CAMDEN NATIONAL CORP
Form 4
July 31, 2006

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
ROBINSON WINFIELD F

(Last) (First) (Middle)

2 ELM STREET / P.O. BOX 310

(Street)

CAMDEN, ME 04843

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CAMDEN NATIONAL CORP [CAC]

3. Date of Earliest Transaction (Month/Day/Year)
07/28/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)		(Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)						(Instr. 5)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Phantom Stock	(1)	07/28/2006		A		131		(2)	(3)	Common Stock	131	$ 44.5

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ROBINSON WINFIELD F 2 ELM STREET / P.O. BOX 310 CAMDEN, ME 04843	X			

Signatures

Eric Boucher, as Power of Attorney	07/31/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Conversion rate is 1 for 1.

(2) Date Exercisable and Expiration Date - Upon the termination of services as a Director for the Company or its subsidiaries for any reason, including death, disability or retirement, the Company will distribute the entire value of the phantom stock in cash to the participant, taking into account earnings and losses thereon, to the participant (or his/her Beneficiary or Beneficiaries, as applicable).

(3) Date Exercisable and Expiration Date - Upon the termination of services as a Director for the Company or its subsidiaries for any reason, including death, disability or retirement, the Company will distribute the entire value of the phantom stock in cash to the participant, taking into account earnings and losses thereon, to the participant (or his/her Beneficiary or Beneficiaries, as applicable).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. : inline; FONT-FAMILY: times new roman; FONT-SIZE: 10pt">$9,254 $1,726 $9,176 $- $20,156

Accrued expenses	336	16,675	1,714	3,359	-	22,084
Product warranty	-	1,952	524	1,485	-	3,961
Income taxes payable	-	1,398	177	2,808	-	4,383
Deferred income taxes	-	-	-	212	-	212

Advance payments from customers	-	6,869	4,891	1,542	-	13,302
Intercompany payable	26,179	-	-	4	(26,183)	-
Total current liabilities	26,515	36,148	9,032	18,586	(26,183)	64,098
Deferred income taxes, non-current	-	20,331	-	4,011	-	24,342
Intercompany notes payable	-	-	-	1,035	(1,035)	-
Long-term debt, less current portion	11,925	183,000	-	-	-	194,925
Other long-term liabilities	-	1,561	36	474	-	2,071
Total liabilities	38,440	241,040	9,068	24,106	(27,218)	285,436
Common stock	168	-	-	-	-	168
Parent investment	-	53,028	43,167	58,759	(154,954)	-
Additional paid-in capital	76,571	-	-	(8,211)	8,211	76,571
Accumulated other comprehensive loss	1,442	1,442	-	590	(2,032)	1,442
Retained earnings	103,798	121,635	15,007	43,509	(180,151)	103,798
Treasury stock, at cost	(2,800)	-	-	-	-	(2,800)
Total stockholders’ equity	179,179	176,105	58,174	94,647	(328,926)	179,179
Total liabilities and stockholders' equity	$217,619	$417,145	$67,242	$118,753	$(356,144)	$464,615

- 29 -

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

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

CONDENSED CONSOLIDATING BALANCE SHEET
As of October 2, 2009

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Assets						
Cash and cash equivalents	$ 10	$ 15,055	$ 759	$ 10,328	$ -	$ 26,152
Restricted cash	-	-	1,467	94	-	1,561
Accounts receivable, net	-	18,456	12,581	14,108	-	45,145
Inventories	-	41,877	7,622	18,117	(620)	66,996
Deferred tax assets	-	8,494	2	156	-	8,652
Intercompany receivable	-	9,033	6,751	10,534	(26,318)	-
Prepaid and other current assets	-	5,396	475	829	-	6,700
Total current assets	10	98,311	29,657	54,166	(26,938)	155,206
Property, plant and equipment, net	-	42,048	3,001	12,863	-	57,912
Deferred debt issue costs, net	344	3,265	-	-	-	3,609
Intangible assets, net	-	54,891	13,477	7,062	-	75,430
Goodwill	-	93,307	20,973	47,945	-	162,225
Other long-term assets	-	3,645	227	-	-	3,872
Intercompany notes receivable	-	1,035	-	-	(1,035)	-
Investment in subsidiaries	211,575	114,416	-	-	(325,991)	-
Total assets	$ 211,929	$ 410,918	$ 67,335	$ 122,036	$ (353,964)	$ 458,254
Liabilities and stockholders' equity						
Accounts payable	$ (1)	$ 11,100	$ 2,730	$ 8,836	$ -	$ 22,665
Accrued expenses	137	13,293	1,634	3,951	-	19,015
Product warranty	-	1,893	452	1,500	-	3,845
Income taxes payable	-	1,683	151	2,471	-	4,305
Advance payments from customers	-	7,389	4,368	1,239	-	12,996
	26,318	-	-	-	(26,318)	-

Intercompany payable						
Total current liabilities	26,454	35,358	9,335	17,997	(26,318)	62,826
Deferred income taxes, non-current	-	20,342	-	4,384	-	24,726
Intercompany notes payable	-	-	-	1,035	(1,035)	-
Long-term debt, less current portion	11,922	183,000	-	-	-	194,922
Other long-term liabilities	-	1,720	36	471	-	2,227
Total liabilities	38,376	240,420	9,371	23,887	(27,353)	284,701
Common stock	168	-	-	-	-	168
Parent investment	-	52,241	43,167	58,615	(154,023)	-
Additional paid-in capital	75,630	-	-	(211)	211	75,630
Accumulated other comprehensive gain (loss)	598	598	-	(223)	(375)	598
Retained earnings	99,957	117,659	14,797	39,968	(172,424)	99,957
Treasury stock	(2,800)	-	-	-	-	(2,800)
Total stockholders' equity	173,553	170,498	57,964	98,149	(326,611)	173,553
Total liabilities and stockholders' equity	$ 211,929	$ 410,918	$ 67,335	$ 122,036	$ (353,964)	$ 458,254

- 30 -

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

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

CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Three Months Ended January 1, 2010

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$ -	$ 47,936	$ 17,419	$ 37,119	$ (19,707)	$ 82,767
Cost of sales	-	36,880	14,783	27,389	(19,725)	59,327
Gross profit	-	11,056	2,636	9,730	18	23,440
Operating costs and expenses:						
Research and development	-	557	20	1,979	-	2,556
Selling and marketing	-	1,593	1,173	2,274	-	5,040
General and administrative	1	3,323	987	1,214	-	5,525
Amortization of acquisition-related intangible assets	-	390	146	151	-	687
Total operating costs and expenses	1	5,863	2,326	5,618	-	13,808
Operating income	(1)	5,193	310	4,112	18	9,632
Interest expense, net	216	3,638	(1)	28	-	3,881
(Loss) income before income tax expense and equity in income of subsidiaries	(217)	1,555	311	4,084	18	5,751
Income tax (benefit) expense	(82)	1,348	101	543	-	1,910
Equity in income of subsidiaries	3,976	3,769	-	-	(7,745)	-
Net income	$ 3,841	$ 3,976	$ 210	$ 3,541	$ (7,727)	$ 3,841

CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Three Months Ended January 2, 2009

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Sales	$ -	$ 46,215	$ 19,707	$ 31,723	$ (20,499)	$ 77,146
Cost of sales	-	36,267	16,613	24,773	(20,423)	57,230

Gross profit	-	9,948	3,094	6,950	(76)	19,916
Operating costs and expenses:						
Research and development	-	684	-	1,499	-	2,183
Selling and marketing	-	1,742	1,247	2,000	-	4,989
General and administrative	-	3,730	1,023	471	-	5,224
Amortization of acquisition-related intangible assets	-	390	153	151	-	694
Total operating costs and expenses	-	6,546	2,423	4,121	-	13,090
Operating income	-	3,402	671	2,829	(76)	6,826
Interest expense (income), net	278	4,153	(5)	29	-	4,455
(Loss) income before income tax expense and equity in income of subsidiaries	(278)	(751)	676	2,800	(76)	2,371
Income tax (benefit) expense	(105)	(3,834)	115	(1,460)	-	(5,284)
Equity in income of subsidiaries	7,828	4,745	-	-	(12,573)	-
Net income	$ 7,655	$ 7,828	$ 561	$ 4,260	$ (12,649)	$ 7,655

Table of Contents

CPI INTERNATIONAL, INC.
and Subsidiaries

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Three Months Ended January 1, 2010

	Parent (CPI Int'l)	Issuer (CPI)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities						
Net cash (used in) provided by operating activities	$ (131)	$ 3,972	$ 187	$ 5,536	$ -	$ 9,564
Cash flows from investing activities						
Capital expenditures	-	(616)	(101)	(94)	-	(811)
Net cash used in investing activities	-	(616)	(101)	(94)	-	(811)
Cash flows from financing activities						
Proceeds from issuance of common stock to employees	189	-	-	-	-	189
Proceeds from exercise of stock options	14	-	-	-	-	14
Excess tax benefit on stock option exercises	-	2	-	-	-	2
Net cash provided by financing activities	203	2	-	-	-	205
Net increase in cash and cash equivalents	72	3,358	86	5,442	-	8,958
Cash and cash equivalents at beginning of period	10	15,055	759	10,328	-	26,152
Cash and cash equivalents at end of period	$ 82	$ 18,413	$ 845	$ 15,770	$ -	$ 35,110

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Three Months Ended January 2, 2009

Parent	Issuer	Guarantor	Non-Guarantor	Consolidating	Consolidated

	(CPI Int'l)	(CPI)	Subsidiaries	Subsidiaries	Eliminations	Total
Cash flows from operating activities						
Net cash (used in) provided by operating activities	$ (378)	$ 2,477	$ 1,505	$ 995	$ -	$ 4,599
Cash flows from investing activities						
Capital expenditures	-	(835)	-	(69)	-	(904)
Net cash used in investing activities	-	(835)	-	(69)	-	(904)
Cash flows from financing activities						
Repayments of debt	-	(4,750)	-	-	-	(4,750)
Proceeds from issuance of common stock to employees	423	-	-	-	-	423
Proceeds from exercise of stock options	7	-	-	-	-	7
Intercompany dividends / debt	-	(8,000)	-	8,000	-	-
Net cash provided by (used in) financing activities	430	(12,750)	-	8,000	-	(4,320)
Net increase (decrease) in cash and cash equivalents	52	(11,108)	1,505	8,926	-	(625)
Cash and cash equivalents at beginning of period	84	26,272	493	1,821	-	28,670
Cash and cash equivalents at end of period	$ 136	$ 15,164	$ 1,998	$ 10,747	$ -	$ 28,045

- 32 -

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

Our fiscal years are the 52- or 53-week periods that end on the Friday nearest September 30. Fiscal years 2010 and 2009 comprise the 52-week period ending October 1, 2010 and October 2, 2009, respectively. The first quarters of both fiscal years 2010 and 2009 include 13 weeks. The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements, and the notes thereto, of CPI International, Inc.

Overview

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

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

Orders

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

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

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

	Quarter Ended					
	January 1, 2010		January 2, 2009		Increase (Decrease)	
	Amount	% of Orders	Amount	% of Orders	Amount	Percent
Radar and Electronic Warfare	$ 33.5	36 %	$ 32.0	47 %	$ 1.5	5 %
Medical	15.6	17	10.4	16	5.2	50

Communications	35.1	38	17.4	26	17.7	102
Industrial	3.8	4	6.4	10	(2.6)	(41)
Scientific	4.7	5	0.8	1	3.9	490
Total	$ 92.7	100 %	$ 67.0	100 %	$ 25.7	38 %

Table of Contents

Our commercial markets, which include our medical, commercial communications, industrial and scientific markets, were negatively impacted in fiscal year 2009 by the weakening of the U.S. and foreign economies. Many of the commercial programs in which we participate depend on customers upgrading their current equipment or expanding their infrastructures. With the softening of global economies, many of our customers delayed, reduced or cancelled their upgrade or expansion plans. We believe that the weak global economies resulted in a near-term decrease in demand for our products to support commercial programs in fiscal year 2009, but conditions in these markets have since shown improvement.

Orders of $92.7 million for the first quarter of fiscal year 2010 were $25.7 million, or approximately 38%, higher than orders of $67.0 million for the first quarter of fiscal year 2009. Explanations for the order increase or decrease by market for the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009 are as follows:

- Radar and Electronic Warfare: The majority of our products in the radar and electronic warfare markets are for domestic and international defense and government end uses. Orders in these markets are characterized by many smaller orders in the $0.5 million to $3.0 million range by product or program, and the timing of these orders may vary from year to year. On a combined basis, orders for the radar and electronic warfare markets increased approximately 5% from an aggregate of $32.0 million in the first quarter of fiscal year 2009 to an aggregate of $33.5 million in the first quarter of fiscal year 2010. The increase in orders for these combined markets resulted primarily from an increase in demand for products to support various weather radar programs and the Aegis weapons system. These increases were partially offset by decreases in orders to support various other radar and electronic warfare programs, in part due to the timing of those programs.

- Medical: Orders for our medical products consist of orders for medical imaging applications, such as x-ray imaging, magnetic resonance imaging (“MRI”) and positron emission tomography (“PET”) applications, and for radiation therapy applications for the treatment of cancer. The 50% increase in medical orders resulted from demand increasing for products to support MRI applications and demand improving to more normal levels for products to support x-ray imaging applications.

- Communications: Orders for our communications products consist of orders for commercial communications applications and military communications applications. The 102% increase in communications orders was due in equal part to increases in orders to support commercial communications applications, such as high-capacity broadband systems, and increases in orders to support various military communications applications. Military communications is a relatively new sector of the overall communications market for us, and we expect our participation in military communications programs to continue to grow.

- Industrial: Orders in the industrial market are cyclical and are generally tied to the state of the economy. The $2.6 million decrease in industrial orders was primarily due to the timing of orders for products used in instrumentation applications.

- Scientific: Orders in the scientific market are historically one-time projects and can fluctuate significantly from period to period. The $3.9 million increase in scientific orders was primarily the result of the receipt of orders for products to support fusion research at domestic scientific laboratories.

Table of Contents

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

Backlog

As of January 1, 2010, we had an order backlog of $236.6 million compared to an order backlog of $191.3 million as of January 2, 2009. Because our orders for government end-use products generally have much longer delivery terms than our orders for commercial business (which require quicker turn-around), our backlog is primarily composed of government orders.

Backlog represents the cumulative balance, at a given point in time, of recorded customer sales orders that have not yet been shipped or recognized as sales. Backlog is increased when an order is received, and backlog is decreased when we recognize sales. We believe that backlog and orders information is helpful to investors because this information may be indicative of future sales results. Although backlog consists of firm orders for which goods and services are yet to be provided, customers can, and sometimes do, terminate or modify these orders. However, historically the amount of modifications and terminations has not been material compared to total contract volume.

Results of Operations

We derive our revenue primarily from the sale of microwave and radio frequency products, including high-power microwave amplifiers, satellite communications amplifiers, medical x-ray imaging subsystems and other related products. Our products generally have selling prices ranging from $2,000 to $200,000, with certain limited products priced up to $1,000,000.

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

Table of Contents

Three Months Ended January 1, 2010 Compared to Three Months Ended January 2, 2009

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

	Quarter Ended				Increase (Decrease)
	January 1, 2010		January 2, 2009		
	Amount	% of Sales	Amount	% of Sales	Amount
Sales	$ 82.8	100.0 %	$ 77.1	100.0 %	$ 5.7
Cost of sales	59.3	71.6	57.2	74.2	2.1
Gross profit	23.4	28.3	19.9	25.8	3.5
Research and development	2.6	3.1	2.2	2.9	0.4
Selling and marketing	5.0	6.0	5.0	6.5	-
General and administrative	5.5	6.6	5.2	6.7	0.3
Amortization of acquisition-related intangibles	0.7	0.8	0.7	0.9	-
Operating income	9.6	11.6	6.8	8.8	2.8
Interest expense, net	3.9	4.7	4.5	5.8	(0.6)
Income before taxes	5.8	7.0	2.4	3.1	3.4
Income tax expense (benefit)	1.9	2.3	(5.3)	(6.9)	7.2
Net income	$ 3.8	4.6 %	$ 7.7	10.0 %	$ (3.9)
Other Data:					
EBITDA (a)	$ 12.4	15.0 %	$ 9.5	12.3 %	$ 2.9

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

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

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

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

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

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

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

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

For a reconciliation of Net Income to EBITDA, see Note 10 of the accompanying unaudited condensed consolidated financial statements.

Table of Contents

Sales: : Our sales by market for the first quarter of fiscal years 2010 and 2009 are summarized as follows (dollars in millions):

	Quarter Ended					
	January 1, 2010		January 2, 2009		Increase (Decrease)	
	Amount	% of Sales	Amount	% of Sales	Amount	Percent
Radar and Electronic Warfare	$ 28.2	34 %	$ 28.0	36 %	$ 0.2	1 %
Medical	19.4	23	15.8	21	3.6	23
Communications	28.7	35	26.2	34	2.5	9
Industrial	5.2	6	5.5	7	(0.3)	(5)
Scientific	1.3	2	1.6	2	(0.3)	(18)
Total	$ 82.8	100 %	$ 77.1	100 %	$ 5.7	7 %

Sales of $82.8 million for the first quarter of fiscal year 2010 were $5.7 million, or approximately 7%, higher than sales of $77.1 million for the first quarter of fiscal year 2009. Explanations for the sales increase or decrease by market for the first quarter of fiscal year 2010 as compared to the first quarter of fiscal year 2009 are as follows:

- Radar and Electronic Warfare: The majority of our products in the radar and electronic warfare markets are for domestic and international defense and government end uses. The timing of orders receipts and subsequent shipments in these markets may vary from year to year. On a combined basis, sales for these two markets totaled $28.2 million in the first quarter of fiscal year 2010, essentially unchanged from the $28.0 million in the first quarter of fiscal year 2009.

- Medical: Sales of our medical products consist of sales for medical imaging applications, such as x-ray imaging, MRI and PET applications, and for radiation therapy applications for the treatment of cancer. The 23% increase in sales of our medical products in the first quarter of fiscal year 2010 was primarily due to sales increasing for products to support MRI applications and sales improving to more normal levels for products to support x-ray imaging applications.

- Communications: Sales of our communications products consist of sales for commercial communications applications and military communications applications. The 9% increase in sales in the communications market was due to increases in sales to support a variety of commercial and military communications applications. Military communications is a relatively new sector of the overall communications market for us, and we expect our participation in military communications programs to continue to grow.

- Industrial: Sales in the industrial market are cyclical and are generally tied to the state of the economy. The $0.3 million decrease in sales of industrial products in the first quarter of fiscal year 2010 was primarily due to decreases in sales to support semiconductor wafer fabrication applications, and was partially offset by an increase in sales to support cargo screening applications.

Table of Contents

- Scientific: Sales in the scientific market are historically one-time projects and can fluctuate significantly from period to period. The $0.3 million decrease in scientific sales was primarily the result of decreased product shipments for the Spallation Neutron Source at Oakridge National Laboratory. We received approximately $5 million in orders for this program in fiscal year 2007 and completed our shipments of products for this program in fiscal year 2009.

Gross Profit. Gross profit was $23.4 million, or 28.3% of sales, for the first quarter of fiscal year 2010 as compared to $19.9 million, or 25.8% of sales, for the first quarter of fiscal year 2009. The $3.5 million increase in gross profit for the first quarter of fiscal year 2010 as compared to the first quarter of fiscal year 2009 was due to higher shipment volume and improved operating efficiencies from the higher volume.

Research and Development. Research and development expenses were $2.6 million, or 3.1% of sales, for the first quarter of fiscal year 2010, a $0.4 million increase from $2.2 million, or 2.9% of sales, for the first quarter of fiscal year 2009. The increase in research and development for the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009 was due primarily to development efforts on broadband communication products for commercial and military applications.

Total spending on research and development, including customer-sponsored research and development, was as follows (in millions):

	Quarter Ended	
	January 1, 2010	January 2, 2009
Company sponsored	$ 2.6	$ 2.2
Customer sponsored, charged to cost of sales	3.7	3.2
	$ 6.3	$ 5.4

Selling and Marketing. Selling and marketing expenses were $5.0 million, or 6.0% of sales, for the first quarter of fiscal year 2010, and $5.0 million, or 6.5% of sales, for the first quarter of fiscal year 2009. There was no significant change in selling and marketing expenses for the first fiscal quarters of 2009 and 2010.

General and Administrative. General and administrative expenses were $5.5 million, or 6.6% of sales, for the first quarter of fiscal year 2010, a $0.3 million increase from the $5.2 million, or 6.7% of sales, for the first quarter of fiscal year 2009. The increase in general and administrative expenses in the first quarter of fiscal year 2010 was primarily due to the unfavorable impact from foreign currency translation.

Amortization of Acquisition-Related Intangibles. Amortization of acquisition-related intangibles consists of purchase accounting charges for technology and other intangible assets. Amortization of acquisition-related intangibles was $0.7 million for the first quarter of fiscal years 2010 and 2009.

Table of Contents

Interest Expense, net (“Interest Expense”). Interest Expense was $3.9 million, or 4.7% of sales, for the first quarter of fiscal year 2010, a $0.6 million decrease from the $4.5 million, or 5.8% of sales, for the first quarter of fiscal year 2009. The reduction in interest expense for the first quarter of fiscal year 2010 was primarily due to repayments of debt over the past year which resulted in lower outstanding debt obligations during the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009.

Income Tax Expense (Benefit). We recorded an income tax expense of $1.9 million for the first quarter of fiscal year 2010 and an income tax benefit of $5.3 million for the first quarter of fiscal year 2009. Our estimated effective income tax rate for fiscal year 2010 is expected to be approximately 36%.

The first quarter of fiscal year 2009 included two significant discrete tax benefits which totaled $5.7 million. The change in our position with regard to an outstanding audit by the Canada Revenue Agency (“CRA”) resulted in a $5.1 million tax benefit and a Canadian tax law change resulted in a $0.6 million tax benefit from the adjustment of deferred tax accounts.

Net Income. Net income was $3.8 million, or 4.6% of sales, for the first quarter of fiscal year 2010 as compared to $7.7 million, or 10.0% of sales, in the first quarter of fiscal year 2009. The $3.9 million decrease in net income in the first quarter of fiscal year 2010 as compared to the first quarter of fiscal year 2009 was primarily due to discrete income tax benefits of $5.7 million that were recorded in the first quarter of fiscal year 2009; partially offset by higher gross profit from the increase in sales volume and improved operating efficiencies from the higher volume; and lower interest expense in the first quarter of fiscal year 2010.

EBITDA. EBITDA was $12.4 million, or 15.0% of sales, for the first quarter of fiscal year 2010 as compared to $9.5 million, or 12.3% of sales, for the first quarter of fiscal year 2009. The $2.9 million increase in EBITDA in the first quarter of fiscal year 2010 as compared to the first quarter of fiscal year 2009 was due primarily to higher gross profit from the increase in sales volume and improved operating efficiencies from the higher volume.

Liquidity and Capital Resources

Overview

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

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

Table of Contents

Cash and Working Capital

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

	January 1, 2010	October 2, 2009
Cash and cash equivalents	$ 35.1	$ 26.2
Working capital	$ 99.7	$ 92.4

We invest cash balances in excess of operating requirements in overnight U.S. Government securities and money market accounts. In addition to the above cash and cash equivalents, we have restricted cash of $1.8 million as of January 1, 2010, consisting primarily of bank guarantees from customer advance payments to our international subsidiaries. The bank guarantees become unrestricted cash when performance under the sales contract is complete.

The significant factors underlying the net increase in cash and cash equivalents during the first quarter of fiscal year 2010 were the net cash provided by our operating activities of $9.6 million and proceeds of $0.2 million from employee stock purchases, partially offset by capital expenditures of $0.8 million.

As of January 1, 2010 and October 2, 2009, we had $195.0 million in total principal amount of debt outstanding. As of January 1, 2010, we had borrowing availability of $55.1 million under the revolver under our senior credit facilities.

As more fully described below, our most significant debt covenant compliance requirement is maintaining a secured leverage ratio of 3.75:1. Our current secured leverage ratio is approximately 0.55:1. Our senior credit facilities will mature in the fourth quarter of fiscal year 2011 unless we refinance our 8% senior subordinated notes due 2012 prior to July 31, 2011. We anticipate reentering the capital markets prior to July 2011.

Historical Operating, Investing and Financing Activities

In summary, our cash flows were as follows (in millions):

	Quarter Ended	
	January 1, 2010	January 2, 2009
Net cash provided by operating activities	$ 9.6	$ 4.6
Net cash used in investing activities	(0.8)	(0.9)
Net cash provided by (used in) financing activities	0.2	(4.3)
Net increase (decrease) in cash and cash equivalents	$ 9.0	$ (0.6)

- 40 -

Table of Contents

Operating Activities

During the first quarter of fiscal years 2010 and 2009, we funded our operating activities through cash generated internally. Cash provided by operating activities is net income adjusted for certain non-cash items and changes to working capital items.

Net cash provided by operating activities of $9.6 million in the first quarter of fiscal year 2010 was attributable to net income of $3.8 million, depreciation, amortization and other non-cash charges of $4.5 million and net cash provided by working capital of $1.3 million. The primary working capital sources of cash in the first quarter of fiscal year 2010 were a decrease in accounts receivable and an increase in accrued expenses. The decrease in accounts receivable resulted primarily from the decreased sales volume during the first quarter of fiscal year 2010 as compared to the fourth quarter of fiscal year 2009, while the increase in accrued expenses was primarily due to an increase in interest payable related to the timing of interest payments on our debt. The aforementioned working capital sources of cash were partially offset by an increase in inventories and a decrease in accounts payable. The increase in inventories resulted from increased purchases in anticipation of higher sales volume for the remaining quarters of fiscal year 2010. Accounts payable decreased mainly due to timing of payments to trade vendors.

Net cash provided by operating activities of $4.6 million in the first quarter of fiscal year 2009 was attributable to net income of $7.7 million, depreciation, amortization and other non-cash charges of $2.7 million, partially offset by $5.8 million net cash used for working capital. The primary working capital uses of cash in the first quarter of fiscal year 2009 were decreases in net income tax payable, accounts payable and advances from customers. Net income tax payable decreased due to a favorable adjustment to our deferred tax accounts as a result of reduction in Canadian corporate income tax rates. Accounts payable decreased due to lower volume related primarily to seasonality. Advances from customers decreased due to the timing of customer payments and recoupment from our advance payments. These uses of cash were significantly offset by a decrease in accounts receivable resulting primarily from the decreased sales volume during the first quarter of fiscal year 2009.

Investing Activities

Investing activities for the first quarter of fiscal years 2010 and 2009 comprised $0.8 million and $0.9 million, respectively, of capital expenditures.

Financing Activities

Net cash provided by financing activities for the first quarter of fiscal year 2010 was attributable to $0.2 million in proceeds from employee stock purchases.

Net cash used in financing activities for the first quarter of fiscal year 2009 consisted primarily of senior term loan repayment of $4.75 million, partially offset by $0.4 million in proceeds from employee stock purchases.

If the leverage ratio under our amended and restated senior credit facilities exceeds 3.5:1 at the end of any fiscal year, then we are required to make an annual prepayment within 90 days after the end of the fiscal year based on a calculation of excess cash flow, as defined in the senior credit facilities, multiplied by a factor of 50%, less any optional prepayments made during the fiscal year. There was no excess cash flow payment due for fiscal year 2009, and therefore, no excess cash flow payment was made in the first quarter of fiscal year 2010.

Explanation of Responses:

Table of Contents

Contractual Obligations

The following table summarizes our significant contractual obligations as of January 1, 2010 and the effect that such obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

		Fiscal Year			
	Total	2010 (remaining nine months)	2011 - 2012	2013 - 2014	Thereafter
Operating leases	$ 6,222	$ 1,442	$ 1,402	$ 776	$ 2,602
Purchase commitments	35,293	29,766	5,527	-	-
Debt obligations	195,000	-	183,000	-	12,000
Interest on debt obligations	28,151	10,253	16,058	1,581	259
Uncertain tax positions	2,747	2,747	-	-	-
Total cash obligations	$ 267,413	$ 44,208	$ 205,987	$ 2,357	$ 14,861
Standby letters of credit	$ 4,943	$ 4,943			

The amounts for debt obligations and interest on debt obligations assume (1) that the respective debt instruments will be outstanding until their scheduled maturity dates, except for the term loan under our senior credit facilities, which is assumed to mature on the earlier date of August 1, 2011 as prescribed in the senior credit facilities agreement, (2) that interest rates in effect on January 1, 2010 remain constant for future periods, and (3) a debt level based on mandatory repayments according to the contractual amortization schedule.

The expected timing of payment amounts of the obligations in the above table is estimated based on current information; timing of payments and actual amounts paid may be different.

As of January 1, 2010, there were no material changes to our other contractual obligations from what we disclosed in our Annual Report on Form 10-K for the fiscal year ended October 2, 2009. See also Note 6 of the accompanying unaudited condensed consolidated financial statements for details on certain of our commitments and contingencies.

Capital Expenditures

Our continuing operations typically do not have large recurring capital expenditure requirements. Capital expenditures are generally made to replace existing assets, increase productivity, facilitate cost reductions or meet regulatory requirements. Total capital expenditures for the first quarter of fiscal year 2010 were $0.8 million. Total capital expenditures for fiscal year 2010 are expected to be approximately $4.0 to $5.0 million.

Recent Accounting Pronouncements

See Note 2 to the accompanying unaudited condensed consolidated financial statements for information regarding the effect of new accounting pronouncements on our financial statements.

- 42 -

Table of Contents

Critical Accounting Policies and Estimates

Our Critical Accounting Policies and Estimates have not changed from those reported in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended October 2, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to our long-term debt. As of January 1, 2010, we had fixed rate senior subordinated notes of $117.0 million due in 2012, bearing interest at 8% per year, variable rate debt consisting of $12.0 million floating rate senior notes due in 2015, and a $66.0 million term loan under our senior credit facilities due in 2014. Our variable rate debt is subject to changes in the prime rate and the LIBOR rate.

We use derivative instruments from time to time in order to manage interest costs and risk associated with our long-term debt. In September 2007, we entered into an interest rate swap contract to receive three-month USD-LIBOR-BBA (British Bankers' Association) interest and pay 4.77% fixed rate interest. Net interest positions are settled quarterly. We have structured the swap with decreasing notional amounts such that it is less than the balance of the term loan. The notional value of the swap was $45.0 million at January 1, 2010 and represented approximately 68% of the aggregate term loan balance. The swap agreement is effective through June 30, 2011. Under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, "Derivatives and Hedging," this arrangement was initially designated and qualified as an effective cash flow hedge of interest rate risk related to the term loan under our senior credit facilities which permitted recording the fair value of the swap and corresponding unrealized gain or loss to accumulated other comprehensive income in the condensed consolidated balance sheets. The interest rate swap gain or loss is included in the assessment of hedge effectiveness. At January 1, 2010, the fair value of the short-term and long-term portions of the swap was a liability of $1.5 million (accrued expenses) and $0.3 million (other long-term liabilities), respectively.

We performed a sensitivity analysis to assess the potential loss in future earnings that a 10% increase in the variable portion of interest rates over a one-year period would have on our floating rate senior notes and term loan under our senior credit facilities. The impact was determined based on the hypothetical change from the end of period market rates over a period of one year and would result in an immaterial increase in future interest expense.

Table of Contents

Foreign currency exchange risk

Although the majority of our revenue and expense activities are transacted in U.S. dollars, we do transact business in foreign countries. Our primary foreign currency cash flows are in Canada and several European countries. In an effort to reduce our foreign currency exposure to Canadian dollar denominated expenses, we enter into Canadian dollar forward contracts to hedge the Canadian dollar denominated costs for our manufacturing operation in Canada. Our Canadian dollar forward contracts are designated as a cash flow hedge and are considered highly effective, as defined by FASB ASC 815. The unrealized gains and losses from foreign exchange forward contracts are included in accumulated other comprehensive income in the consolidated balance sheets. If the transaction being hedged fails to occur, or if a portion of any derivative is ineffective, then we promptly recognize the gain or loss on the associated financial instrument in general and administrative in the condensed consolidated statements of income. The gain recognized in general and administrative due to hedge ineffectiveness was insignificant for the first quarter of fiscal year 2010. No ineffective amounts were recognized due to hedge ineffectiveness in the first quarter of fiscal year 2009.

As of January 1, 2010, we had entered into Canadian dollar forward contracts for approximately $27.2 million (Canadian dollars), or approximately 74% of our estimated Canadian dollar denominated expenses for January 2010 through September 2010, at an average rate of approximately $0.84 U.S. dollar to Canadian dollar. We estimate the impact of a 1 cent change in the U.S. dollar to Canadian dollar exchange rate (without giving effect to our Canadian dollar forward contracts) to be approximately $0.3 million annually to our net income or approximately 2 cents annually to basic and diluted earnings per share.

At January 1, 2010, the fair value of foreign currency forward contracts was a short-term asset of $3.1 million (prepaid and other current assets).

Item 4. Controls and Procedures

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

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

Table of Contents

Part II: OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

For a discussion of risk factors, see “Part I. Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended October 2, 2009. There have been no material changes from the risk factors disclosed in the “Risk Factors” section of our 2009 Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CPI INTERNATIONAL, INC.

Dated: February 10, 2010

/s/ JOEL A. LITTMAN
Joel A. Littman
Chief Financial Officer, Treasurer and Secretary
(Duly Authorized Officer and Chief Financial Officer)