

CPI INTERNATIONAL, INC.
Form S-1/A
March 31, 2006

As filed with the Securities and Exchange Commission on March 31, 2006

Registration No. 333-130662

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Amendment No. 4
To

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CPI INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	3670	75-3142681
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

811 Hansen Way
Palo Alto, California 94303-1110
(650) 846-2900

(Address, Including Zip Code, and Telephone Number, Including
Area Code, of Registrant's Principal Executive Offices)

Joel A. Littman
811 Hansen Way
Palo Alto, California 94303-1110
(650) 846-2900

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

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

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

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

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

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

, 2006

Subject to completion

Shares

Common Stock

This is the initial public offering of the common stock of CPI International, Inc. No public market currently exists for our common stock. We are offering 2,941,200 shares of our common stock, and the selling stockholders identified in this prospectus are offering 4,117,670 shares of our common stock. We will not receive any proceeds from the sale of our common stock by the selling stockholders. We expect the public offering price to be between \$16.00 and \$18.00 per share.

We have applied to have our common stock approved for quotation on The Nasdaq National Market under the symbol "CPII."

Investing in our common stock involves a high degree of risk. Before buying any shares, you should read the discussion of material risks of investing in our common stock in "Risk factors" beginning on page 9 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$
Proceeds, before expenses, to the selling stockholders	\$	\$

The underwriters may also purchase up to an additional 1,058,831 shares of our common stock at the public offering price, less the underwriting discounts and commissions, to cover over-allotments, if any, within 30 days of the date of this prospectus. Of these additional shares that the underwriters may purchase to cover over-allotments, if any, up to 441,180 shares will be offered by us and up to 617,651 shares will be offered by the selling stockholders. If the underwriters exercise this option in full, the total underwriting discounts and commissions will be \$, our total proceeds, before expenses, will be \$, and the total proceeds, before expenses, to the selling stockholders will be \$.

The underwriters are offering the common stock as set forth under "Underwriting." Delivery of the shares will be made on or about , 2006.

UBS Investment Bank

Bear, Stearns & Co. Inc.

Wachovia Securities

Banc of America Securities LLC

You should rely only on the information contained in this prospectus. We have not, and the selling stockholders and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

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Prospectus summary

This summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information that is important to you. You should read this entire prospectus carefully, especially the section entitled "Risk factors," our consolidated financial statements and the related notes included elsewhere in this prospectus, and the documents we have referred you to, before deciding to invest in our common stock.

OUR COMPANY

We are a leading provider of microwave and radio frequency products for critical defense, communications, medical, scientific and other applications. Our products include high power microwave amplifiers, satellite communications amplifiers, medical x-ray imaging subsystems, and other related products. Our products enable the generation, control and transmission of high power and high frequency microwave and radio frequency signals.

The founders of our business invented the klystron, a vacuum electron device that is still a foundation of modern high power microwave applications. Today, we continue to develop higher power, wider bandwidth and higher frequency microwave products and systems that enable significant technological advances for our defense and commercial customers.

We are one of three companies in the United States that have the facilities and expertise to produce a broad range of high power microwave systems to the demanding specifications required for advanced military applications such as high power radar, electronic warfare and broadband satellite communications. Defense applications for our products include transmitting and receiving radar signals for locating and tracking threats, weapons guidance and navigation, transmitting decoy and jamming signals for electronic warfare and transmitting signals for satellite communications. Our products are critical elements of high priority U.S. and foreign military programs and platforms such as the U.S. Navy's Aegis surface combat vessels (the DDG-51 class destroyers and the CG-47 cruisers), the ALE-50(V) Advanced Airborne Towed Decoy, the MK-234 NULKA Off-board Active Decoy, the Patriot missile air defense system, F-16 and F/A-18 E/F aircraft, Active Denial (a new system that uses microwave energy to deter unfriendly personnel) and high power military radar systems. In fiscal year 2005, we derived approximately 50% of our sales from U.S. and foreign government customers. The U.S. Government is the only customer that accounted for more than 10% of our revenues in the last three fiscal years.

In addition to our strong presence in defense applications, we have successfully applied our key technologies to various commercial end markets, including communications, medical, industrial and scientific applications. In the communications market, we provide microwave amplifiers for satellite communication uplinks for broadcast, video, voice and data transmission. In the medical market, we supply amplifiers used in radiation oncology treatment systems. We also supply medical x-ray generators that provide the power, control, software and user interfaces for diagnostic imaging systems, a dynamic, high-technology market where we continue to experience significant growth.

OUR COMPETITIVE STRENGTHS

Leading positions in attractive end markets. We believe we are the market leader in the sale of high power, high frequency microwave devices and related products for the radar, communications, medical, electronic warfare and industrial end markets and the number two supplier of these and other related products for the scientific end market.

Large installed product base with recurring sales of replacement parts, spares, repairs and upgrades. We estimate that our products are installed on over 125 U.S. defense systems in addition to over 180 commercial systems. We estimate that sales of replacement parts, spares, repairs and upgrades generate approximately 50% of our total sales. As the average age of military equipment increases, we believe that increased levels of replacement parts, spares, repairs and upgrades will be necessary.

Substantial sole provider position. In fiscal year 2005, we generated approximately 58% of our sales from products for which we believe we are the sole provider to our customers.

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Significant barriers to entry. We believe that the following factors create significant barriers to entry for potential competitors: the sophisticated nature of microwave technology; the depth of our customer relationships; our specialized facilities and equipment and our extensive trade secrets and know-how, which would require significant investments to duplicate; our installed base of products on over 300 systems; and the stringent product qualification requirements of our end markets.

Strong and experienced management team with a successful track record. Our current management team averages more than 25 years of experience with us. Since assuming its leadership responsibilities in 2002, our management team has instilled a culture that emphasizes cost control, profitable growth and cash generation. While we have had a history of net losses for the past five fiscal years, with the exception of fiscal years 2003 and 2005, our current management team has succeeded in increasing our sales at a compound annual growth rate of 8.5% since fiscal year 2002, with 7.1% organic growth. Since fiscal year 2002, EBITDA has increased from \$28.7 million to \$57.3 million, for a compound annual growth rate of 26%, and net income (loss) has increased from \$(6.7) million to \$13.7 million. In addition, EBITDA as a percentage of sales has increased from 11.4% in fiscal year 2002 to 17.9% in fiscal year 2005. See page 7 for a definition of EBITDA.

MARKET TRENDS

We believe the following industry trends will favorably impact demand for our products:

Increasing importance of military communications. Satellite communication is a critical element of the Department of Defense's plans to transform military communications to supply real time, high data-rate communications, intelligence and battlefield information to the front-line soldier. Department of Defense investments in military satellite communications are expected to be more than \$30 billion through 2024.

High power microwave initiatives. The Department of Defense is increasingly exploring the use of high power microwave products in a growing number of new weapon systems. Examples of these new systems include directed energy systems that disable or destroy an enemy's electronic systems and systems to disable or destroy roadside bombs and other improvised explosive devices.

Resurgence of global demand for commercial satellite-based communication and data transmission equipment and technology. There has been a general resurgence in the demand for and importance of satellite communications, and a significant improvement in the bandwidth and data-carrying capacity of the various underlying technologies, making commercial and government use of satellite communications more prevalent and cost effective. As demand continues to grow, we believe the demand for the ground-based equipment required to provide these services, including

microwave-based satellite uplink equipment, will continue to expand.

Growth of market for radiation therapy equipment in cancer treatment. The U.S. market for radiotherapy equipment is projected to grow at a compound annual growth rate of 9.3% between 2004 and 2009.

Growth in X-ray and diagnostic imaging applications. We believe that the demand for power and control products for x-ray and diagnostic imaging applications will continue to grow due to growth in demand for x-ray and diagnostic imaging services, increased outsourcing of component production by the major original equipment manufacturers and continued demand for replacement or upgraded products from our existing installed product base.

RISK FACTORS

In connection with this offering, you should be aware that:

Following this offering, we will be controlled by affiliates of The Cypress Group, who will own 55.5% of our outstanding common stock, control 55.5% of our voting power and have the ability to influence our management and affairs.

We will use the net proceeds from this offering to redeem, repurchase or repay debt. We borrowed an aggregate of \$90 million in fiscal year 2005 and the first quarter of fiscal year 2006 and used the entire net proceeds of these borrowings, together with cash on hand, to fund \$92.8 million in cash dividends to affiliates of The Cypress Group.

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We have a significant amount of debt that exceeds the amount of our tangible net assets. We are a holding company without any operations or income of our own. We rely on distributions from our operating subsidiaries to satisfy our obligations under our floating rate senior notes and the terms of our debt restrict the ability of our subsidiaries to make distributions to us.

We have a history of net losses for the past five fiscal years, except for fiscal years 2003 and 2005.

OUR CORPORATE INFORMATION

CPI International, Inc. was incorporated in Delaware in November 2003 under the name CPI Acquisition Corp. and was wholly-owned at that time by affiliates of The Cypress Group. In January 2004, CPI Acquisition Corp. acquired the business of Communications & Power Industries Holding Corporation (our predecessor), and later changed its name to CPI Holdco, Inc. (see "Management's discussion and analysis of financial condition and results of operations—The Merger"). In January 2006, CPI Holdco, Inc. changed its name to CPI International, Inc. Our principal

executive offices are located at 811 Hansen Way, Palo Alto, California 94303, and our telephone number is (650) 846-2900. We maintain an internet website at www.cpii.com. We have not incorporated by reference into this prospectus the information on our website, and you should not consider it to be a part of this prospectus.

OUR EXISTING EQUITY INVESTORS

Affiliates of The Cypress Group own substantially all of our outstanding common stock. We collectively refer to the entities affiliated with The Cypress Group that own our common stock as “Cypress” in this prospectus. In connection with our January 2004 merger, Cypress made a \$100 million capital contribution to us in exchange for the shares of common stock currently owned by Cypress. Cypress is a selling stockholder in this offering. See “Principal and selling stockholders.” After giving effect to this offering, Cypress will own 55.5% of our outstanding common stock.

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The offering

Common stock we are offering

2,941,200 shares

Common stock being offered by the selling stockholders

4,117,670 shares

Total shares of common stock being offered

7,058,870 shares

Common stock to be outstanding immediately after this offering

16,020,154 shares

Use of proceeds

We estimate that the net proceeds to us from this offering after expenses will be approximately \$44.5 million, or approximately \$51.5 million if the underwriters exercise their over-allotment option in full, assuming an initial public offering price of \$17.00 per share. We intend to use the net proceeds from this offering to repay, repurchase or redeem our indebtedness and to pay any associated early redemption costs, accrued interest and transaction fees and expenses. See “Use of proceeds.”

We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

Proposed Nasdaq National Market symbol

“CPII”

The number of shares of our common stock outstanding after the offering mentioned in this prospectus is based on 13,078,954 shares outstanding as of March 15, 2006. Unless otherwise indicated, all information in this prospectus

assumes the following:

a 3.059-for-1 split of our common stock to be completed before the closing of this offering; and

the initial offering price will be \$17.00, which is the midpoint of the estimated price range shown on the cover page of this prospectus.

The number of shares of our common stock to be outstanding immediately after this offering excludes:

2,895,432 shares of our common stock issuable upon exercise of options outstanding as of March 15, 2006, at a weighted average exercise price of \$3.13 per share, of which options to purchase 2,359,286 shares were exercisable as of that date;

2,160,000 shares of our common stock available for future grant under our 2006 Equity and Performance Incentive Plan and future purchase under our 2006 Employee Stock Purchase Plan; and

441,180 shares of our common stock that may be purchased from us by the underwriters to cover over-allotments, if any.

Unless we specifically state otherwise, the information in this prospectus assumes that the underwriters do not exercise their option to purchase up to 1,058,831 shares of our common stock to cover over-allotments, if any.

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Summary financial data

In January 2004, CPI International, Inc. acquired the business of Communications & Power Industries Holding Corporation and became the successor to Communications & Power Industries Holding Corporation for financial reporting purposes (see "Management's discussion and analysis of financial condition and results of operations—The Merger").

The following summary consolidated financial data for CPI International, Inc. and subsidiaries as of September 30, 2005 and October 1, 2004, and for the year ended September 30, 2005 and for the 36-week period ended October 1, 2004, and of Communications & Power Industries Holding Corporation, our predecessor, and subsidiaries for the 16-week period ended January 22, 2004 and the year ended October 3, 2003, has been derived from the audited consolidated financial statements included elsewhere in this prospectus. The consolidated financial data for Communications & Power Industries Holding Corporation as of October 3, 2003 has been derived from audited consolidated financial statements not included in this prospectus.

The following summary consolidated financial data as of, and for the quarters ended, December 30, 2005 and December 31, 2004 has been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The unaudited condensed consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements. The results for any interim period are not necessarily indicative of the results that may be expected for a full year.

You should read the following data in conjunction with “Selected financial data,” “Management's discussion and analysis of financial condition and results of operations” and the consolidated financial statements and the related notes included elsewhere in this prospectus.

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	Year Ended October 3, 2003 (Predecessor)	16-Week Period Ended January 22, 2004 (Predecessor)	36-Week Period Ended October 1, 2004 (Successor)	Year Ended September 30, 2005 (Successor)	Quarter Ended December 31, 2004 (Successor)	Quarter Ended December 30, 2005 (Successor)
	(dollars in thousands, except per share data)				(unaudited)	
Statement of Operations						
Data:						
Sales	\$265,434	\$79,919	\$202,266	\$320,732	\$73,733	\$82,379
Cost of sales ⁽¹⁾	183,957	56,189	141,172	216,031	50,029	57,171
Gross profit	81,477	23,730	61,094	104,701	23,704	25,208
Operating costs and expenses:						
Research and development	6,860	2,200	5,253	7,218	1,448	1,910
Selling and marketing	15,650	4,352	11,082	18,547	4,068	5,024
General and administrative	17,847	6,026	12,499	27,883	3,969	7,302
Merger expenses ⁽²⁾	—	6,374	—	—	—	—
Amortization of acquisition-related intangible assets ⁽²⁾	—	—	13,498	7,487	4,906	548
Acquired in-process research and development ⁽²⁾	—	—	2,500	—	—	—
Net loss on the disposition of assets	92	7	197	446	56	65
Gain on sale of Solid State Products Division	(136)	—	—	—	—	—
Total operating costs and expenses	40,313	18,959	45,029	61,581	14,447	14,849
Operating income	41,164	4,771	16,065	43,120	9,257	10,359
Interest expense, net	14,540	8,902	10,518	20,310	4,080	6,064
Income tax expense	10,076	439	2,899	9,138	2,079	2,080
Net income (loss)	\$16,548	\$(4,570)	\$2,648	\$13,672	\$3,098	\$2,215
Net income per share⁽³⁾:						
Basic	N/A	(4) N/A	(4) \$0.20	\$1.05	\$0.24	\$0.17
Diluted	N/A	(4) N/A	(4) \$0.19	\$0.98	\$0.23	\$0.15
Pro forma	—	—	\$—	\$0.73	\$—	\$0.11

Shares used to calculate net income per share:

Basic	N/A	(4)	N/A	(4)	13,062,753	13,078,954	13,078,954	13,078,954
Diluted	N/A	(4)	N/A	(4)	13,700,182	13,973,727	13,727,997	14,768,082
Pro forma	—		—		—	18,628,845	—	19,292,906

Other Financial Data:

EBITDA ⁽⁵⁾	\$47,457		\$6,549		\$32,816		\$57,297		\$15,476		\$12,515	
EBITDA margin ⁽⁶⁾	17.9	%	8.2	%	16.2	%	17.9	%	21.0	%	15.2	%
Operating income margin ⁽⁷⁾	15.5	%	6.0	%	7.9	%	13.4	%	12.6	%	12.6	%
Net income (loss) margin ⁽⁸⁾	6.2	%	(5.7)	%	1.3	%	4.3	%	4.2	%	2.7	%
Depreciation and amortization ⁽⁹⁾	\$6,293		\$1,778		\$16,751		\$14,177		\$6,219		\$2,156	
Capital expenditures ⁽¹⁰⁾	3,067		459		3,317		17,131		1,194		2,945	

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	As of		
	October 1, 2004 (Predecessor)	September 30, 2005 (Successor)	December 30, 2005 (Successor)
	(dollars in thousands)		(unaudited)
Balance Sheet Data (at period end):			
Working capital	\$72,338	\$65,400	\$57,385
Total assets	181,908	175,544	447,424
Long-term debt and redeemable preferred stock	128,000	84,231	294,244
Total stockholders' (deficit) equity	(55,662)	91,313	37,700

We did not pay cash dividends on the common stock of CPI International or our predecessor, as applicable, in fiscal years 2003 or 2004. In fiscal year 2005, and during the quarter ended December 30, 2005, we paid special cash dividends of \$75,809 and \$17,000, respectively, to stockholders of CPI International.

(1)

Includes charges of \$5,500 for the amortization of inventory write-up incurred during the 36-week period ended October 1, 2004 in connection with our January 2004 merger and \$351 of charges for the amortization of inventory write-up incurred in connection with the Econco acquisition for fiscal year 2005 and the quarter ended December 31, 2004.

(2)

As a result of our January 2004 merger, we incurred charges for merger expenses during the 16-week period ended January 22, 2004, and charges for the amortization of intangible assets and a write off of in-process research and development during the 36-week period ended October 1, 2004. In fiscal year 2005 and for the quarter ended December 30, 2005, we incurred charges for the amortization of intangible assets as a result of our January 2004 merger and in connection with the Econco acquisition.

(3)

Basic net income per share represents net income divided by weighted average common shares outstanding, and diluted net income per share represents net income divided by weighted average common and common equivalent shares outstanding. Pro forma net income per share represents net income divided by weighted average common and common equivalent shares outstanding and pro forma shares to replace capital withdrawn in excess of earnings.

(4)

Due to the significant change in capital structure at the closing date of our January 2004 merger, the predecessor amount has not been presented because it is not considered comparable to the amount for CPI International.

(5)

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

-

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

-

our senior credit facilities contain covenants that require us to maintain certain interest expense coverage and leverage ratios that contain EBITDA as a component, and our management team uses EBITDA to monitor compliance with such covenants;

-

EBITDA is a component of the measure 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 measure used by the management to facilitate internal comparisons to competitors' results and our industry in general; and

-

the payment of bonuses to certain members of management 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

