CPI HOLDCO INC
Form 10-Q
August 12, 2005

UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2005

or

o	**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: 333-11386-04

CPI HOLDCO, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

75-3142681

(I.R.S. Employer Identification No.)

811 Hansen Way

Palo Alto, California 94303-1110

(650) 846-2900

(Address of Principal Executive Offices and Telephone Number,
Including Area Code)

Indicate by check mark whether each 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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes o No ý

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding for each of the Registrant s classes of Common Stock, as of the latest practicable date: 4,275,566 shares of Common Stock, $.01 par value, at August 10, 2005.

CPI Holdco, Inc.

and Subsidiaries

Cautionary Statements Regarding Forward-Looking Statements

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that relate to future events or the future financial performance of CPI Holdco, Inc. (collectively, with its subsidiaries, the Company). 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 of such ter comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Company nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. All written and oral forward-looking statements made in connection with this report that are attributable to the Company or persons acting on the Company s behalf are expressly qualified in their entirety by the risk factors, and other cautionary statements included herein and in the other filings with the Securities and Exchange Commission (SEC) made by the Company and its predecessor, Communications & Power Industries Holding Corporation. The Company is 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 the Company s expectations.

The information in this report is not a complete description of the Company s business or the risks and uncertainties associated with an investment in the Company s securities. You should carefully consider the various risks and uncertainties that impact the Company s business and the other information in this report and the Company s other filings with the SEC before you decide to invest in the Company or to maintain or increase your investment. Such risks and uncertainties include, but are not limited to, the following:

the Company s indebtedness is substantial;

the agreements and instruments governing the Company s debt have restrictions that could limit its flexibility in operating its business;

the Company s ability to generate the significant amount of cash needed to service its debt and to fund capital expenditures or other liquidity needs depends on many factors beyond its control;

the Company has had historical losses;

the Company may be unable to retain and/or recruit key management and other personnel;

the markets in which the Company sells its products are competitive;

the end markets in which the Company operates are subject to technological change;

a significant portion of the Company s sales is, and is expected to continue to be, from contracts with the U.S. Government;

the Company generates sales from contracts with foreign governments;

the Company s international operations subject it to social, political and economic risks of doing business in foreign countries;

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

the Company s results of operations and financial condition may be adversely affected by increased or unexpected costs incurred by it on its contracts and sales orders;

environmental regulation and legislation, liabilities relating to contamination and changes in the Company s ability to recover under Varian Medical Systems Inc. s indemnity obligations could adversely affect its business;

the Company has only a limited ability to protect its intellectual property rights;

the Company s inability to obtain certain necessary raw materials and key components could disrupt the manufacture of its products and cause its financial condition and results of operations to suffer;

the relocation of the Company s San Carlos, California operating division to Palo Alto, California could result in disruption to the Company s operations;

the Company may not be able to timely comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002; and

the Company is controlled by affiliates of The Cypress Group L.L.C.

Any of the foregoing factors could cause the Company s business, results of operations, or financial condition to suffer, and actual results could differ materially from those expected.

CPI Holdco, Inc.

and Subsidiaries

INDEX

PART I: FINANCIAL INFORMATION

ITEM 1: UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CPI Holdco, Inc.

and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands-unaudited)

	July 1, 2005	October 1, 2004
Assets		
Cash and cash equivalents	$ 17,108	$ 40,476
Restricted cash	2,019	2,279
Accounts receivable, net	48,391	35,914
Inventories	47,156	38,074
Deferred tax assets	12,535	12,285
Prepaids and other current assets	4,575	3,796
Total current assets	131,784	132,824
Property, plant and equipment, net	77,312	70,127
Debt issue costs, net	11,416	8,910
Intangible assets, net	78,554	78,481
Goodwill	145,462	139,614
Other long-term assets	1,853	1,251
Total assets	$ 446,381	$ 431,207
Liabilities and stockholders equity		
Current portion of long-term debt	$	$ 3,944
Accounts payable	17,902	15,790
Accrued expenses	27,400	20,939
Product warranty	6,031	6,074
Income taxes payable	5,851	1,661
Advance payments from customers	8,007	12,031
Total current liabilities	65,191	60,439
Deferred income taxes	34,989	39,118
Advance payments from sale of San Carlos property	13,450	13,450
Long-term debt	284,218	210,606
Other long-term liabilities	84	
Total liabilities	397,932	323,613
Common stock	43	43
Additional paid-in capital	28,601	103,534
Accumulated other comprehensive income	1,041	1,369
Retained earnings	18,764	2,648
Net stockholders equity	48,449	107,594
Total liabilities and stockholders equity	$ 446,381	$ 431,207

See accompanying notes to the condensed consolidated financial statements.

CPI Holdco, Inc.

and Subsidiaries

CONDENSED CONSOLIDATED
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands - unaudited)

	13-Week Period Ended July 1, 2005	13-Week Period Ended July 2, 2004
Sales	$ 87,639	$ 72,345
Cost of sales	57,848	49,112
Amortization of acquisition-related inventory write-up		1,280
Gross profit	29,791	21,953
Operating costs and expenses:		
Research and development	1,899	1,869
Selling and marketing	4,744	3,856
General and administrative	5,789	5,011
Amortization of acquisition-related intangible assets	548	4,682
Acquired in-process research and development		(9,000)
Total operating costs and expenses	12,980	6,418
Operating income	16,811	15,535
Interest expense, net	5,697	3,822
Income before income taxes	11,114	11,713
Income tax expense	4,416	242
Net income	$ 6,698	$ 11,471
Other comprehensive income/(loss), net of tax:		
Net unrealized loss on cash flow hedges	(711)	(352)
Net Change	(711)	(352)
Comprehensive income	$ 5,987	$ 11,119

See accompanying notes to the condensed consolidated financial statements.

CPI Holdco, Inc.

and Subsidiaries

CONDENSED CONSOLIDATED
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands - unaudited)

	2005	Fiscal Year 2004	
	39-Week Period Ended July 1, 2005 (Successor)	January 23, 2004 to July 2, 2004 (Successor)	October 4, 2003 to January 22, 2004 (Predecessor)
Sales	$ 245,835	$ 137,986	$ 79,919
Cost of sales	162,912	90,919	56,189
Amortization of acquisition-related inventory write-up	351	5,500	
Gross profit	82,572	41,567	23,730
Operating costs and expenses:			
Research and development	5,205	3,333	2,200
Selling and marketing	13,397	6,994	4,352
General and administrative	15,664	8,523	6,033
Merger expenses			6,374
Amortization of acquisition-related intangible assets	6,940	8,078	
Acquired in-process research and development		2,500	
Total operating costs and expenses	41,206	29,428	18,959
Operating income	41,366	12,139	4,771
Interest expense, net	14,509	6,772	8,902
Income (loss) before income taxes	26,857	5,367	(4,131)
Income tax expense	10,741	729	439
Net income (loss)	16,116	4,638	(4,570)
Preferred dividends:			
Senior redeemable preferred stock			3,861
Junior preferred stock			2,382
Net income (loss) attributable to common stock	$ 16,116	$ 4,638	$ (10,813)
Other comprehensive income/(loss), net of tax:			
Net unrealized (loss)/gain on cash flow hedges	(328)	13	
Net change	(328)	13	
Comprehensive income (loss)	$ 15,788	$ 4,651	$ (10,813)

See accompanying notes to the condensed consolidated financial statements.

CPI Holdco, Inc.

and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands - unaudited)

	2005 39-Week period ended July 1, 2005 (Successor)	Fiscal Year 2004 January 23, 2004 to July 2, 2004 (Successor)	Fiscal Year 2004 October 4, 2003 to January 22, 2004 (Predecessor)
OPERATING ACTIVITIES			
Net cash provided by operating activities	$ 15,283	$ 11,464	$ 8,213
INVESTING ACTIVITIES			
Expenses relating to sale of San Carlos property	(216)		
Purchase of Predecessor s net assets, net of cash acquired		(113,760)	
Purchase of Econco s net assets, net of cash acquired	(18,325)		
Purchases of property, plant and equipment	(8,867)	(1,222)	(459)
Other investing activities	(16)		
Net cash used in investing activities	(27,424)	(114,982)	(459)
FINANCING ACTIVITIES			
Retirement of debt and preferred stock:			
Senior subordinated notes		(74,000)	(26,000)
Senior redeemable preferred stock		(29,735)	
Junior preferred stock		(32,336)	
Dividends on senior preferred stock		(19,310)	
Mortgage financing		(17,500)	
Proceeds from/(payments for) the issuance of debt:			
Floating rate senior notes	79,200		
Senior subordinated notes		125,000	
Senior term loans		90,000	
Debt issue costs	(3,455)	(9,648)	
Proceeds from the repayment of Predecessor management loans		1,266	
Net proceeds from the issuance of common stock		98,075	
Repayments on senior term loan	(9,550)	(225)	
Stockholder distribution payments	(75,809)		
Payment of collateral on interest rate swap contract	(1,000)		
Other financing activities	(100)		
Net (repayments) proceeds from bank overdraft	(513)	2,150	(1,639)
Net cash (used in) provided by financing activities	(11,227)	133,737	(27,639)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(23,368)	30,219	(19,885)
Cash and cash equivalents at beginning of period	40,476		33,751
Cash and cash equivalents at end of period	$ 17,108	$ 30,219	$ 13,866
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest	$ 8,160	$ 5,662	$ 1,637
Cash paid for taxes, net of refunds	$ 10,820	$ 168	$ 2,376
Supplemental Disclosures of Non-cash Investing and Financing Activities			
Dividends on senior preferred stock	$	$	$ 3,861

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands - unaudited) 27

CPI Holdco, Inc.

and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

For periods ending prior to January 23, 2004, the accompanying condensed consolidated financial statements represent the consolidated results and financial position of Communications & Power Industries Holding Corporation (Holding or the Predecessor). On January 23, 2004, the Predecessor merged (the Merger) with CPI Merger Sub Corp. (Merger Sub), a wholly-owned subsidiary of CPI Holdco, Inc. (CPI Holdco or the Successor), a Delaware corporation formerly known as CPI Acquisition Corp., controlled by affiliates of The Cypress Group L.L.C. (Cypress) as more fully described in Note 3 Mergers . As a result of the Merger, the Predecessor became a wholly-owned subsidiary of CPI Holdco. The financial statements for periods subsequent to January 22, 2004 represent the condensed consolidated financial statements of CPI Holdco after giving effect to the Merger. References to the Company refer to the Predecessor prior to the Merger and the Successor post-Merger.

CPI Holdco s fiscal years are the 52- or 53-week periods that end on the Friday nearest September 30. The Successor s fiscal year did not change from that of the Predecessor. Fiscal year 2005 comprises the 52-week period ending September 30, 2005, and fiscal year 2004 comprised the 52-week period ended October 1, 2004.

Management believes that these unaudited interim condensed consolidated financial statements contain all adjustments, all of which are of a normal, recurring nature, necessary to present fairly the financial position of the Company and its results of operations and cash flows for the interim periods presented. The results for the interim periods reported are not necessarily indicative of the results for the complete fiscal year 2005. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted and, accordingly, these financial statements should be read in conjunction with the financial statements and the notes thereto contained in the Company s Annual Report on Form 10-K for the fiscal year ended October 1, 2004.

There is currently no public market for CPI Holdco s common stock.

2. Stock-based Compensation

As allowed by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, the Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Under this method, compensation expense is recorded only if the quoted market price of the stock exceeded the exercise price at the measurement date. Since the Company s stock is not publicly traded and therefore does not have a quoted market price, the Company computes an estimated market price of its stock based on valuation techniques for determining the fair value of closely held stock. The exercise prices of all stock options issued by the Successor were at, or above, the estimated market price of the underlying stock at the date of issuance. The Company charges stock-based compensation expense against income under the caption General and administrative in the Condensed Consolidated Statements of Operations and Comprehensive Income.

In fiscal year 2005, stock-based compensation determined under the intrinsic value-based method was recorded for performance stock options that vest in fiscal years 2005 through 2008. Stock-based compensation expense is charged to income over the stock option vesting period that corresponds with the performance measurement period. Stock-based compensation expense is determined based on an estimate of the number of performance stock options expected to vest multiplied by the difference between a) the estimated market price of the stock at the performance measurement date and b) the option exercise price. The estimated market price at the performance measurement date was based on the fair value of CPI Holdco s common stock at the end of the most recent quarter. The Company expects to meet the performance targets for all outstanding performance stock options. Net income includes stock compensation expense of $0.4 million for the 13-week period ended July 1, 2005, $0.9 million for the 39-week period ended July 1, 2005 and $1.3 million for the period from October 4, 2003 to January 22, 2004.

During fiscal year 2003, the Predecessor issued stock options to employees that were subsequently determined to have been issued below the estimated market price of the stock on the date of grant. The compensation cost associated with the 2003 stock options was amortized as a charge against income on a straight-line basis over the four-year vesting period until the stock options became fully vested at the time of the Merger.

If compensation cost for the Company s stock-based compensation plan had been determined using the fair value-based method of accounting, then the Company s net income (loss) would have changed to the pro forma amounts indicated below (in thousands):

		13-Week Period ended July 1, 2005	13-Week Period ended July 2, 2004
Net income as reported		$ 6,698	$ 11,471
Add:	Stock-based compensation included in net income determined under intrinsic value-based method, net of tax	266	
Deduct:	Stock-based compensation determined under fair value-based method, net of tax	(339)	(77)
Pro forma net income		$ 6,625	$ 11,394

		2005	Fiscal Year 2004	
		39-Week Period ended July 1, 2005 (Successor)	January 23, 2004 to July 2, 2004 (Successor)	October 4, 2003 to January 22, 2004 (Predecessor)
Net income (loss) as reported		$ 16,116	$ 4,638	$ (4,570)
Add:	Stock-based compensation included in net income (loss) determined under intrinsic value-based method, net of tax	523		773
Deduct:	Stock-based compensation determined under fair value-based method, net of tax	(788)	(102)	(136)
Pro forma net income (loss)		$ 15,851	$ 4,536	$ (3,933)

3. Mergers

Cypress Merger

On January 23, 2004, CPI Holdco s wholly-owned subsidiary, Merger Sub, merged with and into Holding pursuant to the terms of the Agreement and Plan of Merger (the Merger Agreement), dated as of November 17, 2003, by and among Holding, CPI Holdco, Merger Sub and Green Equity Investors II, L.P., as the representative of the security holders of Holding, under which CPI Holdco, Merger Sub s parent corporation and a corporation controlled by affiliates of Cypress, agreed to acquire Holding. In the Merger, each share of Holding s common stock and stock options outstanding immediately prior to the Merger, other than a portion of stock options held by certain members of management (which were converted into options to purchase shares of CPI Holdco) and other than any shares of common stock owned by Holding or CPI Holdco, were converted into the right to receive a pro rata portion of the aggregate merger consideration of $131.7 million. In connection with the Merger, CPI Holdco received an equity contribution of $100.0 million before expenses from affiliates of Cypress in exchange for 4,251,122 shares of common stock of CPI Holdco. Members of management of Holding, as a result of rolling over their options to purchase common stock of Holding, received stock options to purchase 167,513 shares of common stock of CPI Holdco (Rollover Options). The estimated fair value of Rollover Options was $5.0 million and was accounted for as Merger purchase price as of January 23, 2004. Members of Holding management that were residents of Canada received 1,485 stock options to purchase shares of common stock of CPI Holdco as payment of Merger escrow proceeds in respect of their options to purchase shares of Holding.

In connection with the Merger, Holding and Communications & Power Industries, Inc. (CPI) refinanced all of their outstanding indebtedness. As part of the refinancing, CPI effected a covenant defeasance of $74.0 million outstanding aggregate principal amount of its 12% Senior Subordinated Notes (12% Notes) and redeemed the 12% Notes in full, each pursuant to the terms of the Indenture governing the 12% Notes. In addition, CPI terminated its credit facility, and Holding paid off all amounts owing under, and terminated, the loan agreement related to its San Carlos property. CPI also redeemed all of the outstanding shares of its 14% Junior Cumulative Preferred Stock and its Series B 14% Senior Redeemable Exchangeable Cumulative Preferred Stock.

The Merger transaction was accounted for using the purchase method of accounting as required by the SFAS No.141, Business Combinations . Accordingly, the assets acquired and liabilities assumed were recorded at fair value, and the excess of the purchase price over the fair value of the assets acquired was recorded as goodwill. The allocation of the purchase price to specific assets and liabilities was based, in part, upon independent appraisals and internal estimates of cash flow and recoverability. The following table summarizes the final allocation of fair value of the assets acquired and liabilities assumed at January 23, 2004 (in thousands):

Cash	$	13,866
Accounts receivable		29,587
Inventory, including $5.5 million of fair value write-up		43,608
Other current assets		3,241
Property, plant and equipment		70,079
Identifiable intangible assets		92,160
Acquired in-process research and development		2,500
Goodwill		139,614
Debt and preferred stock		(172,881)
Deferred tax liabilities, net		(33,169)
Other liabilities		(56,934)
Total	$	131,671

The $2.5 million of acquired in-process research and development represents the estimated fair value of acquired in-process research and development projects that had not yet reached technological feasibility on January 23, 2004 and had no alternative future use. Accordingly, this amount was written off at the Merger date. The value assigned to acquired in-process research and development is related to technology application projects involving development of Vacuum Electron Devices (VEDs) for communications, scientific and military applications and development of power supplies, x-ray generators and transmitters for industrial, medical and military applications.

The following unaudited pro forma summary presents information as if the Merger had taken place at the beginning of each period presented. The pro forma amounts include certain adjustments, including depreciation based on the allocated purchase price of property and equipment, amortization of finite-lived intangible assets acquired, interest expense and taxes. One-time charges for the inventory write-up, merger expenses, acquired in-process research and development and backlog amortization, net of applicable taxes, are excluded from the pro forma net income amounts (in thousands):

		13-Week period ended July 1, 2005		**13-Week period ended July 2, 2004**
Sales	$	87,639	$	72,345
Pro forma net income	$	6,698	$	5,564

		39-Week period ended July 1, 2005		**39-Week period ended July 2, 2004**
Sales	$	245,835	$	217,905
Pro forma net income	$	19,297	$	17,011

Corporate Reorganization

On March 12, 2004, Holding was merged with and into its wholly-owned subsidiary, CPI, with CPI as the surviving corporation (the Intercompany Merger). As a result of the Intercompany Merger, the corporate structure of the Company and its subsidiaries consists of one parent holding corporation, CPI Holdco, and all of the obligations of Holding existing prior to the Intercompany Merger became obligations of CPI.

4. *Inventories*

Inventories are stated at the lower of average cost or market (net realizable value). The main components of inventories were as follows (in thousands):

	July 1, 2005	October 1, 2004
Raw materials and parts	$ 29,279	$ 23,500
Work in process	10,995	10,067
Finished goods	6,882	4,507
Total	$ 47,156	$ 38,074

5. *Product Warranty*

The Company s products are generally warranted for a variety of periods, typically one to three years or a predetermined product usage life. The Company assesses the adequacy of its preexisting warranty liabilities and adjusts the balance based on actual experience and changes in future expectations. The following table reconciles the changes in the Company s accrued warranty (in thousands):

	13-Week Period ended July 1, 2005	13-Week Period ended July 2, 2004
Beginning accrued warranty	$ 5,666	$ 5,889
Cost of warranty claims	(1,355)	(1,421)
Accruals for product warranty	1,720	1,546
Ending accrued warranty	$ 6,031	$ 6,014

	Fiscal Year		
	2005	2004	
	39-Week Period ended July 1, 2005 (Successor)	January 23, 2004 to July 2, 2004 (Successor)	October 4, 2003 to January 22, 2004 (Predecessor)
Beginning accrued warranty	$ 6,074	$ 5,839	$ 5,401
Amount acquired from Econco	112		
Cost of warranty claims	(3,831)	(2,247)	(1,241)
Accruals for product warranty	3,676	2,422	1,679
Ending accrued warranty	$ 6,031	$ 6,014	$ 5,839

6. *Long-Term Debt*

Long-term debt comprises the following (in thousands):

	July 1, 2005	October 1, 2004
Term loan, expiring 2010	$ 80,000	$ 89,550
8% Senior subordinated notes, due 2012	125,000	125,000
Floating rate senior notes, due 2015, net of issue discount of $782	79,218	
	284,218	214,550
Less: Current portion		3,944
	$ 284,218	$ 210,606

Senior Credit Facility

In connection with the Merger, CPI entered into a $130.0 million credit agreement (the Senior Credit Facility), which was amended and restated on November 29, 2004, and further amended on February 16, 2005 and April 13, 2005. The Senior Credit Facility consists of a $40.0 million revolving commitment, with a sub-facility of $15.0 million for letters of credit and $5.0 million for swingline loans (Revolver), which expires on January 23, 2010, and an original $90.0 million term loan (Term Loan), which expires on July 23, 2010. At July 1, 2005, the amount outstanding for letters of credit was $4.7 million. The Senior Credit Facility is guaranteed by CPI Holdco and all of CPI s domestic subsidiaries and is secured by substantially all of their assets. The Senior Credit Facility provides that upon specified conditions, CPI may seek commitments for a new class of term loans, not to exceed $75 million.

The Revolver borrowings currently bear interest at a rate equal to LIBOR plus 2.75% per annum or the Alternate Base Rate (ABR) plus 1.75% per annum. The Term Loan borrowings currently bear interest at a rate equal to LIBOR plus 2.25% per annum or the ABR plus 1.25% per annum, payable quarterly. The ABR is the greater of (a) the Prime Rate and (b) the Federal Funds Rate plus 0.50%. As of July 1, 2005, the Term Loan borrowings comprised two tranches of $40 million each; the first tranche is payable on August 11, 2005 at 5.25% per annum and the second tranche, also payable on August 11, 2005, at 5.50% per annum. In addition to customary fronting and administrative fees under the Senior Credit Facility, CPI pays letter of credit participation fees equal to the applicable Revolver LIBOR margin per annum on the average daily amount of the letter of credit exposure, and a commitment fee of 0.50% per annum on the average daily unused amount of revolving commitment.

The Term Loan requires 1.0% of the original loan amount to be repaid annually in quarterly installments of 0.25% beginning June 30, 2004 and continuing for five years, with the remainder due in equal quarterly installments thereafter. The Term Loan also requires an annual prepayment to be made within 90 days after the end of the fiscal year based on a calculation of Excess Cash Flow (ECF), as defined in the Senior Credit Facility, multiplied by a factor of 25%, 50% or 75% depending on the leverage ratio at the end of the fiscal year, less optional prepayments made during the fiscal year. On December 30, 2004, CPI made an ECF payment of $3.9 million. The ECF payment is applied pro rata, in accordance with the provisions of the Term Loan, against the remaining scheduled installments of principal due up to, but not including, the September 30, 2009 scheduled principal installment. On March 30, 2005, CPI made an optional prepayment of $5.7 million, in addition to the quarterly scheduled amortization payment. The optional prepayment was applied pro rata, in accordance with the provisions of the Term Loan, against the remaining scheduled installments of principal due up to June 30, 2009, with the balance applied to the September 30, 2009 installment. Based on a forecasted calculation of ECF, CPI does not anticipate that it will be required to make an ECF payment for the fiscal year ending September 30, 2005.

On February 16, 2005, in connection with the offering of the FR Notes, CPI Holdco and its wholly owned subsidiary, CPI, entered into Amendment No.1 of the Senior Credit Facility. Amendment No.1 permitted CPI Holdco to consummate the offering of the FR Notes. In addition, among other things, Amendment No.1 (1) permits (subject to certain conditions) CPI to pay dividends to CPI Holdco to fund cash interest payments on the FR Notes, (2) amends the definition of Excess Cash Flow in CPI s credit facility to decrease Excess Cash Flow by the amount of dividends paid by CPI to CPI Holdco to fund cash interest payments on the FR Notes, (3) subjects CPI Holdco to minimum interest coverage ratio, minimum fixed charge coverage ratio and maximum leverage ratio financial maintenance covenants, calculated on a consolidated basis for CPI Holdco and its subsidiaries and (4) permits CPI to pay up to $1.0 million annually in management fees to The Cypress Group L.L.C. and its affiliates (subject to certain conditions), in each case, subject to the qualifications set forth in the Amendment.

On April 13, 2005, CPI Holdco and its wholly owned subsidiary, CPI, entered into Amendment No. 2 of the Senior Credit Facility. Amendment No. 2 permits CPI Holdco to enter into agreements to hedge its interest rate exposure with respect to CPI Holdco s FR Notes and provide cash collateral to the hedging counterparty to secure its obligations under any such hedging agreement. The agreement also permits, among other things, CPI to pay cash dividends to CPI Holdco to allow CPI Holdco to satisfy its obligations under any such hedge agreement.

As of July 1, 2005, CPI was in compliance with all Senior Credit Facility financial covenants.

8% Senior Subordinated Notes

In connection with the Merger, CPI issued an aggregate principal amount of $125.0 million of its 8% Senior Subordinated Notes due 2012 (8% Notes), which will mature in their entirety on February 1, 2012; there are no sinking fund requirements. CPI is required to pay interest on the 8% Notes semiannually, beginning on August 1, 2004.

Floating Rate Senior Notes

On February 22, 2005, CPI Holdco issued $80.0 million in principal amount of Floating Rate Senior Notes due 2015 (the FR Notes). The FR Notes were issued at a 1% discount; the gross cash proceeds from the issuance of the FR Notes were $79.2 million. The proceeds from the issuance of FR Notes were used to make a distribution to stockholders of CPI Holdco of approximately $75.8 million and to pay fees and expenses of approximately $3.5 million associated with the issuance of FR Notes.

The FR Notes require interest payments at an annual interest rate, reset at the beginning of each semi-annual period, equal to the then six-month LIBOR plus 5.75%, payable semiannually on the first day of August and February. CPI Holdco may, at its option, elect to pay interest through the issuance of additional FR Notes for any interest payment date on or after August 1, 2006 and on or before February 1, 2010. If CPI Holdco elects to pay interest through the issuance of additional FR Notes, the annual interest rate on the FR Notes will increase by an additional 1% step-up, with the step-up increasing by an additional 1% for each interest payment made through the issuance of additional FR Notes (up to a maximum of 4%). There are no sinking fund requirements associated with the FR Notes, which will mature in their entirety on February 1, 2015.

The FR Notes are general unsecured obligations of CPI Holdco. The FR Notes are not guaranteed by any of CPI Holdco s subsidiaries and are structurally subordinated to all existing and future indebtedness and other liabilities of CPI Holdco s subsidiaries. The FR Notes are senior in right of payment to CPI Holdco s existing and future indebtedness that is expressly subordinated to the FR Notes. The indenture governing the FR Notes (the FR Indenture) contains certain covenants that, among other things, limit the ability of CPI Holdco and its restricted subsidiaries (as defined in the FR Indenture) to incur additional indebtedness, sell assets, consolidate or merge with or into other companies, pay dividends or repurchase or redeem capital stock, make certain investments, issue capital stock of their subsidiaries, incur liens and enter into certain types of transactions with their affiliates. In addition, the FR Indenture provides that upon a change of control (as defined in the FR Indenture), subject to certain conditions and restrictions, the holders of the FR Notes will be entitled to require CPI Holdco to purchase all or a portion of their FR Notes at a purchase price equal to 101% of the principal amount of the FR Notes, plus accrued and unpaid interest.

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

Dates	**Optional Redemption Prices**
2007	103%
2008	102%
2009	101%
2010 and thereafter	100%

At any time or from time to time prior to February 1, 2007, and subject to certain conditions, CPI Holdco, at its option, may redeem up to 35% of the aggregate principal amount of the FR Notes at a redemption price equal to 100% of the principal amount of the FR Notes to be redeemed, plus a premium equal to the interest rate per annum on the FR Notes applicable on the date on which the notice of redemption is given, plus accrued and unpaid interest to the date of redemption, with the net cash proceeds of one or more qualified equity offerings.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands - unaudited) 38

Events of default under the FR Indenture include (1) failure to make payments on the FR Notes when due, (2) failure to comply with covenants in the FR Indenture, (3) failure to pay other indebtedness of CPI Holdco or any of its restricted subsidiaries in an aggregate amount of $25 million or more, or any default under such indebtedness resulting in the acceleration of the maturity of such indebtedness or commencement of judicial proceedings to foreclose upon or to exercise remedies to take ownership of any assets securing such indebtedness, (4) failure to pay or discharge any final judgment in excess of $25 million (net of insurance) that has not been satisfied, stayed, annulled or rescinded within 60 days of having been entered against CPI Holdco or any of the restricted subsidiaries, and (5) the occurrence of certain insolvency events.

The Company s registration statement filed with the Securities and Exchange Commission relating to the offer to exchange all outstanding FR Notes due 2015 for FR Notes due 2015 that have been registered under the Securities Act of 1933, as amended, was declared effective on April 21, 2005.

7. *Financial Instruments*

The Company uses forward exchange contracts to address the foreign currency risk associated with anticipated manufacturing costs in Canada. As of July 1, 2005, CPI had outstanding forward contract commitments to purchase Canadian dollars for an aggregate U.S. notional amount of $18.1 million; the last forward contract expires on March 10, 2006. At July 1, 2005, the fair value of unrealized foreign currency forward contracts was $1.8 million and the unrealized gain was approximately $1.2 million, net of related tax expense. The Company anticipates recognizing the entire unrealized gain in operating earnings within the next twelve months. The Company s foreign currency forward contracts are designated as a cash flow hedge and are considered highly effective , as defined by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities .

The unrealized gains and losses from foreign exchange forward contracts are included in Accumulated Other Comprehensive Income in the Condensed Consolidated Balance Sheet, and the Company anticipates recognizing the entire unrealized gain in operating earnings within the next twelve months. At July 1, 2005, the fair value of foreign currency forward contracts was $1.8 million and the unrealized gain was approximately $1.2 million, net of related tax expense. Realized gains and losses from foreign currency exchange contracts are recognized in Cost of Sales and General and Administrative in the Condensed Consolidated Statements of Operations and Comprehensive Income as the foreign currency contracts are settled. Realized gains and losses from foreign currency contracts are recognized in Cost of Sales and General and Administrative in the Condensed Consolidated Statements of Operations and Comprehensive Income as the foreign currency contracts are settled. Net income includes forward currency gains of $0.3 million and $0.1 million for the 13-week periods ended July 1, 2005 and July 2, 2004, respectively, $1.0 million for the 39-week period ended July 1, 2005 and $0.1 million for the period from January 23, 2004 to July 2, 2004.

In April 2005, the Company expanded its use of derivatives to address the interest rate risk associated with the FR Notes expiring February 1, 2015. On April 15, 2005, the Company entered into an $80 million interest rate swap contract (the Swap) to receive variable rate 6-month LIBOR interest and pay 4.15% fixed rate interest. The Swap is for semi-annual interest payments, beginning with interest payments due on February 1, 2006, and the contract matures on January 31, 2008. The Swap is designated as a cash flow hedge under SFAS No. 133, and the gain and loss from changes in fair value is expected to be highly effective at offsetting the gain or loss from changes in fair value of the FR Notes attributable to changes in interest rates over the contract period. As of July 1, 2005, the Company had paid $1.0 million as collateral for the Swap, which is included as Other Long-term Assets in the accompanying Condensed Consolidated Balance Sheets. The amount of collateral fluctuates based on the fair value of the Swap. The unrealized gains and losses from the Swap contract are included in Accumulated Other Comprehensive Income in the Condensed Consolidated Balance Sheet. At July 1, 2005 the fair value of the Swap was not material. The Company anticipates recognizing the unrealized gain or loss on the Swap over the contract period to effectively replace the variable interest rate on the FR Notes with the fixed interest rate of the Swap.

8. *Segments and Related Information*

The Company has two reportable segments: VEDs and satcom equipment. Summarized financial information concerning the Company s reportable segments is shown in the following table (in thousands):

	13-Week Period ended July 1, 2005	13-Week Period ended July 2, 2004
Revenues from external customers		
VEDs	$ 70,363	$ 62,651
Satcom equipment	17,276	9,694
Total	$ 87,639	$ 72,345
Intersegment product transfers		
VEDs	$ 6,935	$ 4,161
Satcom equipment	3	2
Total	$ 6,938	$ 4,163
EBITDA		
VEDs	$ 20,499	$ 16,350
Satcom equipment	2,415	262
Other	(3,705)	4,776
Total	$ 19,209	$ 21,388

	Fiscal Year		
	2005	2004	
	39-Week Period ended July 1, 2005 (Successor)	January 23, 2004 to July 2, 2004 (Successor)	October 4, 2003 to January 22, 2004 (Predecessor)
Revenues from external customers			
VEDs	$ 200,977	$ 118,489	$ 68,960
Satcom equipment	44,858	19,497	10,959
Total	$ 245,835	$ 137,986	$ 79,919
Intersegment product transfers			
VEDs	$ 19,719	$ 7,749	$ 4,070
Satcom equipment	82	9	11
Total	$ 19,801	$ 7,758	$ 4,081
EBITDA			
VEDs	$ 56,386	$ 34,201	$ 15,889
Satcom equipment	6,204	1,220	(229)
Other	(9,457)	(13,011)	(9,111)
Total	$ 53,133	$ 22,410	$ 6,549

Intersegment product transfers are recorded at cost.

Included in the Other category of EBITDA are unallocated corporate operating expenses and amortization of acquisition-related inventory write-up. The Other category of EBITDA for the 13-Week period ended July 2, 2004 also includes a $7.7 million credit that increases EBITDA for purchase accounting related to the $9.0 million adjustment for acquired in-process research and development, partially offset by a $1.3 million inventory valuation charge. The Other category of EBITDA for the period January 23, 2004 to July 2, 2004 also includes purchase accounting adjustments of $5.5 million related to the inventory write-up and $2.5 million for acquired in-process research and development. The Other category of EBITDA for the period October 4, 2003 to January 22, 2004 also includes $6.4 million of merger expenses.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands - unaudited) 42

Management evaluates performance and allocates resources based on earnings before interest expense, provision for income taxes, depreciation and amortization (EBITDA). EBITDA is presented because the Company believes that EBITDA is used by some investors as a financial indicator of a company s ability to service indebtedness. While management considers EBITDA to be an important measure of comparative operating performance, it should be considered in addition to, but not as a substitute for or superior to, operating income, net earnings (loss), cash flow and other measures of financial performance prepared in accordance with accounting principles generally accepted in the United States. EBITDA does not reflect cash available to fund cash requirements, and the items excluded from EBITDA, such as depreciation and amortization, are significant components in assessing the Company s financial performance. Other significant uses of cash flows are required before cash will be available to the Company including debt service, taxes and cash expenditures for various long-term assets. The Company s calculation of EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited. A reconciliation of EBITDA from reportable segments to income before taxes is as follows (in thousands):

	13-Week Period ended July 1, 2005	13-Week Period ended July 2, 2004
EBITDA	$ 19,209	$ 21,388
Less:		
Depreciation and amortization	2,398	5,853
Interest expense, net	5,697	3,822
Income before income taxes	$ 11,114	$ 11,713

	Fiscal Year		
	2005	2004	
	39-Week Period ended July 1, 2005 (Successor)	January 23, 2004 to July 2, 2004 (Successor)	October 4, 2003 to January 22, 2004 (Predecessor)
EBITDA	$ 53,133	$ 22,410	$ 6,549
Less:			
Depreciation and amortization	11,767	10,271	1,778
Interest expense, net	14,509	6,772	8,902
Income (loss) before income taxes	$ 26,857	$ 5,367	$ (4,131)

Sales by geographic area to unaffiliated customers (based on the location of customer) were as follows (in thousands):

	13-Week Period ended July 1, 2005	13-Week Period ended July 2, 2004
United States	$ 55,913	$ 50,617
All foreign countries	31,726	21,728
Total sales	$ 87,639	$ 72,345

	Fiscal Year		
	2005	2004	
	39-Week Period ended July 1, 2005 (Successor)	January 23, 2004 to July 2, 2004 (Successor)	October 4, 2003 to January 22, 2004 (Predecessor)
United States	$ 162,391	$ 98,017	$ 52,417
All foreign countries	83,444	39,969	27,502
Total sales	$ 245,835	$ 137,986	$ 79,919

The Company had one customer, the United States Government, that accounted for 10% or more of consolidated sales. Sales to this customer were $15.5 million, and $17.0 million of the Company s consolidated sales for the 13-week periods ended July 1, 2005 and July 2, 2004, respectively. Sales to this customer were $45.1 million, $30.8 million and $17.0 million of the Company s consolidated sales for the 39-week period ended July 1, 2005, the period from January 23, 2004 to July 2, 2004, and the period from October 4, 2003 to January 22, 2004, respectively. A substantial majority of these sales were VED segment products, but this customer also purchased satcom equipment products.

9. ***Goodwill and Other Intangible Assets***

Goodwill

The following table presents the changes in goodwill by reportable segment during the nine months ended July 1, 2005 (in thousands):

	October 1, 2004	Acquired	July 1, 2005
VED s	$ 125,769	$ 5,848	$ 131,617
Satcom Equipment	13,845		13,845
Total	$ 139,614	$ 5,848	$ 145,462

As more fully described in Note 10 Econco Acquisition , goodwill acquired is comprised of the excess of the purchase price for Econco Broadcast Service, Inc. over the fair value of the assets acquired.

Intangible Assets

The following table presents the details of the Company s total purchased intangible assets (in thousands):

July 1, 2005	**Cost**	**Accumulated Amortization**	**Net**
Technology	$ 58,500	$ (2,804)	$ 55,696
Customer backlog	17,450	(17,450)	
Land lease	11,810	(379)	11,431
Tradename	5,800		5,800
Customer list and programs	5,700	(154)	5,546
Noncompete agreement	110	(29)	81
Net identifiable intangible assets	$ 99,370	$ (20,816)	$ 78,554

October 1, 2004	**Cost**	**Accumulated Amortization**	**Net**
Technology	$ 58,500	$ (1,350)	$ 57,150
Customer backlog	17,450	(12,148)	5,302
Land lease	11,810	(181)	11,629
Tradename	4,400		4,400
Net identifiable intangible assets	$ 92,160	$ (13,679)	$ 78,481

The estimated future amortization expense of purchased intangibles as of July 1, 2005 was as follows (in thousands):

Fiscal Year	**Amount**
2005 (remaining three months)	$ 612
2006	2,452
2007	2,452
2008	2,452
2009	2,452
Thereafter	68,134
Total	$ 78,554

10. *Econco Acquisition*

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

The Econco acquisition was accounted for using the purchase method of accounting as required by Financial Accounting Standards Board (FASB) Statement No. 141, Business Combinations. Accordingly, the assets and liabilities of Econco were adjusted to their fair values and the excess of the purchase price over the fair value of the assets acquired was recorded as goodwill. The allocation of the purchase price to specific assets and liabilities was based, in part, upon independent appraisals and internal estimates of cash flow and recoverability.

Under the Econco purchase agreement, the Company was required to reimburse the selling shareholders of Econco for certain costs associated with a tax election to treat the transaction as an asset sale. Included in the preliminary estimate of the fair value of the Econco assets was an accrual for the estimated amount of the reimbursement to the selling shareholders. During the third quarter of fiscal year 2005, the shareholders were paid for costs associated with the tax election and the final estimate of the fair value of the Econco assets was computed. The final purchase price was $0.4 million lower than the preliminary estimate. The following table summarizes the final allocation of fair value of the Econco assets acquired and liabilities assumed at October 8, 2004 (in thousands):

Cash	$	21
Accounts receivable		1,346
Inventory, including $351 of fair value write-up		1,919
Property, plant and equipment		3,239
Identifiable intangible assets		7,210
Goodwill		5,848
Current liabilities		(1,237)
Total	$	18,346

The following table presents details of the purchased intangible assets acquired (dollars in thousands):

	Estimated Useful Life		Amount
Non-compete agreement	5 years	$	110
Tradename	indefinite		1,400
Customer list and programs	25 years		5,700
Total		$	7,210

The Condensed Consolidated Financial Statements include Econco s financial results from the acquisition date. Pro forma results of operations have not been presented because the effect of the Econco acquisition was not material to the Company s results.

11. Stockholders Equity

In February 2005, the Board of Directors declared a cash distribution to stockholders of approximately $75.8 million, which was essentially a return of capital. The cash distribution was made on the basis of the stockholders relative ownership in CPI Holdco s outstanding common stock and was paid out of the net proceeds from the issuance of the $80 million in principal amount of FR Notes.

As a result of the cash distribution to stockholders, CPI Holdco adjusted the options outstanding under the Predecessor s 2000 Stock Option Plan and CPI Holdco s 2004 Stock Incentive Plan pursuant to the terms of those plans to reflect the distribution made to the stockholders of CPI Holdco. As a result of these adjustments, the exercise price of the options outstanding under these plans was adjusted by dividing the prior exercise price of such options by 1.781, the number of shares issuable upon exercise of those options was adjusted by multiplying the number of shares previously issuable pursuant to the options by 1.781, and the total number of shares reserved for issuance under each such plan was also increased by a factor of 1.781. These adjustments increased the number of options outstanding from approximately 526,000 to 937,000 and reduced the range of exercise prices of the options outstanding from $1.10 to $36.00 down to $0.62 to $20.21.

In accordance with FASB Interpretation 44, Accounting for Certain Transactions involving Stock Compensation , the Company determined that there were no accounting consequences for the adjustments made to the number of options issued and exercise prices. It was determined that the aggregate intrinsic value of the stock options immediately after the adjustment was not greater that aggregate intrinsic value of the stock options immediately before the adjustment and the ratio of exercise price per share to the market value was not reduced.

12. Recent Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-01). EITF 03-01 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-thantemporarily impaired. The FASB issued EITF 03-01-1 in September 2004, which delayed the effective date of the recognition and measurement provisions of EITF 03-01. The Company does not expect the adoption of EITF 03-01 to have a material impact on our results of operations or financial condition.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4 , which is the result of the FASB s project to reduce differences between U.S. and international accounting standards. SFAS No. 151 requires idle facility costs, abnormal freight, handling costs, and amounts of wasted materials (spoilage) be treated as current-period costs. Under this concept, if the costs associated with the actual level of spoilage or production defects are greater than the costs associated with the range of normal spoilage or defects, the difference would be charged to current-period expense, not included in inventory costs. The Company is required to adopt SFAS No. 151 in the beginning of fiscal year 2006 and its adoption is not expected to have a significant impact on the Company s results of operations or financial condition.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets An amendment of APB Opinion No. 29, which eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Company is required to adopt SFAS No. 153 for nonmonetary asset exchanges occurring in the first quarter of 2006 and its adoption is not expected to have a significant impact on the Company s results of operations or financial condition.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). SFAS No. 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation model. SFAS No. 123R eliminates the intrinsic value-based method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations, that the Company currently uses. As a nonpublic entity as defined by SFAS No. 123R, the Company is required to adopt SFAS No. 123R in the beginning of fiscal year 2007. The Company has not yet determined the impact of applying the provisions of SFAS No. 123R.

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated even though uncertainty exists about the timing and (or) method of settlement. The Company is required to adopt Interpretation No. 47 by the end of 2006. The Company has not yet determined the impact of applying the provisions of Interpretation No. 47.

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

13. *Supplemental Guarantors Condensed Consolidating Financial Information (Unaudited)*

On January 23, 2004, CPI issued $125.0 million of 8% Notes that are guaranteed by CPI Holdco and all of CPI s domestic subsidiaries. Separate financial statements of the guarantors are not presented because (i) the guarantors are wholly-owned and have fully and unconditionally guaranteed the 8% Notes on a joint and several basis, and (ii) the Company s management has determined that such separate financial statements are not material to investors. Instead, presented below are the consolidating condensed financial statements of: (a) the parent, CPI Holdco or

Holding, (b) the issuer, CPI, (c) the guarantor subsidiaries, our domestic subsidiaries (d) the non-guarantor subsidiaries, (e) the consolidating elimination entries, and (f) the consolidated total. The Predecessor parent is Holding, and the Successor parent is CPI Holdco. The accompanying consolidating condensed financial statements should be read in connection with the consolidated financial statements of CPI Holdco.

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

CONDENSED CONSOLIDATING BALANCE SHEET

As of July 1, 2005 (Successor)

(in thousands)

	Parent (CPI Holdco)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Assets						
Cash and cash equivalents	$ 33	14,614	514	1,947		17,108
Restricted cash			1,911	108		2,019
Accounts receivable, net		25,865	6,819	15,707		48,391
Inventories		31,651	1,350	14,155		47,156
Deferred tax assets		12,499		36		12,535
Prepaids and other current assets		3,241	268	1,066		4,575
Intercompany receivable		27,079	370	685	(28,134)	
Total current assets	33	114,949	11,232	33,704	(28,134)	131,784
Property, plant and equipment, net		66,194	3,188	7,930		77,312
Debt issue costs, net	3,381	8,035				11,416
Intangible assets, net		61,899	7,027	9,628		78,554
Goodwill		92,041	5,848	47,573		145,462
Other long-term assets	1,000	853				1,853
Intercompany notes receivable		9,535			(9,535)	
Investment in subsidiaries	154,074	47,690			(201,764)	
Total assets	$ 158,488	401,196	27,295	98,835	(239,433)	446,381
Liabilities and stockholders equity						
Accounts payable	$	11,373	540	5,989		17,902
Accrued expenses	2,551	20,114	925	3,810		27,400
Product warranty		3,469	176	2,386		6,031
Income taxes payable		1,187	605	4,059		5,851
Advance payments from customers		3,754	1,346	2,907		8,007
Intercompany payable	28,134				(28,134)	
Total current liabilities	30,685	39,897	3,592	19,151	(28,134)	65,191
Deferred income taxes		29,215		5,774		34,989
Advance payments from sale of San Carlos property		13,450				13,450
Long-term debt	79,218	205,000				284,218
Other long-term liabilities		84				84
Intercompany notes payable				9,535	(9,535)	
Total liabilities	109,903	287,646	3,592	34,460	(37,669)	397,932
Common stock	43					43
Additional paid-in capital	28,601					28,601
Parent investment		92,160	22,228	57,216	(171,604)	
Accumulated other comprehensive income	1,177	1,041		287	(1,464)	1,041
Retained earnings	18,764	20,349	1,475	6,872	(28,696)	18,764
Net stockholders equity	48,585	113,550	23,703	64,375	(201,764)	48,449
Total liabilities and stockholders equity	$ 158,488	401,196	27,295	98,835	(239,433)	446,381

CONDENSED CONSOLIDATING BALANCE SHEET

As of October 1, 2004 (Successor)

(in thousands)

		Parent (CPI Holdco)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Assets							
Cash and cash equivalents	$		38,131	113	2,232		40,476
Restricted cash				2,188	91		2,279
Accounts receivable, net			21,424	3,806	10,684		35,914
Inventories			28,916	99	9,059		38,074
Deferred tax assets			12,285				12,285
Prepaids and other current assets			3,066	168	570	(8)	3,796
Intercompany receivable			26,841		1,730	(28,571)	
Total current assets			130,663	6,374	24,366	(28,579)	132,824
Property, plant and equipment, net			62,162	22	7,943		70,127
Debt issue costs, net			8,910				8,910
Intangible assets, net			67,847		10,634		78,481
Goodwill			92,041		47,573		139,614
Other long-term assets			1,251				1,251
Intercompany notes receivable			13,335			(13,335)	
Investment in subsidiaries		135,688	21,073			(156,761)	
Total assets	$	135,688	397,282	6,396	90,516	(198,675)	431,207
Liabilities and stockholders equity							
Current portion of long-term debt	$		3,944				3,944
Accounts payable			11,556	99	4,135		15,790
Accrued expenses			17,449	561	2,929		20,939
Product warranty			3,877		2,197		6,074
Income taxes payable			1,274		395	(8)	1,661
Advance payments from customers			6,463	1,012	4,556		12,031
Intercompany payable		28,094		477		(28,571)	
Total current liabilities		28,094	44,563	2,149	14,212	(28,579)	60,439
Deferred income taxes			32,936		6,182		39,118
Advance payments from sale of San Carlos property			13,450				13,450
Long-term debt			210,606				210,606
Intercompany notes payable					13,335	(13,335)	
Total liabilities		28,094	301,555	2,149	33,729	(41,914)	323,613
Common stock		43					43
Additional paid-in capital		103,534					103,534
Parent investment			91,710	3,882	56,790	(152,382)	
Accumulated other comprehensive income		1,369	1,369		54	(1,423)	1,369
Retained earnings (deficit)		2,648	2,648	365	(57)	(2,956)	2,648
Net stockholders equity		107,594	95,727	4,247	56,787	(156,761)	107,594
Total liabilities and stockholders equity	$	135,688	397,282	6,396	90,516	(198,675)	431,207

21

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the 13-Week Period Ended July 1, 2005 (Succecessor)

(in thousands)

	Parent (CPI Holdco)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$	61,172	12,679	32,818	(19,030)	87,639
Cost of sales		43,244	10,214	23,420	(19,030)	57,848
Gross profit		17,928	2,465	9,398		29,791
Operating costs and expenses:						
Research and development		606		1,293		1,899
Selling and marketing		1,852	876	2,016		4,744
General and administrative		4,146	701	942		5,789
Amortization of acquisition-related intangible assets		334	63	151		548
Total operating costs and expenses		6,938	1,640	4,402		12,980
Operating income		10,990	825	4,996		16,811
Interest expense (income), net	1,832	3,600	(8)	273		5,697
(Loss) income before income tax expense and equity in income of subsidiaries	(1,832)	7,390	833	4,723		11,114
Income tax (benefit) expense	(733)	2,820	441	1,888		4,416
Equity in income of subsidiaries	7,797	3,227			(11,024)	
Net income	$ 6,698	7,797	392	2,835	(11,024)	6,698

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the 13-Week Period Ended July 2, 2004 (Successor)

(in thousands - unaudited)

	Parent (CPI Holdco)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$	56,223	8,901	24,935	(17,714)	72,345
Cost of sales		39,235	7,870	19,721	(17,714)	49,112
Amortization of acquisition-related inventory write-up		1,000		280		1,280
Gross profit		15,988	1,031	4,934		21,953
Operating costs and expenses:						
Research and development		555		1,314		1,869
Selling and marketing		1,813	534	1,509		3,856
General and administrative		3,964	80	967		5,011
Amortization of acquisition-related intangible assets		3,988		694		4,682
Acquired in-process research and development		(4,485)		(4,515)		(9,000)
Total operating costs and expenses		5,835	614	(31)		6,418
Operating income		10,153	417	4,965		15,535

Interest expense (income), net			3,387	(3)	438		3,822
Income before income tax expense and equity in loss of subsidiaries			6,766	420	4,527		11,713
Income tax expense (benefit)			583	4	(345)		242
Equity in income of subsidiaries		11,471	5,288			(16,759)	
Net income	$	11,471	11,471	416	4,872	(16,759)	11,471

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands - unaudited) 57

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the 39-Week Period Ended July 1, 2005 (Succecessor)

(in thousands)

	Parent (CPI Holdco)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$	174,738	33,934	88,636	(51,473)	245,835
Cost of sales		123,035	27,507	63,843	(51,473)	162,912
Amortization of acquisition-related inventory write-up			351			351
Gross profit		51,703	6,076	24,793		82,572
Operating costs and expenses:						
Research and development		1,797		3,408		5,205
Selling and marketing		5,547	2,522	5,328		13,397
General and administrative		10,438	1,538	3,688		15,664
Amortization of acquisition-related intangible assets		5,751	183	1,006		6,940
Total operating costs and expenses		23,533	4,243	13,430		41,206
Operating income		28,170	1,833	11,363		41,366
Interest expense (income), net	2,643	11,044	(23)	845		14,509
(Loss) income before income tax expense and equity in income of subsidiaries	(2,643)	17,126	1,856	10,518		26,857
Income tax (benefit) expense	(1,057)	7,151	746	3,901		10,741
Equity in income of subsidiaries	17,702	7,727			(25,429)	
Net income	$ 16,116	17,702	1,110	6,617	(25,429)	16,116

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

From January 23, 2004 to July 2, 2004 (Successor)

(in thousands - unaudited)

	Parent (CPI Holdco)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$	105,192	15,579	47,163	(29,948)	137,986
Cost of sales		71,809	13,815	35,243	(29,948)	90,919
Amortization of acquisition-related inventory write-up		4,300		1,200		5,500
Gross profit		29,083	1,764	10,720		41,567
Operating costs and expenses:						
Research and development		933		2,400		3,333
Selling and marketing		3,304	1,000	2,690		6,994
General and administrative		6,099	396	2,028		8,523
Amortization of acquisition-related intangible assets		7,084		994		8,078
Acquired in-process research and development		1,415		1,085		2,500
Total operating costs and expenses		18,835	1,396	9,197		29,428
Operating income		10,248	368	1,523		12,139
Interest expense (income), net		6,003	(4)	773		6,772
Income before income tax expense and equity in of subsidiaries		4,245	372	750		5,367
Income tax expense (benefit)		1,194	11	(476)		729
Equity in income of subsidiaries	4,638	1,587			(6,225)	
Net income	$ 4,638	4,638	361	1,226	(6,225)	4,638

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

From October 4, 2003 to January 22, 2004 (Predecessor)

(in thousands - unadudited)

	Parent (CPI Holding)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$	60,721	10,673	26,470	(17,945)	79,919
Cost of sales		43,551	9,448	21,223	(18,033)	56,189
Gross profit		17,170	1,225	5,247	88	23,730
Operating costs and expenses:						
Research and development		607		1,593		2,200
Selling and marketing		2,136	591	1,678	(53)	4,352
General and administrative	355	4,973	236	1,508	(1,039)	6,033
Merger expenses	5,074	1,300				6,374
Intercompany income	(755)	(215)	(53)		1,023	
Total operating costs and expenses	4,674	8,801	774	4,779	(69)	18,959
Operating (loss) income	(4,674)	8,369	451	468	157	4,771
Interest expense (income), net	590	7,731	(3)	584		8,902

(Loss) income before income tax expense and equity in income of subsidiaries		(5,264)	638	454	(116)	157	(4,131)
Income tax expense			334	55	50		439
Equity in income of subsidiaries		694	321			(1,015)	
Net (loss) income	$	(4,570)	625	399	(166)	(858)	(4,570)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands - unaudited) 60

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the 39-Week Period Ended July 1, 2005 (Successor)

(in thousands)

	Parent (CPI Holdco)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
OPERATING ACTIVITIES						
Net cash provided by operating activities	$ 1,097	13,519	553	114		15,283
INVESTING ACTIVITIES						
Expenses relating to sale of San Carlos property		(216)				(216)
Purchase of Econco s net assets, net of cash acquired		(18,325)				(18,325)
Purchase of property, plant, and equipment		(8,336)	(132)	(399)		(8,867)
Other investing activities		(16)				(16)
Net cash used in investing activities		(26,893)	(132)	(399)		(27,424)
FINANCING ACTIVITIES						
Proceeds from issuance of floating rate senior notes	79,200					79,200
Payments for debt issuance costs	(3,455)					(3,455)
Repayments on senior term loan		(9,550)				(9,550)
Stockholder distribution payments	(75,809)					(75,809)
Payment of collateral on interest rate swap contract	(1,000)					(1,000)
Other financing activities		(80)	(20)			(100)
Net repayments from bank overdraft		(513)				(513)
Net cash used in financing activities	(1,064)	(10,143)	(20)			(11,227)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	33	(23,517)	401	(285)		(23,368)
Cash and cash equivalents at beginning of period		38,131	113	2,232		40,476
Cash and cash equivalents at end of period	$ 33	14,614	514	1,947		17,108

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

From January 23, 2004 to July 2, 2004 (Successor)

(in thousands - unaudited)

	Parent (CPI Holdco)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
OPERATING ACTIVITIES						
Net cash provided by (used in) operating activities	$ 15,685	(11,019)	2,917	3,881		11,464
INVESTING ACTIVITIES						
Purchase of Predecessor s net assets, net of cash acquired	(113,760)					(113,760)
Purchase of property, plant and equipment, net		(1,102)	(13)	(107)		(1,222)
Net cash used in investing activities	(113,760)	(1,102)	(13)	(107)		(114,982)
FINANCING ACTIVITIES						
Retirement of debt and preferred stock:						
Senior subordinated notes		(74,000)				(74,000)
Senior redeemable preferred stock		(29,735)				(29,735)
Junior preferred stock		(32,336)				(32,336)
Dividends on senior preferred stock		(19,310)				(19,310)
Mortgage financing		(17,500)				(17,500)
Proceeds from/(payments for) the issuance of debt:						
Senior subordinated notes		125,000				125,000
Senior term loans		90,000				90,000
Debt issue costs		(9,648)				(9,648)
Proceeds from the repayment of Predecessor management loans		1,266				1,266
Net proceeds from the issuance of common stock	98,075					98,075
Repayments on senior term loan						