applications, and, in recent years, we have introduced families of products that allow us to participate more fully in this part of the market.

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Communications Market

In the communications market, we provide microwave and millimeter-wave amplifiers for commercial and military communications links for broadcast, video, voice and data transmission. Our sales in the communications market were $124.0 million, $106.4 million and $117.8 million in fiscal years 2010, 2009 and 2008, respectively. The communications market is the most dynamic of our end markets, and sales can vary significantly from quarter to quarter due, in part, to the timing and size of our shipments for specific programs during a particular quarter, including, for example, infrastructure programs for commercial direct-to-home or broadband satellite communications applications and military satellite communications programs. Historically, we have focused primarily on commercial communications applications, but in recent years, we have expanded our focus to include military communications applications, as we believe that there is a significant and growing market for our products for these applications. Military communications applications now make up a growing portion of our total communications business, and approximately one-third of our total communications sales in fiscal year 2010 were for military communications applications.

Our commercial communications programs include satellite, terrestrial broadcast and over-the-horizon applications. Our military communications programs include satellite, data link and over-the-horizon communications applications. For satellite, terrestrial broadcast, data link and over-the-horizon communications applications, our products amplify and transmit signals within an overall communications system:

· Ground-based satellite communications transmission systems use our products to enable the transmission of microwave signals, carrying either analog or digital information, from a ground-based station to the transponders on an orbiting satellite by boosting the power of the low-level original signal to desired power levels for transmission over hundreds or thousands of miles to the satellite. The signal is received by the satellite transponder, converted to the downlink frequency and retransmitted to a ground-based receiving station.

The majority of our communications products are sold into the satellite communications market. We estimate that we have a worldwide installed base of more than 27,000 amplifiers. We believe that we are a leading producer of power amplifiers, amplifier subsystems and high-power microwave devices for satellite uplinks, and that we offer one of the industry's most comprehensive lines of satellite communications amplifiers, with offerings for virtually every currently applicable frequency and power requirement for both fixed and mobile satellite communications applications in the military and commercial arena. We believe our technological expertise, our well-established worldwide service network and our ability to design and manufacture both the fully integrated amplifier and either the associated high-power microwave device or the solid-state RF device allow us to provide a superior overall service to our customers.

We are participating in satellite communications growth areas, including: amplifiers for the 30 gigahertz (GHz) band (Ka-band), which is one of the major satellite communications growth areas for both commercial and military applications; the growing application worldwide of conventional and high-definition television for direct-to-home satellite broadcast; the use of satellite communications for broadband data communications; and specialized amplifiers for the military communications market.

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- Terrestrial broadcast systems use our products to amplify and transmit signals, including television and radio signals at very high (“VHF”) and ultra high (“UHF”) frequencies, or other signals at a variety of frequencies. Through the years, we have established a customer base of several thousand customers in the broadcast market, providing us with opportunities for replacement, spares, upgrade and rebuilding business.

- Data link communications systems use our products to transmit and receive real-time command and control, intelligence, surveillance and reconnaissance (“ISR”) data between airborne platforms, including UAVs and manned airborne platforms, and their associated ground-based and ship-based terminals via high-bandwidth digital data links. Our products are on the airborne and ground nodes of the tactical common data link (“TCDL”) network for various platforms.

- Over-the-horizon (also referred to as “troposcatter”) systems use our high-power amplifiers and traveling wave tubes to send a signal through the atmosphere, bouncing the signal off the troposphere, the lowest atmospheric layer, and enabling receipt of the signal tens of miles to hundreds of miles away. These systems transmit voice, video and data signals without requiring the use of a satellite, providing an easy-to-install, relocatable and cost-efficient alternative to satellite-based communications.

Industrial Market

The industrial market includes applications for a wide range of systems used for material processing, instrumentation and voltage generation. We offer a number of specialized product lines to address this diverse market. We produce fully integrated amplifiers that include the associated high-power microwave devices used in instrumentation applications for electromagnetic interference and compatibility testing. Our products are also installed in the power supply modules of industrial equipment using RF energy to perform pipe and plastic welding, textile drying and semiconductor wafer fabrication. We have a line of industrial RF generators that use high-power microwave technology for various industrial heating and material processing applications. Our sales in the industrial market were $23.6 million, $20.2 million and $25.1 million in fiscal years 2010, 2009 and 2008, respectively.

Scientific Market

The scientific market consists primarily of equipment used in reactor fusion programs and accelerators for the study of high-energy particle physics, referred to as “Big Science.” Generally, in scientific applications, our products are used to generate high levels of microwave or RF energy to accelerate a beam of electrons in order to study the atom and its elementary particles. Our products are also used in research related to the generation of electricity from fusion reactions. Our sales in the scientific market were $11.0 million, $9.2 million and $9.5 million in fiscal years 2010, 2009 and 2008, respectively.

Geographic Markets

We sell our products in approximately 90 countries. In fiscal year 2010, sales to customers in the U.S., Europe and Asia accounted for approximately 64%, 16% and 16% of our total sales, respectively. No country other than the U.S. accounted for more than 10% of our sales in fiscal year 2010. See “Sales, Marketing and Service.” For financial information about geographic areas, see Note 13 to the accompanying audited consolidated financial statements.

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Products

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

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

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

Generally, our products are used to:

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

VEDs were initially developed for defense applications but have since been applied to many commercial markets. We use tailored variations of this key technology to address the different frequency and power requirements in each of our target markets. Generally our VED products derive from, or are enhancements to, the original VED technology on which our company was founded. Most of our other products were natural offshoots of the original VED technology and were developed in response to the opportunities and requirements in the market for more fully integrated products and services. The type of device selected for a specific application is based on the operating parameters required by the system. Our products generally have selling prices ranging from $2,000 to $200,000, with certain, limited products priced up to $1,000,000.

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We sell several categories of VEDs, including:

- Klystrons and gyrotrons: Klystrons are typically high-power VEDs that operate over a narrow range of frequencies, with power output ranges from hundreds of watts to megawatts and frequencies from 500 kilohertz (KHz)to over 30 GHz. We produce and manufacture klystrons for a variety of radar, communications, medical, industrial and scientific applications. Gyrotron oscillators and amplifiers operate at very high power and very high frequencies. Power output of one megawatt has been achieved at frequencies greater than 100 GHz. These devices are used in areas such as fusion research, electronic warfare and high-resolution radar.

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

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

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

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

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

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In addition to VEDs, we also sell:

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

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

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

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

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

Backlog

As of October 1, 2010, we had an order backlog of $241.9 million compared to an order backlog of $226.0 million as of October 2, 2009. Backlog represents the cumulative balance, at a given point in time, of recorded customer sales orders that have not yet been shipped or recognized as sales. Backlog is increased when an order is received, and backlog is reduced when we recognize sales. We believe that backlog and orders information is helpful to investors because this information may be indicative of future sales results. Although backlog consists of firm orders for which goods and services are yet to be provided, customers can, and sometimes do, terminate or modify these orders. Historically, however, the amount of modifications and terminations has not been material compared to total contract volume. Approximately 85% of our backlog as of October 1, 2010 is expected to be filled within fiscal year 2011.

Sales, Marketing and Service

Our global distribution system provides us with the capability to introduce, sell and service our products worldwide. Our distribution system primarily uses our direct sales professionals throughout the world. We have direct sales offices throughout North America and Europe, as well as in India, Singapore, China and Australia. As of October 1, 2010, we had 145 direct sales, marketing and technical support individuals on staff. Our wide-ranging distribution capabilities enable us to serve our growing international markets, which accounted for approximately 36% of our sales in fiscal year 2010.

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

In addition to our direct sales force, we use approximately 64 external sales organizations and one significant stocking distributor, Richardson Electronics, Ltd., to service the needs of customers in certain markets. The majority of the third-party sales organizations that we use are located outside the U.S. and Europe and focus primarily on customers in South America, Southeast Asia, the Middle East, Africa and Eastern Europe. Through the use of third-party sales organizations, we are better able to meet the needs of our foreign customers by establishing a local presence in lower volume markets. Using both our direct sales force and our largest distributor, Richardson Electronics, we are able to market our products to both end users and system integrators around the world and to deliver our products with short turn-around times.

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Given the complexity of our products, their critical function in customers' systems and the unacceptably high costs to our customers of system failure and downtime, we believe that our customers view our product breadth, reliability and superior responsive service as key points of differentiation. We offer comprehensive customer support, with direct technical support provided by 17 strategically located service centers, primarily serving satellite communications customers. These service centers are located in the U.S. (California and New Jersey), Canada (Georgetown, Ontario), Brazil, China (four), India (two), Japan, Peru, Russia, Singapore, South Africa, Taiwan and The Netherlands. The service centers enable us to provide extensive technical support and rapid response to customers' critical spare parts and service requirements throughout the world. In addition, we offer on-site installation assistance, on-site service contracts, a 24-hour technical support hotline and complete product training at our facilities, our service centers or customer sites. We believe that many of our customers specify our products in competitive bids due to our responsive global support and product quality.

Competition

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

We also continually engage in research and development efforts in order to introduce innovative new products for technologically sophisticated customers and markets. There is an inherent risk that advances in existing technology, or the development of new technology, could adversely affect our market position and financial condition. We provide both VED and solid-state alternatives to our customers, and invest in research and development efforts across a wide range of power and frequency levels in both VED and solid-state technologies. We believe that for the foreseeable future, solid-state devices are well suited for specific lower-power applications but will be unable to compete on a cost-effective basis in the high-power/high-frequency markets that represent the majority of our business. We believe that VED and solid-state technologies currently serve their own specialized markets without significant overlap in most applications.

Research and Development

Total research and development spending was \$28.5 million, \$28.0 million and \$22.8 million during fiscal years 2010, 2009 and 2008, respectively. Total research and development spending consisted of company-sponsored research and development expense of \$12.4 million, \$10.5 million and \$10.8 million during fiscal years 2010, 2009 and 2008, respectively, and customer-sponsored research and development of \$16.1 million, \$17.5 million and \$12.0 million during fiscal years 2010, 2009 and 2008, respectively. Customer-sponsored research and development costs are charged to cost of sales to correspond with revenue recognized.

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Manufacturing

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

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

Intellectual Property

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

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

U.S. Government Contracts and Regulations

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

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

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

Environmental Matters

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

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

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

In connection with the agreement for the sale of our former facility located in San Carlos, California in September 2006, the buyer of the facility obtained insurance to cover the expected environmental remediation costs and other potential environmental liabilities at that facility. In addition, in connection with the sale, we released Varian Medical Systems from certain of its indemnification obligations with respect to that facility. If the proceeds of the environmental insurance are insufficient to cover the required remediation costs and potential other environmental liabilities at that facility, we could be required to bear a portion of those liabilities.

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

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Employees

As of October 1, 2010, we had approximately 1,580 employees, of which 450 are located outside the United States (including approximately 420 in Canada). None of our employees is subject to a collective bargaining agreement, although a limited number of our sales force members located in Europe are members of work councils or unions. We have not experienced any work stoppages, and we believe that we have good relations with our employees.

Financial Information About Segments

For financial information about our segments, see Note 13 to the accompanying audited consolidated financial statements.

Available Information

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

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

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Item 1A. Risk Factors

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

RISKS RELATING TO OUR BUSINESS

Risks related to our merger agreement with an affiliate of The Veritas Capital Fund IV

The Merger is subject to satisfaction or waiver of certain customary conditions, including the approval of the Merger by our stockholders.

Completion of the Merger is subject to the satisfaction or waiver of certain customary conditions, including the adoption of the Merger Agreement by our stockholders, receipt of required antitrust approvals (or termination or expiration of applicable waiting periods), the accuracy of the representations and warranties of the parties and compliance by the parties with their respective obligations under the Merger Agreement and no court or other governmental entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law (including any injunction) that restrains, enjoins or otherwise prohibits consummation of the Merger or otherwise makes the consummation of the Merger illegal. The transaction is expected to close in the first quarter of calendar year 2011. However, no assurances can be given that the transaction contemplated by the Merger Agreement will be consummated or, if not consummated, that we will enter into a comparable or superior transaction with another party.

The Merger may not be completed if sufficient financing is not funded.

Parent has obtained equity and debt financing commitments. The funding under those commitments is subject to conditions. We believe the committed amounts will be sufficient to complete the Merger, but we cannot assure you of that. Those amounts might be insufficient if, among other things, we have substantially less cash on hand or Parent has substantially less net proceeds from the equity and debt financings than we currently expect. Although obtaining the equity or debt financing is not a condition to the completion of the Merger, the failure of Parent and Merger Sub to obtain sufficient financing is likely to result in the failure of the Merger to be completed. We believe the committed amounts will be sufficient to complete the transaction, but cannot provide any assurance to that effect.

Although the debt financing described herein is not subject to due diligence or “market out” provisions, which allows lenders not to fund their commitments if certain conditions in the financial markets prevail, there is still a risk that such financing may not be funded when required. As of the date of this Annual Report on Form 10-K, no alternative financing arrangements or alternative financing plans have been made in the event the debt financing described herein is not available as anticipated. Even though obtaining the equity or debt financing is not a condition to the completion of the Merger, the failure of Parent and Merger Sub to obtain sufficient financing is likely to result in the failure of the Merger to be completed. In that case, Parent may be obligated to pay us a termination fee, which obligation is guaranteed under the Limited Guarantee by Veritas.

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Our future business and financial position may be adversely affected if the Merger is not completed.

If the Merger Agreement is terminated and the Merger is not consummated, we will have incurred substantial expenses without realizing the expected benefits of the Merger. In addition, we may also be subject to additional risks including, without limitation:

- upon termination of the Merger Agreement under specified circumstances, we may be required to pay Parent a termination fee of up to $15 million and in certain cases to reimburse up to $2.5 million of transaction expenses incurred by Parent and Merger Sub;
- substantial costs related to the Merger, such as legal, accounting and financial advisory fees, must be paid regardless of whether the Merger is completed; and
- potential disruption to the current plan, operations, businesses and distraction of our workforce and management team.

Litigation related to the Merger could adversely affect our financial results.

A putative stockholder class action complaint was filed against CPI International, the members of the CPI International board of directors, and Comtech Telecommunications Corp. in the California Superior Court for the County of Santa Clara in connection with the previously proposed merger between us and Comtech Telecommunications Corp. The plaintiff in this litigation has filed a motion for leave to amend this complaint to state claims against CPI International, the members of the CPI International board of directors, Cypress Associates II LLC, and Veritas and its affiliates in connection with the currently proposed Merger. It is also possible that additional lawsuits will be filed against us and our directors in connection with the currently proposed Merger. The cost of defending such lawsuits and paying any judgment or settlement in connection therewith could have an adverse impact on our financial results.

The Merger creates unique risks in the time leading up to closing, and there are also risks of completing the conditions to closing.

The Merger Agreement generally requires us to operate our business in the ordinary course pending consummation of the proposed combination, but restricts us, without Parent’s consent, from taking certain specified actions until the Merger is complete or the Merger Agreement is terminated. Further, the pending Merger might increase our risk of loss of key employees due to, among other things, uncertainty concerning our post-Merger operation.

Until all conditions to the Merger are satisfied, we cannot be certain that the Merger will close. We will incur significant transaction costs relating to the proposed Merger, whether or not the proposed Merger is completed. Additionally, matters relating to the Merger may require substantial commitments of time and resources, which could otherwise have been devoted to other beneficial opportunities and there may be potential difficulties in employee retention as a result of the Merger.

Any loss of business opportunities or key personnel could have an adverse impact on future business, and, as a result, result in lower future sales and earnings.

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If we are unable to complete our proposed Merger our stock price could suffer.

The termination of the Merger Agreement would likely result in a decline in our stock price to the extent that our stock price reflects a market assumption that we will complete the Merger and our stockholders will receive the merger consideration specified in the Merger Agreement.

We face competition in the markets in which we sell our products.

The U.S. and foreign markets in which we sell our products are competitive. Our ability to compete in these markets depends on our ability to provide high-quality products with short lead times at competitive prices, as well our ability to create innovative new products. In addition, our competitors could introduce new products with greater capabilities, which could have a material adverse effect on our business. Certain of our competitors are owned by companies that have substantially greater financial resources than we do. Also, our foreign competitors may not be subject to U.S. Government export restrictions, which may make it easier in certain circumstances for them to sell to foreign customers. If we are unable to compete successfully against our current or future competitors, our business and sales will be harmed.

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

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

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

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

- changes or anticipated changes in third-party reimbursement amounts or policies applicable to treatments using our products;
- revenues becoming affected by seasonal influences;
- changes in foreign currency exchange rates;
- changes in the relative portion of our revenues represented by our various products;
- timing of the announcement, introduction and delivery of new products or product enhancements by us and by our competitors;
- disruptions in the supply or changes in the costs of raw materials, labor, product components or transportation services;

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- the impact of changing levels of sales to sole purchasers of certain of our products; and
- the unfavorable outcome of any litigation.

A significant portion of our sales is, and is expected to continue to be, from contracts with the U.S. Government, and any significant reduction in the U.S. defense budget or any disruption or decline in U.S. Government expenditures could negatively affect our results of operations and cash flows.

Approximately 34%, 33% and 35% of our sales in our 2010, 2009 and 2008 fiscal years, respectively, were made to the U.S. Government, either directly or indirectly through prime contractors or subcontractors. Because U.S. Government contracts are dependent on the U.S. defense budget, any significant disruption or decline in U.S. Government expenditures in the future, changes in U.S. Government spending priorities, other legislative changes or changes in our relationship with the U.S. Government could result in the loss of some or all of our government contracts, which, in turn, could result in a decrease in our sales and cash flow.

In addition, U.S. Government contracts are also conditioned upon continuing congressional approval and the appropriation of necessary funds. Congress usually appropriates funds for a given program each fiscal year even though contract periods of performance may exceed one year. Consequently, at the outset of a major program, multi-year contracts are usually funded for only the first year, and additional monies are normally committed to the contract by the procuring agency only as Congress makes appropriations for future fiscal years. We cannot ensure that any of our government contracts will continue to be funded from year to year. If such contracts are not funded, our sales may decline, which could negatively affect our results of operations and result in decreased cash flows.

We are subject to risks particular to companies supplying defense-related equipment and services to the U.S. Government. The realization of any of these risks could cause a loss of or decline in our sales to the U.S. Government.

U.S. Government contracts contain termination provisions and are subject to audit and modification

The U.S. Government has the ability to:

- terminate existing contracts, including for the convenience of the government or because of a default in our performance of the contract;
- reduce the value of existing contracts;
- change the terms of performance of existing contracts;
- cancel multi-year contracts or programs;
- audit our contract-related costs and fees, including allocated indirect costs;
- suspend or debar us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations or other laws that apply to the performance of government contracts; and
- control and potentially prohibit the export of our products, technology or other data.

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Each of our U.S. Government contracts can be terminated by the U.S. Government either for its convenience or if we default by failing to perform under the contract. If such contracts are terminated or reduced in scope, our sales may decline, which would negatively affect our results of operations and result in decreased cash flow. Termination-for-convenience provisions provide only for our recovery of costs incurred or committed, settlement expenses and profit on the work completed prior to termination. Termination-for-default provisions may provide for the contractor to be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source. Our contracts with foreign governments generally contain similar provisions relating to termination at the convenience of the customer.

The U.S. Government may review or audit our direct and indirect costs and performance on certain contracts, as well as our accounting and general business practices, for compliance with complex statutes and regulations, including the Truth in Negotiations Act, Federal Acquisition Regulations, Cost Accounting Standards and other administrative regulations. Like most government contractors, the U.S. Government audits our costs and performance on a continual basis, and we have outstanding audits. Based on the results of these audits, the U.S. Government may reduce our contract-related costs and fees, including allocated indirect costs. In addition, under U.S. Government regulations, some of our costs, including certain financing costs, research and development costs and marketing expenses, may not be reimbursable under U.S. Government contracts.

We are subject to laws and regulations related to our U.S. Government contracts business which may impose additional costs on our business.

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

In addition, many of our U.S. Government contracts require our employees to maintain various levels of security clearances, and we are required to maintain certain facility clearances. Complex regulations and requirements apply to obtaining and maintaining personnel and facility security clearances, and obtaining such clearances can be a lengthy process. To the extent we are not able to obtain or maintain personnel or facility security clearances, we also may not be able to seek or perform future classified contracts. If we are unable to do any of the foregoing, we will not be able to maintain or grow our business, and our revenue may decline.

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As a result of our U.S. Government business, we may be subject to false claim suits, and a judgment against us in any of these suits could cause us to be liable for substantial damages.

Our business with the U.S. Government, subjects us to "qui tam," or "whistle blower," suits brought by private plaintiffs in the name of the U.S. Government upon the allegation that we submitted a false claim to the U.S. Government, as well as to false claim suits brought by the U.S. Government. A judgment against us in a qui tam or false claim suit could cause us to be liable for substantial damages (including treble damages and monetary penalties) and could carry penalties of suspension or debarment, which would make us ineligible to receive any U.S. Government contracts for a period of up to three years. Any material judgment, or any suspension or debarment, could result in increased costs and a loss of revenue, which could negatively affect our results of operations. In addition, any of the foregoing could cause a loss of customer confidence and could negatively harm our business and our future prospects.

Some of our sole-provider business from the U.S. Government in the future may be subject to competitive bidding.

Some of the business that we will seek from the U.S. Government in the future may be awarded through a competitive bidding process. The competitive bidding process may reduce the price at which we sell our products to the U.S. Government and reduce our net income. Competitive bidding on government contracts presents risks such as:

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

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

If we fail to win competitively bid contracts or fail to perform under these contracts in a profitable manner, our sales and results of operations could suffer.

Our business and operating results could be adversely affected by losses under fixed-price contracts.

Most of our governmental and commercial contracts are fixed-price contracts. Fixed-price contracts require us to perform all work under the contract for a specified lump-sum price. Fixed-price contracts expose us to a number of risks, including underestimation of costs, ambiguities in specifications, unforeseen costs or difficulties, problems with new technologies, delays beyond our control, failure of subcontractors to perform and economic or other changes that may occur during the contract period. In addition, some of our fixed-price contracts contain termination provisions that permit our customer to terminate the contract if we are unsuccessful in fulfilling our obligations under the contract. In that event, we could be liable for the excess costs incurred by our customer in completing the contract.

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The end markets in which we operate are subject to technological change, and changes in technology could adversely affect our sales.

Our defense and commercial end markets are subject to technological change. Advances in existing technology, or the development of new technology, could adversely affect our business and results of operations. Historically, we have relied on a combination of internal research and development and customer-funded research and development activities. To succeed in the future, we must continually engage in effective and timely research and development efforts in order to introduce innovative new products for technologically sophisticated customers and end markets and to benefit from the activities of our customers. If we fail to adapt successfully to technological changes or fail to obtain access to important technologies, our sales could suffer.

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

As of October 1, 2010, our goodwill, developed and core technology and other intangibles amounted to $234.7 million, net of accumulated amortization. We will amortize approximately $3.0 million in each of fiscal years 2011 and 2012, $2.9 million in each of fiscal years 2013 and 2014, and $57.5 million thereafter. To the extent we do not generate sufficient cash flows to recover the net amount of any investment in goodwill and other intangibles recorded, the investment could be considered impaired and subject to write off. We expect to record further goodwill and other intangible assets as a result of any future acquisitions we may complete. Future amortization of such other intangible assets or impairments, if any, of goodwill would adversely affect our results of operations in any given period.

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

Licenses or other authorizations are required from U.S. Government agencies for the export of many of our products in accordance with various regulations, including the United States Export Administration Regulations (for commercial products, including “dual use” products with military applications) and the International Traffic in Arms Regulations (for defense articles and defense services). Under these regulations, a license or other authorization may be required before transferring certain export-controlled articles or technical data, or providing defense services, to foreign persons, whether in the United States or abroad; before exporting certain of our products, services, and technical data outside the United States; before engaging in brokering activities involving export-controlled defense articles; and for the temporary import of certain defense articles and technical data. In addition, regulations administered by the Office of Foreign Assets Control ("OFAC") of the U.S. Department of the Treasury govern transactions with countries and persons subject to U.S. trade sanctions, including import as well as export transactions. We are also subject to U.S. Government restrictions on transactions with specific entities and individuals, including, without limitation, those set forth on the Entity List, the Specially Designated Nationals List, the Denied Persons List, the Unverified List, and the U.S. State Department's lists of debarred parties. We are also subject to U.S. customs laws and regulations, including customs duties, when applicable. Additionally, we are subject to the Anti-Boycott Regulations administered by the U.S. Department of Commerce and the Boycott Provisions of the Internal Revenue Code (Section 999) administered by the Internal Revenue Service. These laws and regulations could materially adversely impact our sales and business in the following scenarios:

- In order to obtain the license for the sale of such a product, we are required to obtain information from the potential customer and provide it to the U.S. Government. If the U.S. Government determines that the sale presents national security risks or is otherwise contrary to U.S. policy, it may not approve the sale.

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- Delays caused by the requirement to obtain a required license or other authorization may cause delays in our production, sales and export activities, and may cause us to lose potential sales.

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

Our internal compliance program has identified, and we have made a voluntary self-disclosure to OFAC regarding, a potential compliance issue involving assistance provided by the Swiss branch office of one of our U.S. subsidiaries with respect to sales of medical x-ray equipment by our Canadian subsidiary to distributors for resale to end-users in Iran, a country that is subject to U.S. trade sanctions. We believe the end-users were health care providers. While it is not possible to predict the response of the U.S. authorities, the Company could be assessed fines or other penalties as a result of this matter.

In addition to U.S. laws and regulations, foreign countries may also have laws and regulations governing imports and exports.

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

We estimate that approximately 13%, 15% and 12% of our sales in fiscal years 2010, 2009 and 2008, respectively, were made directly or indirectly to foreign governments. Significant changes to appropriations or national defense policies, disruptions of our relationships with foreign governments or terminations of our foreign government contracts could have an adverse effect on our business, results of operations and financial condition. Our contracts with foreign governments also subject us to U.S. and international anti-corruption laws, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act (which also reaches commercial bribery). A judgment or settlement under the provisions of these acts could subject us to substantial monetary penalties and damages, as well as suspension and/or debarment. Suspension or debarment could deny us the ability to retain or obtain U.S. government contracts or restrict our exporting activity. In addition, any material judgment in this area could result in increased costs, which could negatively affect our result of operations, and could cause a loss of customer confidence, thus adversely affecting our business and future prospects.

Our international operations subject us to the social, political and economic risks of doing business in foreign countries.

We conduct a substantial portion of our business, employ a substantial number of employees and use external sales organizations in Canada and in other countries outside of the United States. As a result, we are subject to certain risks of doing business internationally. Direct sales to customers located outside the United States were approximately 36%, 37% and 36% in fiscal years 2010, 2009 and 2008, respectively. Circumstances and developments related to international operations that could negatively affect our business, results of operations and financial condition include the following:

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

- changes in regulatory requirements;

- potentially adverse tax consequences;

- U.S. and foreign government policies;

- currency restrictions, which may prevent the transfer of capital and profits to the United States;
- restrictions imposed by the U.S. Government on the export of certain products and technology;

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- the responsibility of complying with multiple and potentially conflicting laws;
- difficulties and costs of staffing and managing international operations;
- the impact of regional or country specific business cycles and economic instability; and
- geopolitical developments and conditions, including international hostilities, acts of terrorism and governmental reactions, trade relationships and military and political alliances.

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

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

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

Our business, results of operations and financial condition may be adversely affected by increased or unexpected costs incurred by us on our contracts and sales orders.

The terms of virtually all of our contracts and sales orders require us to perform the work under the contract or sales order for a predetermined fixed price. As a result, we bear the risk of increased or unexpected costs associated with a contract or sales order, which may reduce our profit or cause us to sustain losses. Future increased or unexpected costs on a significant number of our contracts and sales orders could adversely affect our business, results of operations and financial condition.

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Environmental and zoning laws and regulations and other obligations relating to environmental matters could subject us to liability for fines, clean-ups and other damages, require us to incur significant costs to modify our operations and/or increase our manufacturing costs.

Environmental and zoning laws and regulations could limit our ability to operate as we are currently operating and could result in additional costs.

We are subject to a variety of U.S. federal, state and local, as well as foreign, environmental and zoning laws and regulations relating, among other things, to wastewater discharge, air emissions, storage and handling of hazardous materials, disposal of hazardous wastes and remediation of soil and groundwater contamination. We use a number of chemicals or similar substances and generate wastes that are classified as hazardous. We require permits to conduct many of our operations. Violations of environmental and zoning laws and regulations could result in substantial fines, penalties and other sanctions. Changes in environmental and zoning laws or regulations (or in their enforcement) affecting or limiting, for example, our chemical uses, certain of our manufacturing processes or our disposal practices, could restrict our ability to operate as we are currently operating or could impose additional costs. In addition, we may experience releases of certain chemicals or discover existing contamination, which could cause us to incur material cleanup costs or other damages.

We could be subject to significant liabilities if the obligations associated with existing environmental contamination are not satisfied by Varian Medical Systems or by insurance proceeds.

When we purchased our electron devices business in 1995, Varian Medical Systems generally agreed to indemnify us for various environmental liabilities relating to the business prior to the purchase, with certain exceptions and limitations. Varian Medical Systems is undertaking the environmental investigation and remedial work at our manufacturing facilities that are known to require environmental remediation. In addition, Varian Medical Systems has been sued or threatened with suit with respect to environmental obligations related to these manufacturing facilities. If Varian Medical Systems does not comply fully with its indemnification obligations to us or does not continue to have the financial resources to comply fully with those obligations, we could be subject to significant liabilities.

In connection with the sale of our former facility in San Carlos, California, the buyer of the facility obtained insurance to cover the expected environmental remediation costs and other potential environmental liabilities at that facility, and we released Varian Medical Systems from certain of its indemnification obligations with respect to that facility. If the proceeds of the environmental insurance are insufficient to cover the required remediation costs and potential other environmental liabilities at that facility, we could be required to bear a portion of those liabilities.

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

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

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

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

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

Our business and future performance depends on the continued contributions of key management personnel. Our current management team has an average of more than 25 years experience with us in various capacities. Since assuming their current leadership roles in 2002, this team has increased our sales, reduced our costs and grown our business. The unanticipated departure of any key member of our management team could have an adverse effect on our business and our results of operations. In addition, some of our technical personnel, such as our key engineers, could be difficult to replace.

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

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

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

- difficulties in assimilating and integrating the operations, technologies and products acquired;
- the diversion of our management's attention from other business concerns;
- our operating and financial systems and controls being inadequate to deal with our growth; and
- the potential loss of key employees.

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

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Our backlog is subject to modifications and terminations of orders, which could negatively impact our sales.

Backlog represents firm orders for which goods and services are yet to be provided, including with respect to government contracts that are cancelable at will. As of October 1, 2010, we had an order backlog of $241.9 million. Although historically the amount of modifications and terminations of our orders has not been material compared to our total contract volume, customers can, and sometimes do, terminate or modify these orders. Cancellations of purchase orders or reductions of product quantities in existing contracts could substantially and materially reduce our backlog and, consequently, our future sales. Our failure to replace canceled or reduced backlog could negatively impact our sales and results of operations.

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

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

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

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

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RISKS RELATED TO OUR INDEBTEDNESS

We may not be able to refinance our indebtedness.

Our existing senior credit facilities, which include a term loan with a $66.0 million principal balance on October 1, 2010, a revolving credit facility which is currently undrawn and a letters of credit facility which includes $4.5 million of outstanding letters of credit as of October 1, 2010, will mature and come due on August 1, 2011 if we, prior to that date, do not repay or refinance our 8% Senior Subordinated Notes, with a principal balance of $117.0 million as of October 1, 2010. There is a risk that we may not be able to complete this refinancing or that the terms of any refinancing may not be as favorable as the terms of our existing debt. Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. These risks could adversely affect our financial condition and results of operations.

If we are unable to refinance our debt facility, we may need to implement other alternatives which might include issuing common stock or securities convertible into common stock to repay our indebtedness. If implemented, these actions could negatively impact our business or dilute our existing stockholders. If we are unable to obtain replacement refinancing or access the capital markets, that failure could have a material adverse affect on our financial condition and results of operations.

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

We have a substantial amount of debt and may incur additional debt in the future. As of October 1, 2010, our total consolidated indebtedness was $194.9 million and we had $55.5 million of additional borrowings available under the revolver under our senior credit facilities. Our substantial amount of debt could have important consequences to us and our stockholders, including, without limitation, the following:

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

- it could limit our flexibility in planning for or reacting to changes in our business, the markets in which we compete and the economy at large;

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

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

A default under our debt obligations could result in the acceleration of those obligations. We may not have the ability to fund our debt obligations in the event of such a default. This may adversely affect our ability to operate our business and therefore could adversely affect our results of operations and financial condition and, consequently, the price of our common stock. In addition, we may incur additional debt in the future. If debt levels increase, the related risks that we and our stockholders face could intensify.

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

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

- incur additional indebtedness;
- sell assets or consolidate or merge with or into other companies;
- pay dividends or repurchase or redeem capital stock;
- make certain investments;
- issue capital stock of our subsidiaries;
- incur liens; and
- enter into certain types of transactions with our affiliates.

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

Under our senior credit facilities, we are required to satisfy and maintain specified financial ratios and tests. Events beyond our control may affect our ability to comply with those provisions, and we may not be able to meet those ratios and tests, which would result in a default under our senior credit facilities. In addition, our senior credit facilities and the indenture governing Communications & Power Industries' 8% senior subordinated notes restrict Communications & Power Industries' ability to make distributions to CPI International. Because we are a holding company with no operations of our own, we rely on distributions from Communications & Power Industries, our wholly owned subsidiary, to satisfy our obligations under our floating rate senior notes. If Communications & Power Industries is unable make distributions to us, and we cannot obtain other funds to satisfy our obligations under our floating rate senior notes, a default under our floating rate senior notes could result.

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

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

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

RISKS RELATED TO OUR COMMON STOCK

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

The market price of our common stock may fluctuate widely as a result of various factors, such as period-to-period fluctuations in our actual or anticipated operating results, sales of our common stock by our existing equity investors, developments in our industry, the failure of securities analysts to cover our common stock or changes in financial estimates by analysts, failure to meet financial estimates by analysts, competitive factors, general economic and securities market conditions and other external factors. Also, securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic or market conditions and market conditions affecting the common stock of companies in our industry in particular, could reduce the market price of our common stock in spite of our operating performance. Stockholders may be unable to resell their shares of our common stock at or above the purchase price for their shares or at all.

We may be the target of securities litigation, which is costly and time-consuming to defend.

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

We are subject to a class action lawsuit, which, regardless of the outcome could result in substantial legal costs and our management's attention could be diverted from the operation of our business, causing our business to suffer.

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

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

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In addition, we may issue a substantial number of shares of our common stock under our stock incentive and stock purchase plans. As of October 1, 2010, we had options outstanding to purchase 3,347,192 shares of our common stock under our 2000 Stock Option Plan, our 2004 Stock Incentive Plan and our 2006 Equity and Performance Incentive Plan, of which 2,915,483 were exercisable as of such date. In addition, as of October 1, 2010, our 2006 Equity and Performance Incentive Plan and 2006 Employee Stock Purchase Plan provide for the issuance of up to an additional 1,761,219 shares of our common stock to employees, directors and consultants. The issuance of significant additional shares of our common stock upon the exercise of outstanding options or otherwise pursuant to these stock plans could have a material adverse effect on the market price of our common stock and could significantly dilute the interests of other stockholders.

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

As of November 19, 2010, entities affiliated with Cypress collectively own approximately 53% of our outstanding shares of common stock. Accordingly, the entities affiliated with Cypress have significant influence over our management, affairs and most matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. The entities affiliated with Cypress will also be able to deter any attempted change of control. This concentrated control will limit other stockholders' ability to influence corporate matters and, as a result, we may take actions that some of our stockholders may not view as beneficial. Accordingly, the market price of our common stock could be adversely affected.

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

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

- a board of directors that is classified such that only one-third (33.3%) of directors are elected each year;

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

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

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

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

- requiring that the affirmative vote of the holders of at least two-thirds (66.7%) of the voting power of our issued and outstanding capital stock entitled to vote in the election of directors be obtained to amend certain provisions of our amended and restated certificate of incorporation.

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In addition, Section 203 of the Delaware General Corporation Law, which will apply to us after affiliates of Cypress collectively cease to own at least 15% of the total voting power of our common stock, limits business combination transactions with 15% stockholders that have not been approved by the board of directors. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. These provisions may apply even if the transaction may be considered beneficial by some stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own, lease or sublease manufacturing, assembly, warehouse, service and office properties having an aggregate floor space of approximately 957,000 square feet, of which approximately 1,080 square feet are leased or subleased to a third party. The table that follows provides summary information regarding principal properties owned or leased by us:

	Square Footage		
Location	Owned	Leased/ Subleased	Segment Using the Property
Beverly, Massachusetts	174,000 (a)		VED
Georgetown, Ontario, Canada	193,000	22,000	VED and satcom equipment
Woodland, California	36,900	9,900	VED
Palo Alto, California		418,300 (b)	VED and satcom equipment
Mountain View, California		42,500	VED
Camarillo, California		37,700	Other
Various other locations		23,000 (c)	VED and satcom equipment

(a) The Beverly, Massachusetts square footage also includes approximately 1,080 square feet leased to a tenant.
(b) Includes approximately 49,000 square feet that are subleased from Varian Medical Systems, Inc., which leases the land from Stanford University.
(c) Leased facilities occupied by our field sales and service organizations.

The lenders under our senior credit facilities have a security interest in certain of our interests in the real property that we own and lease. Our headquarters and one principal complex, including one of our manufacturing facilities, located in Palo Alto, California, are subleased from Varian Medical Systems or one of its affiliates or former affiliates.

Therefore, our occupancy rights are dependent on our sublessor's fulfillment of its responsibilities to the master lessor, including its obligation to continue environmental remediation activities under a consent order with the California Environmental Protection Agency. The consequences of the loss by us of such occupancy rights could include the loss of valuable improvements and favorable lease terms, the incurrence of substantial relocation expenses and the disruption of our business operations.

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Item 3. Legal Proceedings

We are not presently involved in any legal proceedings that we believe would have a material adverse effect on our consolidated financial statements. However, we are, from time to time, threatened with, or may become a party to, legal actions and other proceedings, including the matter discussed below.

On July 1, 2010, a putative stockholder class action complaint was filed against CPI International, the members of the CPI International board of directors, and Comtech Telecommunications Corp. in the California Superior Court for the County of Santa Clara, entitled Continuum Capital v. Michael Targoff, et al. (Case No. 110CV175940). The lawsuit concerns the proposed merger between us and Comtech, and generally asserts claims alleging, among other things, that each member of our board of directors breached his fiduciary duties by agreeing to the terms of the previously proposed merger and by failing to provide stockholders with allegedly material information related to the proposed merger, and that Comtech aided and abetted the breaches of fiduciary duty allegedly committed by the members of our board of directors. The lawsuit seeks, among other things, class action certification and monetary relief. On July 28, 2010, the plaintiff filed an amended complaint, making generally the same claims against the same defendants, and seeking the same relief. In addition, the amended complaint generally alleges that the consideration that would have been paid to CPI International’s stockholders under the terms of the proposed merger was inadequate. On September 7, 2010, we terminated the Comtech sale agreement. On November 24, 2010, we entered in an agreement and plan of merger with Catalyst Holdings, Inc. and Catalyst Acquisition, Inc. which are affiliates of The Veritas Capital Fund IV, L.P. ("Veritas"). On December 9, 2010, the plaintiff filed a motion for leave to file a second amended complaint which, among other things, amends its breach of fiduciary duty claims to allege that we and our board of directors, as well as Cypress Associates II LLC, breached fiduciary duties in connection with our proposed merger with a Veritas affiliate, adds a claim for attorneys’ fees for the benefit the plaintiff purportedly obtained as a result of its previous prosecution of this action, and adds claims against Veritas and its affiliates for aiding and abetting the aforementioned breaches of fiduciary duties. The action continues to seek, among other things, class action certification and monetary relief. We believe that all claims asserted in the lawsuit to be without merit.

Item 4. (Removed and Reserved)

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PART II

ItemMarket For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
5.

Our common stock, par value $0.01 per share, is traded on the Nasdaq Stock Market LLC under the symbol “CPII.” The following table sets forth the high and low closing sale prices for our common stock as reported by The Nasdaq Stock Market from October 4, 2008, through October 1, 2010.

	High	Low
Fiscal year 2009		
First fiscal quarter (October 4, 2008 to January 2, 2009)	$ 10.97	$ 5.67
Second fiscal quarter (January 3, 2009 to April 3, 2009)	$ 9.66	$ 5.75
Third fiscal quarter (April 4, 2009 to July 3, 2009)	$ 12.87	$ 7.80
Fourth fiscal quarter (July 4, 2009 to October 2, 2009)	$ 12.00	$ 8.75
Fiscal year 2010		
First fiscal quarter (October 3, 2009 to January 1, 2010)	$ 14.05	$ 9.55
Second fiscal quarter (January 2, 2010 to April 2, 2010)	$ 13.99	$ 10.83
Third fiscal quarter (April 3, 2010 to July 2, 2010)	$ 15.96	$ 13.05
Fourth fiscal quarter (July 3, 2010 to October 1, 2010)	$ 16.18	$ 13.66

As of December 1, 2010, there were 94 stockholders of record of our common stock and 16,820,741 shares of common stock outstanding.

No dividends were paid in fiscal years 2010 and 2009. We currently expect to retain any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any payment of cash dividends on our common stock will be dependent upon the ability of Communications & Power Industries, our wholly owned subsidiary, to pay dividends or make cash payments or advances to us. The indenture governing Communications & Power Industries’ 8% senior subordinated notes imposes restrictions on Communications & Power Industries’ ability to make distributions to us, and the agreements governing our senior credit facilities generally do not permit Communications & Power Industries to make distributions to us for the purpose of paying dividends to our stockholders. In addition, the indenture governing our floating rate senior notes due 2015 also imposes restrictions on our ability to pay dividends or make distributions to our stockholders. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by our board of directors, including the Delaware General Corporation Law, which provides that dividends are only payable out of surplus or current net profits.

The disclosure required by Item 201(d) of Regulation S-K is incorporated by reference to the definitive proxy statement for our 2011 Annual Meeting of Stockholders anticipated to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report under the heading “Equity Compensation Plan Information.”

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Stock Performance Graph

The following graph shows the value of an investment of $100 on April 28, 2006 (the first day our common stock was traded) in each of our common stock, The Nasdaq Composite Index and the Nasdaq Electronic Components Stocks Index for the period from April 28, 2006 to October 1, 2010. All values assume reinvestment of the pre-tax value of dividends.

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

	4/06	6/06	9/06	12/06	3/07	6/07	9/07	12/07	3/08	6/08	9/08	12/08	3/09	6/09	9/09	12/0
CPI International, Inc	100.00	80.56	73.17	83.33	106.78	110.17	105.61	95.00	55.11	68.33	80.44	48.11	52.22	48.28	62.17	73.
NASDAQ Composite	100.00	94.05	98.44	106.22	106.65	115.22	117.86	115.92	99.32	100.27	89.47	68.78	66.53	79.84	92.53	99.
NASDAQ Electronic Components	100.00	87.54	90.56	91.68	89.07	102.38	109.11	107.48	88.08	93.16	76.34	54.92	58.14	67.91	82.51	88.

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

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Item 6. Selected Financial Data

The selected consolidated financial and other data for CPI International and subsidiaries as of October 1, 2010 and October 2, 2009, and for the fiscal years ended October 1, 2010, October 2, 2009, and October 3, 2008 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated financial and other data for CPI International and subsidiaries as of October 3, 2008, September 28, 2007 and September 29, 2006 and for the fiscal years ended September 28, 2007 and September 29, 2006 have been derived from our audited consolidated financial statements not included elsewhere in this Annual Report. The audited consolidated financial statements as of the dates and periods noted above have been audited by KPMG LLP, an independent registered public accounting firm.

All fiscal years presented comprised 52 weeks each, except for fiscal year 2008, which comprised 53 weeks ended October 3, 2008.

You should read the following data in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the related notes included elsewhere in this Annual Report.

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

	Year Ended				
	October 1, 2010	October 2, 2009	October 3, 2008	September 28, 2007	September 29, 2006
Statement of Income Data:					
Sales	$360,434	$332,876	$370,014	$351,090	$339,717
Cost of sales	251,987	239,385	261,086	237,789	236,063
Gross profit	108,447	93,491	108,928	113,301	103,654
Research and development	12,429	10,520	10,789	8,558	8,550
Selling and marketing	20,794	19,466	21,144	19,258	19,827
General and administrative	24,988	20,757	22,951	21,648	23,004
Amortization of acquisition-related intangible assets	2,749	2,769	3,103	2,316	2,190
Strategic alternative transaction expenses(1)	19,913	-	-	-	-
Total operating costs and expenses	80,873	53,512	57,987	51,780	53,571
Operating income	27,574	39,979	50,941	61,521	50,083
Interest expense, net	15,213	16,979	19,055	20,939	23,806
(Gain) loss on debt extinguishment(2)	-	(248)	633	6,331	-
Income tax expense (benefit)	5,622	(218)	10,804	11,748	9,058
Net income(3)	$6,739	$23,466	$20,449	$22,503	$17,219
Earnings per share(4)(5)					
Basic	$0.40	$1.42	$1.24	$1.39	$1.20
Diluted	$0.37	$1.33	$1.15	$1.27	$1.09
Shares used to calculate net earnings per share(5)(6)					
Basic	16,571	16,343	16,356	16,242	14,311
Diluted	17,837	17,443	17,684	17,721	15,789
	$-	$-	$-	$-	$1.19

Cash dividend per share(7)										
Other Financial Data:										
EBITDA(8)	$38,646		$51,021		$61,271		$64,288		$59,096	
EBITDA margin(9)	10.70	%	15.30	%	16.60	%	18.30	%	17.40	%
Operating income margin(10)	7.70	%	12.00	%	13.80	%	17.50	%	14.70	%
Net income margin(11)	1.90	%	7.00	%	5.50	%	6.40	%	5.10	%
Depreciation and amortization(12)	$11,072		$10,794		$10,963		$9,098		$9,013	
Capital expenditures(13)	$4,492		$3,365		$4,262		$8,169		$10,913	
Ratio of earnings to fixed charges(14)	1.77	x	2.30	x	2.57	x	2.59	x	2.08	x
Net cash provided by operating activities	$19,808		$30,114		$33,881		$21,659		$10,897	
Net cash used in investing activities(13)(15)	$(4,533	)	$(3,365	)	$(2,794	)	$(30,343	)	$(156	)
Net cash provided by (used in) financing activities	$1,402		$(29,267	)	$(22,891	)	$(995	)	$(7,099	)
Balance Sheet Data:										
Working capital	$44,753		$92,380		$88,103		$81,547		$77,113	
Total assets	$478,276		$458,254		$466,948		$476,222		$441,759	
Long-term debt, less current portion	$128,934		$194,922		$224,660		$245,567		$245,067	
Total stockholders' equity	$183,940		$173,553		$143,865		$125,906		$99,673	

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(1) Fiscal year 2010 includes $19,913 for a termination fee and transaction expenses relating to a recently terminated merger agreement between CPI International and Comtech.

(2) The repurchase of $8,000 of our 8% senior subordinated notes during fiscal year 2009 resulted in a gain on debt extinguishment of $248 which was comprised of a discount of $392, partially offset by a non-cash write-off of $144 unamortized debt issue costs. The redemption of $10,000 of our floating rate senior notes in fiscal year 2008 resulted in a loss on debt extinguishment of approximately $633, including non-cash write-offs of $420 of unamortized debt issue costs and issue discount costs and $213 in cash payments primarily for call premiums. The debt refinancing during fiscal year 2007 resulted in a loss on debt extinguishment of approximately $6,331, including non-cash write-offs of $4,659 of unamortized debt issue costs and issue discount costs and $1,953 in cash payments for call premiums, partially offset by $281 of cash proceeds from the early termination of the related interest rate swap agreement.

(3) Net income for fiscal year 2010 includes strategic alternative transaction expenses, after taxes, of $15.2 million, or $0.84 per diluted share. Net income for fiscal year 2009 includes discrete tax benefits, in aggregate, of $7.9 million, or $0.45 per diluted share.

(4) Basic and diluted earnings per share and shares used to calculate net earnings per share have been retroactively adjusted to reflect the adoption of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 260, “Earnings Per Share,” on October 3, 2009, for participating securities which represent unvested restricted common stock which contain nonforfeitable rights to dividends or dividend equivalents.

(5) Basic earnings per share represents net income available to common stockholders divided by weighted average common shares outstanding, and diluted earnings per share represents net income available to common stockholders divided by weighted average common and common equivalent shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares.

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

(7) In December 2005, we paid special cash dividends of $17,000 to stockholders of CPI International. Cash dividend per share is calculated by dividing the dollar amount of the dividend by weighted average common shares outstanding.

(8) EBITDA represents earnings before net interest expense, provision for income taxes and depreciation and amortization. For the reasons listed below, we believe that GAAP-based (based on Generally Accepted Accounting Principles) 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 this covenant; see "Management's discussion and analysis of financial condition and results of operations-Liquidity and Capital Resources-Covenant compliance;"
- EBITDA is a component of the 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 or superior to, net income, cash flows from operating activities or other statements of income or statements of cash flows data prepared in accordance with GAAP.

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The following table reconciles net income to EBITDA:

	Year Ended				
	October 1, 2010	October 2, 2009	October 3, 2008	September 28 2007	September 29 2006
Net income	$ 6,739	$ 23,466	$ 20,449	$ 22,503	$ 17,219
Depreciation and amortization(11)	11,072	10,794	10,963	9,098	9,013
Interest expense, net	15,213	16,979	19,055	20,939	23,806
Income tax expense (benefit)	5,622	(218)	10,804	11,748	9,058
EBITDA	$ 38,646	$ 51,021	$ 61,271	$ 64,288	$ 59,096

(9) EBITDA margin represents EBITDA divided by sales.

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

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

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

(13) Fiscal years 2007 and 2006 include approximately $4,100 and $2,300, respectively, of capital expenditures for the expansion of our building in Georgetown, Ontario, Canada. Fiscal year 2006 includes capital expenditures of approximately $4,700 resulting from the relocation of our former San Carlos, California facility to Palo Alto, California and Mountain View, California.

(14) For purposes of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations before income taxes and fixed charges less capitalized interest. Fixed charges consist of interest expense, including amortization of debt issuance costs and that portion of rental expenses that management considers to be a reasonable approximation of interest.

(15) Fiscal year 2007 includes approximately $22,200 of cash outflow for the acquisition of Malibu Research Associates, Inc., as a result of which the Malibu Division was formed.

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

Our fiscal years are the 52- or 53-week periods that end on the Friday nearest September 30. Fiscal years 2010 and 2009 comprised the 52-week period ending October 1, 2010 and October 2, 2009, respectively. Fiscal year 2008 comprised the 53-week period ended October 3, 2008. The following discussion should be read in conjunction with our consolidated financial statements, and the notes thereto, included elsewhere in this Annual Report.

Overview

CPI International, headquartered in Palo Alto, California, is the parent company of Communications & Power Industries, a provider of microwave, radio frequency, power and control solutions for critical defense, communications, medical, scientific and other applications. Communications & Power Industries develops, manufactures and distributes products used to generate, amplify, transmit and receive 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.

Orders

We sell our products into five end markets: defense (radar and electronic warfare), medical, communications, industrial and scientific.

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

Our orders by market for fiscal years 2010 and 2009 are summarized as follows (dollars in millions):

	Year Ended					
	October 1, 2010		October 2, 2009		(Decrease) Increase	
	Amount	% of Orders	Amount	% of Orders	Amount	Percent
Radar and Electronic Warfare	$ 129.7	34 %	$ 142.2	40 %	$ (12.5)	(9) %
Medical	70.1	19	66.9	19	3.2	5
Communications	131.0	35	119.2	33	11.8	10
Industrial	26.1	7	21.2	6	4.9	23
Scientific	18.0	5	6.5	2	11.5	177
Total	$ 374.9	100 %	$ 356.0	100 %	$ 18.9	5 %

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Orders of $374.9 million for fiscal year 2010 were $18.9 million, or 5%, higher than orders of $356.0 million for fiscal year 2009. Explanations for the order increase or decrease by market for fiscal year 2010 compared to fiscal year 2009 are as follows:

- Radar and Electronic Warfare: The majority of our products in the radar and electronic warfare markets are 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 decreased approximately 9% from $142.2 million in fiscal year 2009 to $129.7 million in fiscal year 2010. In fiscal year 2010, the decrease in orders for these combined markets was primarily due to the timing of orders to support certain radar and electronic warfare systems, including a foreign radar program, several airborne electronic countermeasure systems and the HAWK missile system. In fiscal year 2009, we received $4.1 million in orders for a foreign radar program; this large order was not expected to, and did not, repeat in fiscal year 2010.

- Medical: Orders for our medical products consist of orders for medical imaging applications, such as x-ray imaging, MRI and PET applications, and for radiation therapy applications for the treatment of cancer. The 5% increase in medical orders was due primarily to an increase in demand for products to support x-ray imaging and MRI applications.

- Communications: Orders for our communications products consist of orders for commercial communications applications and military communications applications. The 10% increase in communications orders was primarily due to increases in orders to support commercial communications applications, such as fixed satellite broadcast and terrestrial broadcast applications.

  Excluding the Warfighter Information Network – Tactical (“WIN-T”) program, demand for products to support military communications programs also increased during fiscal year 2010. Military communications is a relatively new sector of the overall communications market for us, and over the long term, we expect our participation in military communications programs to continue to grow. With the exception of the WIN-T program, military communications is characterized by numerous programs that are relatively modest in size and for which the timing may vary from year to year. Because of the atypically large size and frequency of the orders we received to support the WIN-T program in fiscal year 2009, orders for this program decreased approximately $21 million in fiscal year 2010. As expected, the size and frequency of those large WIN-T orders were not repeated in fiscal year 2010.

- Industrial: Orders in the industrial market are cyclical and are generally tied to the state of the economy. The $4.9 million increase in industrial orders was primarily due to an increase in demand for products used in semiconductor and liquid crystal display (“LCD”) screen manufacturing applications, new advanced nuclear magnetic resonance applications and industrial heating applications.

- Scientific: Orders in the scientific market are historically one-time projects and can fluctuate significantly from period to period. The $11.5 million increase in scientific orders was primarily the result of the receipt of orders for products to support fusion research and other “Big Science” programs at domestic and European laboratories.

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Incoming order levels can 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 October 1, 2010, we had an order backlog of $241.9 million compared to an order backlog of $226.0 million as of October 2, 2009. 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 that backlog and orders information is helpful to investors because this information may be indicative of future sales results. Although backlog consists of firm orders for which goods and services are yet to be provided, customers can, and sometimes do, terminate or modify these orders. 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 $200,000, 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.

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

	Year Ended					
	October 1, 2010		October 2, 2009		October 3, 2008	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Sales	$ 360.4	100.0 %	$ 332.9	100.0 %	$ 370.0	100.0 %
Cost of sales	252.0	69.9	239.4	71.9	261.1	70.6
Gross profit	108.4	30.1	93.5	28.1	108.9	29.4
Research and development	12.4	3.4	10.5	3.2	10.8	2.9
Selling and marketing	20.8	5.8	19.5	5.9	21.1	5.7
General and administrative	25.0	6.9	20.8	6.2	22.9	6.2
Amortization of acquisition-related intangibles	2.7	0.7	2.8	0.8	3.1	0.8
Strategic alternative transaction expenses	19.9	5.5	-	-	-	-
Operating income	27.6	7.7	40.0	12.0	50.9	13.8
Interest expense, net	15.2	4.2	17.0	5.1	19.1	5.2
(Gain) loss on debt extinguishment	-	-	(0.2)	(0.1)	0.6	0.2
Income before taxes	12.4	3.4	23.2	7.0	31.3	8.5
Income tax expense (benefit)	5.6	1.6	(0.2)	(0.1)	10.8	2.9
Net income	$ 6.7	1.9 %	$ 23.5	7.1 %	$ 20.4	5.5 %
Other Data:						
EBITDA (1)	$ 38.6	10.7 %	$ 51.0	15.3 %	$ 61.3	16.6 %

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

(1) 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 (based on Generally Accepted Accounting Principles) 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 this covenant;

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

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

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

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

For a reconciliation of Net Income to EBITDA, see footnote 8 under Selected Financial Data above.

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Our results for fiscal year 2010 compared to our results for fiscal year 2009

Sales: Our sales by market for fiscal yea