

CPI INTERNATIONAL, INC.

Form 10-Q

May 15, 2006

**UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION**

Washington, DC 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 March 31, 2006

or

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(Exact Name of Registrant as Specified in Its Charter)

Delaware

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(State or Other Jurisdiction of Incorporation or Organization)

75-3142681

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

811 Hansen Way

Palo Alto, California 94303-1110

(650) 846-2900

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

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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Indicate the number of shares outstanding for each of the registrant's classes of Common Stock, as of the latest practicable date: 16,030,153 shares of Common Stock, \$.01 par value, at May 15, 2006.

CPI International, Inc.
and Subsidiaries

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CPI International, Inc.
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Cautionary Statements Regarding Forward-Looking Statements

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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, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. Forward-looking statements are subject to known and unknown risks and uncertainties, which could cause actual results to differ materially from the results projected, expected or implied by the forward-looking statements. These risk factors include, without limitation, competition in our end markets; our significant amount of debt; changes or reductions in the U.S. defense budget; U.S. government contracts laws and regulations; changes in technology; the impact of unexpected costs; inability to obtain raw materials and components; and currency fluctuations. 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 risk factors, and other cautionary statements included herein and in the other filings with the Securities and Exchange Commission (SEC) made by CPI International, Inc. 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 the 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 CPI International, Inc.'s other filings with the SEC before you decide to invest in our securities or to maintain or increase your investment.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

CPI International, Inc.
and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data unaudited)

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	March 31, 2006	September 30, 2005
Assets		
Current Assets:		
Cash and cash equivalents	\$ 7,801	\$ 26,511
Restricted cash	1,127	1,287
Accounts receivable, net	46,463	39,295
Inventories	53,101	50,620
Deferred tax assets	11,611	12,346
Prepays and other current assets	3,470	3,981
Total current assets	123,573	134,040
Property, plant and equipment, net	85,995	83,624
Deferred debt issue costs, net	10,339	11,061
Intangible assets, net	76,716	77,941
Goodwill	145,462	145,462
Other long-term assets	3,681	2,416
Total assets	\$ 445,766	\$ 454,544
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	\$ 20,879	\$ 21,421
Accrued expenses	25,588	27,247
Product warranty	6,418	6,359
Income taxes payable	2,951	1,546
Advance payments from customers	6,866	12,067
Total current liabilities	62,702	68,640
Deferred income taxes	33,596	35,556
Advance payments from sale of San Carlos property	13,450	13,450
Long-term debt	294,258	284,231
Other long-term liabilities	21	
Total liabilities	404,027	401,877
Commitments and contingencies		
Stockholders Equity:		
Common stock (\$0.01 par value, 90,000,000 shares authorized; 13,078,954 shares issued and outstanding)	131	131
Additional paid-in capital	17,596	34,595
Accumulated other comprehensive income	1,132	1,621
Retained earnings	22,880	16,320
Total stockholders equity	41,739	52,667
Total liabilities and stockholders equity	\$ 445,766	\$ 454,544

See accompanying notes to the condensed consolidated financial statements.

CPI International, Inc.
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**CONDENSED CONSOLIDATED
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**
(in thousands, except share and per share data unaudited)

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	Quarter Ended	
	March 31, 2006	April 1, 2005
Sales	\$ 86,929	\$ 84,463
Cost of sales	61,185	55,386
Gross profit	25,744	29,077
Operating costs and expenses:		
Research and development	1,941	1,858
Selling and marketing	4,680	4,585
General and administrative	4,676	5,658
Amortization of acquisition-related intangible assets	546	1,486
Net loss on disposition of assets	143	192
Total operating costs and expenses	11,986	13,779
Operating income	13,758	15,298
Interest expense, net	6,400	4,732
Income before income taxes	7,358	10,566
Income tax expense	3,013	4,246
Net income	\$ 4,345	\$ 6,320
Other comprehensive income, net of tax		
Net unrealized loss on cash flow hedges	(306)	