CPI INTERNATIONAL HOLDING CORP.

FIRST QUARTER 2016 FINANCIAL RESULTS CONFERENCE CALL
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Operator: Good day, everyone, and welcome to the CPI International first quarter 2016 financial results conference call. My name is Kristy and I will be your conference coordinator for today's call. At this time all participants are in a listen-only mode. We will be facilitating a question and answer session at the end of today's call.

If you require assistance at any time, please press star followed by zero and a coordinator will be happy to assist you. As a reminder, this call is being recorded for replay purposes. I would now like to turn the conference over to Amanda Mogin, director of investor relations for CPI International. Please proceed.

Amanda Mogin: Thank you, Kristy. Good morning and welcome to CPI International's conference call for the first quarter of fiscal 2016. Today's agenda will be as follows. First, Joe Caldarelli, our Chief Executive Officer, will discuss our orders, sales and business conditions in our three largest end-markets. Second, Joel Littman, our Chief Financial Officer, will discuss our key financial metrics for the quarter. Next, Joe will discuss our expectations for the remainder of the fiscal year. And lastly, we will open the call up for your questions. Bob Fickett, our President and Chief Operating Officer, will join us for this portion of today's call.

Before we proceed, there are some administrative details that we do need to cover. Please bear in mind that today's presentation includes forward looking statements within the meaning of the Securities and Exchange Act of 1934. These statements are based on our best view of our markets and our business as we see them today as well as on certain assumptions, and actual results can change as market conditions change. Please interpret these statements in that light. Additional information regarding risks and uncertainties related to our business are included in

the Safe Harbor Statement in yesterday's press release and in our filings with the Securities and Exchange Commission.

Today's presentation, under Securities and Exchange Commission rules, also includes non-GAAP financial measures related to EBITDA and cash flow. A presentation of the most directly – excuse me – of the most directly comparable GAAP measures and a reconciliation of each of these non-GAAP financial measures to the most directly comparable GAAP measures are available in yesterday's press release, which has been posted to our Web Site.

Interested parties can access the press release by going to www.cpii.com and opening the press release entitled, CPI International Announces First Quarter 2016 Financial Results.

I would now like to turn the call over to Joe Caldarelli to discuss CPI's first quarter performance.

Joe Caldarelli: Good morning. Despite a difficult and uncertain global business environment, CPI performed reasonably in Q1. We – with contributions from our recent acquisition of ASC Signal, we had a decent sales level, maintained a healthy backlog, and recorded a positive LTM book-to-bill of 1.02.

Our adjusted EBITDA margins remained in the mid-teens and we continued to generate cash.

On last quarter's call, we stated that the challenges facing us in 2016 would be familiar ones: Managing the fluctuating timing of defense orders and responding quickly and appropriately to the economic challenges facing our foreign customers. Unfortunately that statement still remains true today.

What we and others did not realize at the time, however, was just how unsettled global business conditions would become in the first quarter of our fiscal 2016. Customers worldwide are facing increasingly unfavorable exchange rates compared with the U.S. dollar as well as slowing economies, particularly in Asia and those companies that depend on oil and gas revenues.

As a result, like many others in our industry, CPI is seeing a continuation of unusually high levels of uncertainty and delays in both commercial and government funded programs. Projects are slipping to the right in all of our major end-markets.

It's important to note that we are not losing business. The timing of programs is shifting but the programs are not disappearing. Customers are reporting that projects are delayed and in some cases reduced in scope, but not canceled nor awarded to competitors. They still do intend to award their business to CPI when funding conditions improve.

These delays – although certainly frustrating – are manageable, and we expect many of these postponed programs to be booked in coming months.

CPI booked orders totaling $120 million in Q1, an increase of 17 percent from the $102 in the same quarter of last year. Our new CPI ASC Signal division contributed approximately $20 million in radar and communications orders in the most recent quarter, meaning that absent the ASC Signal contributions, our orders level was essentially flat year-to-year.

Orders increased significantly in the communication market but decreased in the defense and medical markets. Although our defense and medical markets are currently being impacted by general economic conditions worldwide, our communication market remains surprisingly healthy. In fact, the continued strength of our core satellite communication business coupled with the contribution from ASC Signal Division led to the highest quarterly orders rate in the communications market in CPI's history.

Our sales in the first quarter totaled $111 million, unchanged from last year's quarter. The ASC Signal division contributed approximately $11 million in radar and communication sales in the most recent quarter. Excluding this contribution, CPI's sales decreased approximately 10 percent.

Sales increased in the communications market but decreased in the defense and medical markets.

We ended the quarter with approximately $330 million in backlog. Notwithstanding the recent delays in the placement of orders, our backlog has increased since the end of 2015.

As I mentioned a few months ago – a few moments ago – our book-to-bill ratio for the last 12 months was positive 1.02.

Let's turn to the status of our largest end-markets, beginning with defense. In Q1, we booked defense orders totaling $38.6 million, which included a nominal amount of radar orders from ASC Signal Division. Defense orders decreased five percent from last year's quarter. As we've previously discussed, we are continuing to experience delays in the placement of defense orders.

Periods of delayed orders are part of the normal business cycle within the defense market, but the number of programs being delayed at this time is higher than usual. Despite the on-going need for our spare and repair products in this market, every step in the order placement process with government agencies taking longer, from the initial expression of interest in restocking inventories, to the negotiation of contract terms, to the signing of purchase orders or contracts.

Similarly, defense primes are taking longer to place orders as orders to them are also being frequently delayed. The reason for each program's delay varies, but as a whole, defense orders are consistently taking longer to be placed.

In Q1, delays in the placement of orders for certain radar programs, particularly naval radar programs, resulted in lower orders. Orders for our largest program, the Aegis radar system, however, did increase during the quarter, in large part because our Econco Division finally received an approximately $10 million order for this program in October that itself had previously been delayed for many months.

We generated $39.9 million in defense sales in Q1, a decrease of seven percent from the previous year's quarter, notwithstanding the inclusion of the small amount of radar sales from ASC. The decrease was comprised of a number of radar and electronic warfare countermeasure programs that were down slightly from the previous year. Sales for the Aegis radar system remained strong and were unchanged from last year's levels.

CPI has a long history of supporting the defense market and we have the experience and resources necessary to manage through changing demand cycles. Although we are seeing a greater number of delayed programs than is typical, we remain confident that our customers will need our products and that we can capably navigate the existing situation until the current demand cycle improves.

In the communications market, CPI's orders totaled $64.7 million the first quarter, increasing 68 percent from last year's quarter. This increase is due in part to the inclusion of orders from our new ASC Signal Division. Additionally, orders for CPI's traditional satellite communication products that support both commercial and military applications were very strong in the most recent quarter.

In particular, we booked higher orders for foreign commercial satcom programs, including those that use our Ka-Band technology, and orders for shipboard – for a shipboard milsatcom program. Our traditional satcom business is enjoying strong demand at the moment and we expect this demand to continue throughout the year.

Our communication sales in the first quarter totaled $45.8 million, a 13 percent increase from the same quarter last year. Again, this increase is due to the inclusion of sales from the ASC Signal Division and the strength of our satellite communication business during the quarter.

Sales of satcom products for commercial and milcom applications increased. We continued to provide a variety of satcom products to upgrade, support and sustain legacy milcom programs. Overall, our communication business is healthy. As in our defense business, we are experiencing some delays in the placement of orders for government funded programs, such as a milcom program for which we provide radomes, but there are fewer delays in this market.

On the commercial side, the slowdown of the Russian economy has made the timing of certain programs more unpredictable, but foreign economic challenges have not yet had a significant overall impact on our communication business to date. With the addition of ASC Signal to our business, the communications market is now CPI's largest end-market, and we are expecting strong results from it in 2016.

In our medical market, the situation is somewhat different. The majority of our medical imaging business is with foreign customers providing equipment for X-ray,

MRI, and PET applications. This is a much quicker turns business than our government-funded business, meaning that changes in global conditions are felt much more quickly.

In particular, our medical imaging business is currently being impacted by softer economic conditions in Asia, especially China, and the relative weakness of the Euro relative to the U.S. dollar. Activity levels in Asia have slowed noticeably and European customers are finding U.S. dollar denominated products less affordable than before.

We are continuing to work with our customers to combat these challenges but they have had a negative impact on our medical business in the first quarter and are expected to continue to do so until global economic conditions are more favorable. Notwithstanding these challenges, the medical business remains very attractive and profitable for CPI.

CPI's medical orders totaled $10.9 million in the first quarter, a 35 percent decrease from last year's $16.7 million. The decrease was due to lower demand for medical imaging products – primarily X-ray imaging products for foreign customers – as well as a result of the challenging economic conditions in Asia and Europe.

In last year's first quarter, we also booked a large order for an X-ray imaging tender program in Asia that was not expected to – and did not– repeat in this year's quarter.

Our medical sales in Q1 totaled $16.1 million, decreasing 15 percent from last year's $18.9 million. This decrease was the result of lower sales of X-ray imaging products, chiefly due to the completion of sales for the large imaging program in Asia last year that I mentioned earlier.

Orders and sales for radiation therapy applications increased in Q1.

Fiscal 2016 is off to a slower start than we had hoped and expected. Delays in government-funded orders and softening global economic conditions have impacted our business in recent months. Nevertheless, we remain in constant contact with our customers and are actively working on a large number of future opportunities.

As a result, we are confident that customers continue to want and need our products and that business will eventually pick up. In the meantime, we have the experience and the resources necessary to adjust our activity levels appropriately to ensure that we can continue to meet our customers' needs and stakeholders' needs.

We have the unique ability and opportunity to position ourselves accordingly so that we can react quickly when these delayed orders start to flow and business improves.

Now, I'll turn the call over to Joel to discuss our financial performance during the quarter.

Joel Littman: Thank you. The definitions and reconciliations of the non-GAAP metrics that I will mention in my remarks this morning are available in the financial tables of the press release that we issued yesterday.

Let's turn now to CPI's profitability and liquidity metrics in the first quarter of fiscal 2016.

CPI's profitability results in the first quarter were impacted by three main factors. First, the mix of products sold in the most recent quarter was less profitability than the mix sold in last year's quarter. Second, because we have substantial expenses related to the manufacturing facilities that we operate in Canada, the recent strengthening of the U.S. dollar in comparison to the Canadian dollar has a beneficial impact on our bottom line.

Lastly, although adding a new manufacturing division to CPI has increased our operating expenses incrementally, the acquisition of ASC Signal Corporation last September has been positive operationally and financially. In addition to the approximately $11 million in sales that ASC Signal added to our first quarter results, the new ASC Signal Division generated adjusted EBITDA margins comparable to the rest of CPI.

In the first quarter of fiscal 2016, CPI recorded a net loss of $1.2 million. This represented a decrease from the $3 million in net income that we recorded in the same quarter of fiscal 2015. This decrease was a result of the less profitable mix of products that I just mentioned as well as two non-cash items related to the acquisition of ASC Signal.

Specifically, we recorded an increase in our amortization of acquisition related intangible assets that totaled $1 million and a purchase accounting-related charge totaling approximately $900,000 due to a step-up in the cost-basis of inventory that resulted from the acquisition.

These negative factors were partially offset by the positive impact of the changes to the U.S. to Canadian dollar exchange rate and the contribution from ASC Signal that I mentioned a moment ago.

CPI generated adjusted EBITDA totaling $16.3 million, or 14.7 percent of sales, in the first quarter. That's compared to $21.3 million, or 19.2 percent of sales, in the same quarter of fiscal 2015.

Reasons for the decrease in adjusted EBITDA were the same as the factors impacting net income: mix, partially offset by changes in the U.S. to Canadian dollar exchange rate and the contributions from ASC Signal.

We maintained adjusted EBITDA margins in the mid-teens in the first quarter and we expect to generate increasingly stronger adjusted EBITDA margins as the fiscal year progresses.

CPI's operations continue to generate strong cash flows, enabling us to retain the necessary resources and flexibility to meet our needs. As of the end of the first quarter, our cash and cash equivalents totaled $34.2 million – that's compared to the $37.5 million that we had at the end of fiscal 2015.

One of the key reasons for the decrease is that in December we paid the previous owners of Radant Technologies – which we acquired in 2013 – the full $10 million earn-out for exceeding the financial goals that we had set for them in the two years following the acquisition.

We remain comfortable with our cash position and our proven ability to generate cash. For the 12 month period that ended on January 1, 2016, CPI generated cash flow from operating activities totaling $14.8 million. Our free cash flow from that period totaled $8 million and our adjusted free cash flow was $17.2 million. Our

adjusted free cash flow for the recent 12 month period came in lower than our annual guidance, primarily because of the timing of sales and collections from customers.

We expect this metric to improve in coming quarters.

CPI remains financially stable and healthy. We remain confident in our ability to meet our debt obligations, fulfill our commitments and grow our business.

With that, I'll turn the call back over to Joe to discuss our guidance for the remainder of the year.

Joe Caldarelli: Thank you, Joel. As you have heard, our first quarter results did not meet our expectations. The most significant reason for the lackluster quarter was the delay in the placement of orders for a number of programs directly impacting our ability to ship product in the quarter.

Based on customer feedback we are hopeful that some of those delayed orders will be booked in the coming months, enabling us to make shipments and realize corresponding profit later in fiscal 2016. We continue to expect the second half of fiscal 2016 to be notably stronger than the first half.

In terms of our annual guidance, given the continuing lack of clarity and uncertainty in timing of order bookings, we have concluded that we are likely to be closer to the lower end of our previous issued guidance. We hope to have a clearer view of the situation on next quarter's call at which time we intend to update our guidance.

Given the dynamic situation, we will keep a very close eye on our financial performance in the weeks and months to come and we will adjust our expense appropriately while continuing to manage the business for long term success.

That concludes our prepared remarks this morning.

Operator, please open up the call for questions.

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press the star then the one key on your touchtone telephone. If your question has been is answered or you wish to remove yourself from the queue, please press the pound key. Again, that is star one if you have a question at this time.

Our first question comes from the line of Donovan Chaney of Wells Fargo. Your line is open. Mister Chaney?

Donovan Chaney: Good morning. Thanks for taking a few questions. I just wanted to talk a little bit more about visibility in the business. Maybe you could sort of give us a sense of for any given quarter, kind of how much maybe of what – of the revenue that you sort of look for as coming out of backlog versus something that sort of maybe comes more on a spot basis?

Joe Caldarelli: Yes, I don't have a concrete number for that, but it depends fairly widely by division. So the divisions that do primarily government business will often have backlog that goes out six, nine, 12 months. At the other extreme, our Econco Division and our medical division quite often come into the beginning of a month without enough backlog to cover that month. That's what we refer to as the quick turns business. And then things like the Satcom business and the new ASC business fit somewhere in between.

So the situation right now is such that even the divisions that have long-term backlog count on the replenishment of those orders on a certain scheduled basis, and in many cases those orders are not being replaced at a time when it would be logically be expected to be replaced. And so that's affected us even in areas that normally have large backlogs.

Now those have been affected less, of course, because they have other things that they can cover, but quite often the customer is unable to take the product early, or we hadn't planned on building it early, and so we can't necessarily substitute something that was next June for production in January, this month – this month, for example – or last month, because the fill-in order didn't come in.

So the situation, unfortunately, is that because of the delays and the unpredictability, all divisions have been impacted by that. Some quite immediately, in the sense of the medical division which is hurting right now from lack of shippable backlog in February, for example. But even the defense-oriented divisions are seeing a portion of their shipments in this quarter that don't yet – that don't have backlog yet to ship against.

And the difficulty is because the customers need this stuff and are telling us that they're going to place the order, but then really never get around to placing it in time. So that's a real issue; it's really not a situation where – our customer's telling us, "Look, the order's gone, you should plan accordingly." It's a situation where the customer wants and needs the order, they just can't quite finalize it.

Donovan Chaney: That's really helpful. Thank you. So my next question is, so if we sort of moved from maybe the middle of kind of $90 million to $95 million of EBITDA to kind of the low end, does that mean kind of internally you guys were hoping for more like 18.5 or so in Q1? I know you said it was sort of disappointing, but I just sort of want to maybe get a sense of kind of the order of magnitude of that. Since you don't really give quarterly guidance, sometimes it's easy on our end to sort of mis-forecast what can be a kind of a lumpy business.

Joe Caldarelli: Yes. In that range. It was under 20 that we were expecting in Q1. Yes.

Donovan Chaney: OK. That's helpful. Last question. Given what sounds like a tougher environment, does that kind of affect your priorities for use of cash this year or how you guys might approach looking at other acquisition opportunities versus building cash or paying down term loan?

Joe Caldarelli: Yes. Well, I mean that our approach to that doesn't really change. We still very much will manage the company for the long term. And as you know from the past, we've always built cash whenever we can, and then deploy it accordingly when opportunities arise. So I don't think – our situation isn't so dire that we have to do something that's dramatically different than the past.

We're still generating meaningful amounts of cash, we're still meaningfully profitable, just not to the degree that we expected to be. And so we're not going to change our fundamental strategy, but we will change our operating situations in each of the divisions, particularly the ones that are a little tighter.

So we have some divisions that are taking extra days off, minor layoffs in a couple of areas that we're managing accordingly. But we're not impacting, for example, the R&D, the product development, the market development, the integration of the new ASC division into CPI, and investments we were going to make and throughout. So that's all continuing unchanged.

Donovan Chaney: OK. That's great. Thanks a lot.

Joe Caldarelli: Yes.

Operator: Thank you. Our next question is from Kelli Marti of Denali Capital. Your line is open.

Joe Caldarelli: Hello?

Operator: It looks like she disconnected. Our next question is from Zachary Burke of KKR. Your line is open, sir.

Zachary Burke: Hi, guys. Thanks for taking my question. I was hoping you could put a finer point on how some of the market forces you talked about are impacting your guidance for the rest of the year. So if I read within the lines it kind of sounds like medical will continue to be impacted by economic conditions kind of around the world. Defense is pushed to the right, so maybe that might be better the remainder of the year. And communications, I don't know if that might be worse, because some of the Russia impact you mentioned.

But if you could just provide some additional commentary there?

Joe Caldarelli: Sure. Well, let's start with communications. Communications is really strong, surprisingly so, because some of our competitors are reporting soft conditions. So right now, for us, communications for the defense oriented as well as the commercial versions, are quite strong. And every indication is that we'll continue that way for the rest of the year, but conditions could change. But certainly the things I referred to with respect to Russia, oil and gas, et cetera, are having an impact on the communications business. We're fortunate today that we have enough irons in the fire, enough customers and enough partnerships that we're doing quite well in all communications areas.

In defense, we're hoping that things will kind of stabilize. We – I'll give you a little bit more concrete example. In Q1, we ended up booking a $10 million order for Econco from the government, a $10 million plus order for our new ASC Division, and a $4 million communications order for the Satcom Division, all of which had been delayed by two, three quarters. So they're in-house now so we're able to ship against those starting in the second half of the year.

By direct contrast, the $4 million order we booked for this defense communication business should have had matching it a radome order for our Radant Division and that hasn't come in and probably won't come in until Q3. So that kind of shows the sort of craziness in the business because obviously our customer has been – has received their order for the total business, but for various administrative reasons, they haven't placed all the orders for all the sub-contracts that they require.

So I expect the same thing will happen in Q2; there are a number of orders that are delayed out of Q4 last year, Q1 this year, that should come in to Q2. So to some extent we're perhaps picking up a little bit of the benefit of the bow wave and hopefully we'll be able to replenish orders at a rate comparable to the rate we're consuming them in the factories in the defense arena.

On the medical side, you're actually right, the medical side is very fast turns business and so extremely difficult to predict how that's going to shape up for the rest of the year. The current quarter that we're in is usually the slowest quarter in the year for us, it just happens that a large portion of our business is in Europe and the Far East and in China, in particular. And as you know, now is the Chinese New Year, and we find that that effectively shuts China down for three to four weeks in terms of receiving product from us because they – the stuff would just sit around.

So our Q2 is usually our slowest year – slowest quarter for medical. And then usually by April, May timeframe, it starts perking up. And so we are hoping that the cycle would repeat and that we'll get through this quarter where we have enough work to keep us – to keep us going; more would be better, but it is a bit tight, and hopefully things will perk up in the second half of the year.

So if you put all that together, there is pretty credible reason why the second half of the year should be better than the first half, but we remain cautious and we're not going to be overly aggressive in our investment until such time it's clear that we have sufficient shippable backlog to warrant putting the resources back into each of the places.

Zachary Burke: OK. That's helpful. Thank you. And then going back to the defense market quickly, it sounds like – and I understand a lot of the orders are getting delayed or shifted to the right, but overall given the defense budget environment and commentary from other defense contractors, it seems like that market should be pretty healthy. Do you

think the long term prognosis of that market is improving, and you would expect to see long term growth there?

Joe Caldarelli: I think so. The problem, frankly, is not in the market or the demand, the problem is really administrative in nature, and we've obviously been going through this internally trying to figure out what's going on and you'd be surprised that there are like 40 reasons why the orders didn't get placed and they're all different. And the vast majority are sort of administrative; they're not fundamental demand.

So, so if you really – if you looked at the fundamentals market's fine today. It's really the administrative issues of placing the orders on us and then us being able to ship against them. And you may have heard this on previous calls, we had these ridiculous situations where one branch of a company or the government is calling us to expedite deliveries of orders that they haven't yet placed.

So it's an indirect answer to your question of – if frankly, they don't get their act together and are able to administratively do a better job, then we may not see an improvement in predictability. But the fundamental demand is there and should continue. And hopefully this slack will kind of work its way out of the system and get back to a more predictable order intake and therefore shipment capability.

Zachary Burke: OK. That's helpful; that answers my question. And then my last one before I turn back over is can you talk a little bit about your plans for the capital structure, given that the term loan goes current in November?

Joe Caldarelli: Well, we're well aware that we need to refinance between now and the end of 2017. So we'll continue to monitor that and take the appropriate steps when our needs and the market situation match up.

Zachary Burke: OK. Thanks. That's all for me.

Joe Caldarelli: Yes.

Operator: Thank you. Our next question is from Ryan Spitz of Stone Harbor Investment. Your line is open.

Ryan Spitz: Hi, and thanks for taking my questions. I think most of them have been answered, but just to follow up on the defense sales, can you size for us what the percentage of sales going to foreign customers is in that business?

Joe Caldarelli: Amanda, Joel, do you have the stats handy for defense?

Joel Littman: No, we don't. But, I mean, if our average is 33 percent to 35 percent, I would expect the defense to be a little bit less than average in terms of percent that's being sold internationally.

Ryan Spitz: OK. And then – thank you – and then I guess a follow – just a quick follow-on, I know you sort of tied in to the lower end of your guide. It looks like orders were pretty solid in the quarter, so can you talk a little bit about what you're seeing so far in 2Q? I know – I mean – the environment is still pretty unpredictable, but are you seeing that kind of sequential improvement that your guidance sort of suggests, barring Chinese New Year and all of that?

Joe Caldarelli: It's always very difficult to tell from the first month. It's remarkable how many things tie to end of quarter. So the answer is no, we don't really have a better visibility based on what's happened in January, but the answer I gave earlier that in the case that perhaps the negative bow wave where we're starting to stabilize certainly feels about right.

And there are still meaningful numbers of orders that need to be placed that we've been chasing. There are – again, I made reference one about the naval shipboard program where the radome order wasn't placed in December as it should have been – for various reasons, it actually won't be placed in Q2, it'll be placed in Q3.

But do I look at that as a negative? Obviously operationally it is. From the point of view the market is not really – we know we're going to get it and we're sole source in it. We're actually starting to take some steps to help build some inventory. Gut feel is that things are stabilizing but I can't really project that on the basis of the beginning of the quarter, because the beginning of the quarters are unfortunately very seldom really strong.

Ryan Spitz: OK. Great. Thank you.

Operator: Thank you. And once again, ladies and gentlemen, if you do have a question at this time please press star one. Our next question is from Jamie Burns of American Capital. Your line is open.

Jamie Burns: Hi, thank you for taking the call. Just wanted to dig in to mix a little bit with respect to the impact on margins. Could you just talk a little bit about whether that's related to greater portion of sales from the communications side versus radar and electronic warfare? What kind of – how that – how that margin deterioration over the last quarter was really driven by a shift in sales mix?

Joe Caldarelli: It's really more within each of the operating units. You're quite right that the communications business, generally speaking, it's a somewhat lower margin than the other CPI businesses. And in Q1 communication was quite strong. You can actually see in our 10-Q, you actually can see the profitability out of the communications side of the business, and it did quite well by standards for communication business, but it's not generally as strong as the radar, EW, and medical. The real hit – so that was part of the contributions, the fact that communication was strong, the other ones were less strong, but within the other ones, it was meaningful difference in the mixes – in the mix of products that we were able to ship during the quarter. And a certain amount of that was, perhaps indirectly, a bit of the inefficiencies where we were expecting to be able to do certain things and then, of course, the orders didn't materialize up to the shippable condition, and frankly we probably lost some efficiencies and – along the lines – as we were preparing for things that didn't quite materialize. So there isn't an easy answer, specifically, it was really a combination of a number of items that came together that tended to be more negative than normal.

We didn't have as many positives offsetting negatives as we often do.

Jamie Burns: OK. So just to summarize, to make sure I'm understanding you correctly, it is a mix within the specific, kind of, business units, right? And then secondly there's some inefficiencies there as far as order volume or perhaps shipment volume not matching up with actual production?

Joe Caldarelli: That's correct.

Jamie Burns: And then is there any – within the specific segments – and perhaps more on the commercials or to the commercial customer base – have you seen any impact from pricing compression or perhaps people that – or customers that formerly would have ordered a higher margin or perhaps a higher price point type product, and then perhaps are stepping or scaling back with what they're ordering? Whether it's volumes or as far as the price point itself?

Joe Caldarelli: Yes, we are – and a lot of that is driven by the strength of the U.S. dollar, where suddenly – as you know – a substantial portion of what we do is exported – and suddenly our product looks more expensive. So where there is competition from others that are denominated in currencies other than the U.S. dollar, all of the sudden, we look expensive, and yes, that certainly causes pricing compression in places like China, certainly in Europe.

In the medical business, in particular, that has been very obvious, and we've had to develop arrangements, usually through some sort of currency clauses, with some of our customers so that they didn't feel compelled to go with a local supplier. So yes, we have seen that, and it's generally been driven not so much by overall market conditions, but driven by the fairly dramatic changes in the exchange rates between the U.S. dollar and other currencies.

Jamie Burns: Sure. And then just can you remind me, I know that you mentioned, kind of, on the defense side, 25 percent of revenue, or just somewhere under the 30, kind of under the 30 number, was driven by international markets, can you talk about commercial side and what's international versus domestic?

Joe Caldarelli: Yes. It would be a little bit more than, I mean, of our total, basically it's a third international and two thirds domestic.

Jamie Burns: OK.

Joe Caldarelli: So if defense is a little bit less than a third, then the commercial would be somewhat more so. If I had to pick a number, it'd probably be like 40 percent international. And to give you more specifics, for example, the medical business is roughly one third North America, one third Europe, one third Far East and the rest of the world, so it's the most international of the bunch and it's the one that's hurting the most for the reasons we discussed because we sell everything in U.S. dollars.

Jamie Burns: Right. And then lastly, as far as – as far as backlog composition, are you seeing a similar mix shift within your backlog? So perhaps, if I'm looking outward, looking at a conversion there of – we can expect some of the margin trends to continue, perhaps not in the same magnitude, but continue to seek out unfavorable mix there?

Joe Caldarelli: I think the mix will improve in the second half of the year on the basis of the shippable backlog we currently have. Q2 will continue to be somewhat challenged, partly because of the mix, but more so because of the availability the backlog that's been in-house long enough to be able to act on if we ship it in Q2. So we're still – our backlog's pretty solid in total.

Jamie Burns: Right.

Joe Caldarelli: The amount of it that's shippable in Q2 is still somewhat limited, and so we're just not running our factories flat out and, therefore, being as efficient as we could be. We're still – there are still certain of our factories that are a little bit backlog-limited today, whereas I hope that most of those will be running closer to full volume by Q3.

Jamie Burns: OK. Thank you. And then I guess last question, actually, as far as the customer push outs, specifically in defense or for defense customers, it seems like that across the industry has been a trend ongoing over the past 12, 18, 24 months. Is it something you've seen accelerate specific to your business recently? Otherwise, I guess I'm a little bit surprised that all of the sudden it would have had an impact on revenue given the fact that it's been kind of a continuing trend across the board.

Joe Caldarelli: Yes. I think it's kind of the luck of the draw. You're absolutely right, and people that have listened to us have heard us complain about that for quite some time. It's certainly become more pronounced and I think it just kind of happens that the programs that we happen to be on at this current time happen to have more delays than normal.

The – I'm not sure that there's a clean pattern per se. I mean we see the same thing say in the communication market quite often. We might go counter to the market because we're teamed up with people who happen to be successful at the current time, and at other times we happen to be teamed with people who weren't successful. So the – I'm not sure there's a clear answer to that.

The – I mean – the ironic thing is that some of our biggest delinquencies in terms of actually placing the orders are from one of the most successful defense primes in the business who has recently reported better than average performance. So …

Jamie Burns: Yes.

Joe Caldarelli: … try to figure that out.

Jamie Burns: Yes. All right. Thank you very much. That makes sense. I appreciate the commentary.

Joe Caldarelli: All right. Thank you.

Operator: Thank you. And that does conclude our Q&A session for today. I would like to turn the call back to Mr. Joe Caldarelli for any further remarks.

Joe Caldarelli: Well, thank you very much for giving us your time this morning. And specifically, thank you for the extra questions; it's always – we're always glad to have the opportunity to more fully explain the business and have you appreciate how we manage the business and what we go through, so we very much appreciate the questions and look forward to doing the same thing in three months.

Thank you.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This does conclude today's program. You may all disconnect. Everyone, please have a great day.

END