

TTM TECHNOLOGIES INC

Form 10-Q

November 07, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**Form 10-Q**

**▶ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**For the quarterly period ended September 29, 2008**

**Commission File Number: 0-31285**

**TTM TECHNOLOGIES, INC.**

*(Exact name of registrant as specified in its charter)*

**DELAWARE**

*(State or other jurisdiction of  
incorporation or organization)*

**91-1033443**

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

**2630 South Harbor Boulevard, Santa Ana, California 92704**

*(Address of principal executive offices)*

**(714) 327-3000**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting Company

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

Number of shares of common stock, \$0.001 par value, of registrant outstanding at October 31, 2008: 42,808,630

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**Table of Contents****TTM TECHNOLOGIES, INC.****Consolidated Condensed Balance Sheets  
As of September 29, 2008 and December 31, 2007**

(Unaudited)  
September 29, 2008      December 31, 2007  
(In thousands)

**ASSETS**

Current assets:		
Cash and cash equivalents	\$ 115,470	\$ 18,681
Short-term investments	19,522	
Accounts receivable, net of allowances of \$5,177 and \$5,704, respectively	115,265	118,581
Inventories	76,964	65,675
Prepaid expenses and other current assets	4,129	3,665
Income taxes receivable		2,237
Asset held for sale	5,000	5,000
Deferred income taxes	6,089	6,097
 Total current assets	 342,439	 219,936
Property, plant and equipment, net of accumulated depreciation of \$91,297 and \$76,135, respectively	121,260	123,647
Debt issuance costs, net	5,479	2,195
Goodwill	131,187	130,126
Definite-lived intangibles, net	19,314	22,128
Deferred income taxes	6,151	
Deposits and other non current assets	1,250	766
	\$ 627,080	\$ 498,798

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current liabilities:		
Accounts payable	\$ 48,055	\$ 53,632
Accrued salaries, wages and benefits	23,987	21,601
Current portion long-term debt		40,000
Other accrued expenses	4,448	5,864
 Total current liabilities	 76,490	 121,097
Convertible senior notes	175,000	
Long-term debt, less current portion		45,000
Deferred income taxes		1,688
Other long-term liabilities	2,176	2,419
 Total long-term liabilities	 177,176	 49,107

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Stockholders' equity:

Common stock, \$0.001 par value; 100,000 shares authorized, 42,809 and 42,380 shares issued and outstanding, as of September 29, 2008 and December 31, 2007, respectively	43	42
Additional paid-in capital	182,540	173,365
Retained earnings	187,611	154,337
Accumulated other comprehensive income	3,220	850
Total stockholders' equity	373,414	328,594
	\$ 627,080	\$ 498,798

See accompanying notes to consolidated condensed financial statements.

**Table of Contents****TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Operations  
For the Quarter and Three Quarters Ended September 29, 2008 and October 1, 2007**

	<b>Quarter Ended</b>		<b>Three Quarters Ended</b>	
	<b>September 29,</b>	<b>October 1,</b>	<b>September 29,</b>	<b>October 1,</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>			
	<b>(In thousands, except per share data)</b>			
Net sales	\$ 169,019	\$ 163,079	\$ 516,065	\$ 501,992
Cost of goods sold	136,873	131,834	409,737	406,480
Gross profit	32,146	31,245	106,328	95,512
Operating (income) expenses:				
Selling and marketing	7,552	7,101	23,016	22,212
General and administrative	8,138	7,951	25,168	24,183
Amortization of definite-lived intangibles	951	1,019	2,848	3,090
Metal reclamation			(3,700)	
Total operating expenses	16,641	16,071	47,332	49,485
Operating income	15,505	15,174	58,996	46,027
Other income (expense):				
Interest expense	(1,556)	(2,628)	(6,679)	(11,094)
Interest income	702	194	1,147	1,227
Other, net	(384)	127	(1,388)	89
Total other expense, net	(1,238)	(2,307)	(6,920)	(9,778)
Income before income taxes	14,267	12,867	52,076	36,249
Income tax provision	(4,809)	(4,666)	(18,802)	(13,399)
Net income	\$ 9,458	\$ 8,201	\$ 33,274	\$ 22,850
Basic earnings per share	\$ 0.22	\$ 0.19	\$ 0.78	\$ 0.54
Diluted earnings per share	\$ 0.22	\$ 0.19	\$ 0.77	\$ 0.54

See accompanying notes to consolidated condensed financial statements.



**Table of Contents****TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Cash Flows  
For the Three Quarters Ended September 29, 2008 and October 1, 2007**

	<b>Three Quarters Ended</b>	
	<b>September 29,</b>	<b>October 1,</b>
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	
	<b>(In thousands)</b>	
Cash flows from operating activities:		
Net income	\$ 33,274	\$ 22,850
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	15,897	17,241
Amortization of definite-lived intangible assets	2,936	3,187
Amortization of debt issuance costs	2,466	2,963
Non-cash interest imputed on other long-term liabilities	94	91
Excess income tax benefit from common stock options exercised	(217)	(264)
Deferred income taxes	5,399	2,204
Stock-based compensation	3,861	2,467
Net loss (gain) on sale of property, plant and equipment	147	(180)
Other		(4)
Changes in operating assets and liabilities:		
Accounts receivable, net	4,478	10,127
Inventories	(10,761)	873
Prepaid expenses and other	(439)	506
Income taxes receivable	2,237	(662)
Accounts payable	(8,416)	792
Accrued salaries, wages and benefits and other accrued expenses	1,904	(5,254)
Net cash provided by operating activities	52,860	56,937
Cash flows from investing activities:		
Purchase of property, plant and equipment and equipment deposits	(12,182)	(11,345)
Proceeds from sale of property, plant and equipment	136	1,298
Redesignation of cash and cash equivalents to short-term investments	(19,522)	
Proceeds from redemptions of held-to-maturity short-term investments		11,000
Net cash (used in) provided by investing activities	(31,568)	953
Cash flows from financing activities:		
Principal payments on long-term debt and capitalized leased obligations	(85,000)	(91,705)
Proceeds from the issuance of convertible senior notes	175,000	
Proceeds from exercise of common stock options	2,421	1,203
Payment of debt issuance costs	(5,751)	(223)
Proceeds from warrants	26,197	
Payment of convertible note hedge	(38,257)	



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Excess income tax benefit from common stock options exercised	217	264
Net cash provided by (used in) financing activities	74,827	(90,461)
Effect of foreign currency exchange rates on cash and cash equivalents	670	226
Net increase (decrease) in cash and cash equivalents	96,789	(32,345)
Cash and cash equivalents at beginning of period	18,681	59,660
Cash and cash equivalents at end of period	\$ 115,470	\$ 27,315
Supplemental cash flow information:		
Cash paid for interest	\$ 3,169	\$ 7,546
Cash paid for income taxes	10,905	11,597

Supplemental disclosures of non-cash investing and financing activities:

As of September 29, 2008, accrued purchases of equipment totaled \$1,964.

The Company recognized an unrealized loss on derivative instruments of \$108 and \$300 net of tax, for the three quarters ended September 29, 2008 and October 1, 2007, respectively.

Effective January 1, 2007, the Company adopted the provisions of Financial Account Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48). As a result of the implementation of FIN 48, we recognized a \$338 decrease to our liability for unrecognized tax benefits, and a corresponding increase to our January 1, 2007 accumulated retained earnings beginning balance.

See accompanying notes to consolidated condensed financial statements.

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements  
(unaudited)  
(Dollars and shares in thousands, except per share data)**

**(1) Nature of Operations and Basis of Presentation**

TTM Technologies, Inc. (the Company) is a manufacturer of complex printed circuit boards used in sophisticated electronic equipment and provides backplane and sub-system assembly services for both standard and specialty products in defense and commercial operations. The Company sells to a variety of customers located both within and outside of the United States of America. The Company's customers include both original equipment manufacturers (OEMs) and electronic manufacturing services (EMS) companies. The Company's OEM customers often direct a significant portion of their purchases through EMS companies.

The accompanying consolidated condensed financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These consolidated condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position, the results of operations and cash flows of the Company for the periods presented. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Company's consolidated condensed financial statements and accompanying notes. Actual results could differ materially from those estimates. The Company uses a 13-week fiscal quarter accounting period with the first quarter ending on the Monday closest to April 1 and the fourth quarter always ending on December 31. The third quarters ended September 29, 2008 and October 1, 2007 each contained 91 days. The three quarters ended September 29, 2008 and October 1, 2007 contained 273 and 274 days, respectively.

Certain reclassifications of prior years' amounts have been made to conform with the current year presentation.

**(2) Short-term Investments**

Short-term investments are comprised of an investment in The Reserve Primary Fund (Primary Fund), a money market fund that has suspended redemptions and is being liquidated. In accordance with Statement of Financial Accounting Standards No. 115 *Accounting for Certain Investments in Debt and Equity Securities*, (SFAS 115), we recorded these investments as trading securities and at fair market value on the Company's consolidated condensed balance sheet. These securities, classified as trading, will be marked to market each reporting period. Additionally, due to the uncertainty associated with the ultimate recovery of the funds invested, mark to market losses may be realized.

At September 29, 2008, the fair value of the Company's investment in the Primary Fund was \$19,522. The cost of this investment was \$20,101. In mid-September 2008, the net asset value of the Primary Fund decreased below \$1 per share as a result of the Primary Fund's valuing at zero its holding of debt securities issued by Lehman Brothers Holdings, Inc., which filed bankruptcy on September 15, 2008. Accordingly, the Company recorded a \$579 loss, included in other, net in the Company's consolidated condensed statement of operations, to recognize its pro rata share

of the estimated loss in this investment.

The Company has requested redemption of its investment in the Primary Fund. The Company expects distribution to occur as the Primary Fund's assets mature or are sold. In addition, the Primary Fund has announced that it has applied to participate in the United States Department of Treasury Money Market Fund Guarantee Program (Guarantee Program), participation in which is subject to the approval of the Treasury Department. Even if the Primary Fund is allowed to participate in the Guarantee Program, the effect on the Company's investment is

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uncertain. Accordingly, the Company has reclassified its investment from cash and cash equivalent to short-term investments on the Company's consolidated condensed balance sheet.

Subsequent to September 29, 2008, the Company received partial distribution of its investment in the Primary Fund in the amount of \$10,210.

**(3) Inventories**

Inventories as of September 29, 2008 and December 31, 2007 consist of the following:

	<b>September 29, 2008</b>	<b>December 31, 2007</b>
	<b>(In thousands)</b>	
Raw materials	\$ 27,137	\$ 23,386
Work-in-process	43,820	35,700
Finished goods	6,007	6,589
	<b>\$ 76,964</b>	<b>\$ 65,675</b>

**(4) Goodwill and Definite-lived Intangibles**

As of September 29, 2008 goodwill by operating segment and the components of definite-lived intangibles were as follows:

***Goodwill***

	<b>December 31, 2007</b>	<b>Foreign Currency Rate Change (In thousands)</b>	<b>September 29, 2008</b>
PCB Manufacturing	\$ 117,018	\$	\$ 117,018
Backplane Assembly	13,108	1,061	14,169
	<b>\$ 130,126</b>	<b>\$ 1,061</b>	<b>\$ 131,187</b>

Goodwill in the Backplane Assembly operating segment includes the activity related to a foreign subsidiary which operates in a currency other than the U.S. dollar and therefore reflects a foreign currency rate change.

*Definite-lived Intangibles*

	<b>Gross Amount</b>	<b>Accumulated Amortization (In thousands)</b>	<b>Foreign Currency Rate Change</b>	<b>Net Carrying Amount</b>	<b>Weighted Average Amortization Period (Years)</b>
<b>September 29, 2008:</b>					
Strategic customer relationships	\$ 35,429	\$ (16,458)	\$ 256	\$ 19,227	12.0
Customer backlog	70	(71)	1		0.7
Licensing agreements	350	(263)		87	3.0
	\$ 35,849	\$ (16,792)	\$ 257	\$ 19,314	

The definite-lived intangibles related to strategic customer relationships and customer backlog include activity related to a foreign subsidiary which operates in a currency other than the U.S. dollar and therefore reflect a foreign currency rate change.

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Amortization expense was \$981 and \$1,058 for the quarter ended September 29, 2008 and October 1, 2007, respectively, and \$2,936 and \$3,187 for the three quarters ended September 29, 2008 and October 1, 2007, respectively. Amortization expense related to acquired licensing agreements is classified as cost of goods sold. Estimated aggregate amortization for definite-lived intangible assets for the next five years is as follows:

	<b>(In thousands)</b>
Remaining est. 2008	\$ 980
2009	3,499
2010	3,166
2011	3,019
2012	2,754
	\$ 13,418

**(5) Convertible Senior Notes**

In May 2008, the Company issued 3.25% Convertible Senior Notes (Convertible Notes) due May 15, 2015, in a public offering for an aggregate principal amount of \$175,000. The Convertible Notes bear interest at a rate of 3.25% per annum. Interest will be payable semiannually in arrears on May 15 and November 15 of each year, beginning November 15, 2008. The Convertible Notes are senior unsecured obligations and will rank equally to the Company's future unsecured senior indebtedness and senior in right of payment to any of the Company's future subordinated indebtedness. The Company received proceeds of \$169,249 after the deduction of offering expenses of \$5,751. These offering expenses are being amortized to interest expense over the term of the Convertible Notes.

**Conversion**

At any time prior to November 15, 2014, holders may convert their Convertible Notes into cash and, if applicable, into shares of the Company's common stock based on a conversion rate of 62.6449 shares of the Company's common stock per \$1 principal amount of Convertible Notes, subject to adjustment, under the following circumstances: (1) during any calendar quarter beginning after June 30, 2008 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day of such preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading day period in which the trading price per note for each day of that 10 consecutive trading day period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such day; or (3) upon the occurrence of specified corporate transactions described in the prospectus supplement. As of September 29, 2008, none of the conversion criteria had been met.

On or after November 15, 2014 until the close of business on the third scheduled trading day preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, for each \$1 principal amount of notes, the Company will pay cash for the lesser of the conversion value or \$1 and shares

of our common stock, if any, based on a daily conversion value calculated on a proportionate basis for each day of the 60 trading day observation period. Additionally, in the event of a fundamental change as defined in the prospectus supplement, or other conversion rate adjustments such as share splits or combinations, other distributions of shares, cash or other assets to stockholders, including self-tender transactions (Other Conversion Rate Adjustments), the conversion rate may be modified to adjust the number of shares per \$1 principal amount of the notes.

The maximum number of shares issuable upon conversion, including the effect of a fundamental change and subject to Other Conversion Rate Adjustments, would be 13,978.

**Table of Contents****TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****Note Repurchase**

The Company is not permitted to redeem the Convertible Notes at any time prior to maturity. In the event of a fundamental change or certain default events, as defined in the prospectus supplement, prior to November 15, 2014, holders may require the Company to repurchase for cash all or a portion of their Convertible Notes at a price equal to 100% of the principal amount, plus any accrued and unpaid interest.

**Convertible Note Hedge and Warrant Transaction**

In connection with the issuance of the Convertible Notes, the Company entered into a convertible note hedge and warrant transaction (Call Spread Transaction), with respect to the Company's common stock. The convertible note hedge, which cost an aggregate \$38,257 and was recorded, net of tax, as a reduction of additional paid-in capital, consists of the Company's option to purchase up to 10,963 common stock shares at a price of \$15.96 per share. This option expires on May 15, 2015 and can only be executed upon the conversion of the above mentioned Convertible Notes. Additionally, the Company sold warrants to purchase 10,963 of the Company's common stock at a price of \$18.15. This warrant transaction expires on August 17, 2015. The proceeds from the sale of warrants of \$26,197 was recorded as an addition to additional paid-in capital. The Call Spread Transaction has no effect on the terms of the Convertible Notes and reduces potential dilution by effectively increasing the conversion price of the Convertible Notes to \$18.15 per share of the Company's common stock.

**(6) Long-term Debt**

The following table summarizes the long-term debt of the Company as of September 29, 2008 and December 31, 2007:

	<b>September 29, 2008</b>	<b>December 31, 2007</b>
	<b>(In thousands)</b>	
Senior secured term loan	\$	\$ 85,000
Less current maturities		(40,000)
Long-term debt, less current maturities	\$	\$ 45,000

In May 2008, the Company paid in full all outstanding balances, terminated all letter of credit arrangements and the related interest rate swap associated with the Credit Agreement consisting of a \$200,000 senior secured term loan and a \$40,000 senior secured revolving loan facility. The Company has no further obligation or commitment related to this Credit Agreement. Upon termination of the interest rate swap, the Company realized a loss on settlement of \$1,194 for the three quarters ended September 29, 2008. The loss was recorded as a component of other, net in the accompanying consolidated condensed statements of operations. Additionally, the impact of the interest rate swap to interest expense during the quarter and three quarters ended September 29, 2008 was a charge of \$-0- and \$331, respectively. For the quarter and three quarters ended October 1, 2007, the Company recognized a benefit of \$23 and \$66 to interest



expense, respectively.

**(7) Income Taxes**

Effective January 1, 2007, the Company adopted FIN 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*. Upon adoption of FIN 48, the Company recorded a decrease in the liability for unrecognized tax benefits of \$338 and an increase to retained earnings of \$338 representing the cumulative effect of the change in accounting principle. No change was recorded in the deferred income tax asset accounts. As of September 29, 2008 and December 31, 2007, unrecognized income tax benefits totaled approximately \$114 and \$373, respectively. The decrease in unrecognized tax benefits, which reduced the effective income tax rate, was due to the lapse of statute of limitations during the third quarter ended September 29, 2008. Of the remaining amount, approximately \$114 (net of the federal benefit on state income tax matters) carried in other

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long-term liabilities represents the amount of unrecognized tax benefits that would, if recognized, reduce the Company's effective income tax rate in any future periods. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

The Company and its subsidiaries are subject to U.S. federal, state, local, and/or foreign income tax, and in the normal course of business its income tax returns are subject to examination by the relevant taxing authorities. The State of California Franchise Tax Board has completed audits of the Company's income tax returns for the 2000-2001 years. The State of Florida Department of Revenue has completed audits of the Company's income tax returns for the 2003-2005 years. As of September 29, 2008, the 2002-2007 tax years remain subject to examination in the U.S. federal tax, various state tax and foreign jurisdictions.

**(8) Comprehensive Income**

The components of accumulated other comprehensive income generally include foreign currency translation adjustments and realized and unrealized gains and losses on effective cash flow hedges. The computation of comprehensive income was as follows:

	<b>Quarter Ended</b>		<b>Three Quarters Ended</b>	
	<b>September 29, 2008</b>	<b>October 1, 2007</b>	<b>September 29, 2008</b>	<b>October 1, 2007</b>
	<b>(In thousands)</b>			
Net income	\$ 9,458	\$ 8,201	\$ 33,274	\$ 22,850
Other comprehensive income:				
Foreign currency translation adjustments, net of \$108 and \$117 of tax for the quarter ended September 29, 2008 and October 1, 2007, respectively, and \$1,026 and \$335 for the three quarters ended September 29, 2008 and October 1, 2007, respectively	163	194	1,726	559
Unrealized loss on effective cash flow hedges: Unrealized loss on effective cash flow hedges net of tax benefit of \$197 for the quarter ended October 1, 2007, and \$64 and \$176 for the three quarters ended September 29, 2008 and October 1, 2007, respectively		(329)	(108)	(300)
Less: reclassification adjustment for losses realized in net earnings net of tax of \$442 for the three quarters ended September 29, 2008			752	
Net		(329)	644	(300)
	163	(135)	2,370	259

Total other comprehensive income (loss), net of tax

Comprehensive income	\$	9,621	\$	8,066	\$	35,644	\$	23,109
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**(9) Fair Value Measures**

Effective January 1, 2008, the Company prospectively implemented the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measures*, (SFAS 157) for financial assets and financial liabilities reported or disclosed at fair value. As permitted by Financial Accounting Standards Board Staff Position No. FAS 157-2, the Company elected to defer implementation of the provisions of SFAS 157 for non-financial assets and non-financial liabilities until January 1, 2009, except for non-financial items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The disclosures focus on the inputs used to measure fair value.

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SFAS 157 establishes the following hierarchy for categorizing these inputs:

Level 1 Quoted market prices in active markets for identical assets or liabilities;

Level 2 Significant other observable inputs (e.g. quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs); and

Level 3 Significant unobservable inputs.

At September 29, 2008, the following financial asset was measured at fair value on a recurring basis using the type of inputs shown:

	September 29, 2008	Fair Value Measurements Using:		
		Level 1 Inputs (In thousands)	Level 2 Inputs	Level 3 Inputs
Short-term Investments	\$ 19,522			\$ 19,522

**Fair Value Measurement using Significant Unobservable Inputs (Level 3)**

	(In thousands)
Beginning balance at December 31, 2007	\$
Transfers to level 3	20,101
Changes in fair value included in earnings	(579)
Ending balance at September 29, 2008	\$ 19,522
Losses included in earnings attributable to change in unrealized losses relating to assets still held at September 29, 2008	\$ (579)

**(10) Commitments and Contingencies*****Legal Matters***

Prior to the Company's acquisition of Tyco Printed Circuit Group (PCG) in October 2006, PCG made legal commitments to the U.S. Environmental Protection Agency (U.S. EPA) and the State of Connecticut regarding settlement of enforcement actions against the PCG operations in Connecticut. On August 17, 2004, PCG was sentenced for Clean Water Act violations and was ordered to pay a \$6,000 fine and an additional \$3,700 to fund

environmental projects designed to improve the environment for Connecticut residents. In September 2004, PCG agreed to a stipulated judgment with the Connecticut Attorney General's office and the Connecticut Department of Environmental Protection (DEP) under which PCG paid a \$2,000 civil penalty and agreed to implement capital improvements of \$2,400 to reduce the volume of rinse water discharged from its manufacturing facilities in Connecticut. The obligations to the U.S. EPA include the fulfillment of a Compliance Management Plan until at least July 2009. The obligations to Connecticut DEP include the installation of rinse water recycling systems at the Stafford, Connecticut, facilities. As of September 29, 2008, one recycling system was complete and placed into operation, and approximately \$480 remains to be expended in the form of capital improvements to meet the second rinse water recycling system requirement. The Company has assumed these legal commitments as part of its purchase of PCG. Failure to meet either commitment could result in further costly enforcement actions, including exclusion from participation in federal contracts.

The Company is subject to various other legal matters, which it considers normal for its business activities. While the Company currently believes that the amount of any ultimate potential loss for known matters would not be material to the Company's financial condition, the outcome of these actions is inherently difficult to predict. In the event of an adverse outcome, the ultimate potential loss could have a material adverse effect on the Company's

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financial condition or results of operations in a particular period. The Company has accrued amounts for its loss contingencies which are probable and estimable at September 29, 2008 and December 31, 2007.

***Environmental Matters***

The process to manufacture printed circuit boards requires adherence to city, county, state and federal environmental regulations regarding the storage, use, handling and disposal of chemicals, solid wastes and other hazardous materials as well as air quality standards. Management believes that its facilities comply in all material respects with environmental laws and regulations. The Company has in the past received certain notices of violations and has been required to engage in certain minor corrective activities. There can be no assurance that violations will not occur in the future.

The Company is involved in various stages of investigation and cleanup related to environmental remediation matters at two Connecticut sites, and the ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. The Company has also investigated a third Connecticut site as a result of the PCG acquisition under Connecticut's Land Transfer Act. The Company concluded that it was probable that it would incur remedial costs of approximately \$862 and \$879 as of September 29, 2008 and December 31, 2007, respectively, the liability for which is included in other long-term liabilities. This accrual was discounted at 8% per annum based on the Company's best estimate of the liability, which the Company estimated as ranging from \$839 to \$1,274 on an undiscounted basis. The liabilities recorded do not take into account any claims for recoveries from insurance or third parties and none are estimated. These costs are mostly comprised of estimated consulting costs to evaluate potential remediation requirements, completion of the remediation, and monitoring of results achieved. As of September 29, 2008, the Company anticipates paying these costs ratably over the next 12 to 84 months, which timeframes vary by site. Subject to the imprecision in estimating future environmental remediation costs, the Company does not expect the outcome of the environmental remediation matters, either individually or in the aggregate, to have a material adverse effect on its financial position, results of operations, or cash flows.

***Standby Letter of Credit***

The Company maintains a \$1,000 standby letter of credit related to the lease of one of its production facilities. The standby letter of credit expires on May 1, 2009.

**(11) Earnings Per Share**

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the quarter and three quarters ended September 29, 2008 and October 1, 2007:

Quarter Ended		Three Quarters Ended	
September 29, 2008	October 1, 2007	September 29, 2008	October 1, 2007
(In thousands, except per share amounts)			

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Net income	\$	9,458	\$	8,201	\$	33,274	\$	22,850
Weighted average shares issued		42,805		42,260		42,637		42,203
Dilutive effect of options		377		365		362		303
Diluted shares		43,182		42,625		42,999		42,506
Earnings per share:								
Basic	\$	0.22	\$	0.19	\$	0.78	\$	0.54
Dilutive	\$	0.22	\$	0.19	\$	0.77	\$	0.54

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)**

Stock options and restricted stock units to purchase 1,532 and 1,661 shares of common stock for the quarter ended September 29, 2008 and October 1, 2007, respectively, and 1,848 and 2,014 shares of common stock for the three quarters ended September 29, 2008 and October 1, 2007, respectively, were not considered in calculating diluted earnings per share because the effect would be anti-dilutive.

Additionally, for the quarter and three quarters ended September 29, 2008, the effect of 10,963 shares of common stock related to the Company's Convertible Notes and the effect of 21,926 of warrants to purchase shares of the Company's common stock were not included in the computation of dilutive earnings per share because the conversion or purchase criteria had not been met as of September 29, 2008.

**(12) Stock-Based Compensation**

For the quarters ended September 29, 2008 and October 1, 2007, the Company recorded \$961 and \$638, respectively, of stock-based compensation expense, net of tax. For the three quarters ended September 29, 2008 and October 1, 2007, the Company recorded \$2,522 and \$1,768, respectively, of stock-based compensation expense, net of tax. Stock-based compensation expense is recognized in the accompanying consolidated condensed statements of operations as follows:

	<b>Quarter Ended</b>		<b>Three Quarters Ended</b>	
	<b>September 29, 2008</b>	<b>October 1, 2007</b>	<b>September 29, 2008</b>	<b>October 1, 2007</b>
	<b>(In thousands)</b>			
Cost of goods sold	\$ 388	\$ 258	\$ 1,011	\$ 700
Selling and marketing	116	55	307	153
General and administrative	888	609	2,543	1,614
Stock-based compensation expense recognized	1,392	922	3,861	2,467
Income tax benefit recognized	(431)	(284)	(1,339)	(699)
Total stock-based compensation expense after income taxes	\$ 961	\$ 638	\$ 2,522	\$ 1,768

The Company did not grant any stock option awards during the quarter ended September 29, 2008 and granted 110 stock option awards during the three quarters ended September 29, 2008 with an estimated weighted average fair value per share option of \$6.81. No stock options were granted by the Company for the quarter and three quarters ended October 1, 2007. The fair value for stock options granted is calculated using the Black-Scholes option-pricing model on the date of grant. For the three quarters ended September 29, 2008 the following assumptions were used in determining the fair value:

Risk-free interest rate 2.9%



Dividend yield	%
Expected volatility	69%
Expected term in months	66

The Company determines the expected term of its stock option awards separately for employees and directors based on a periodic review of its historical stock option exercise experience. This calculation excludes pre-vesting forfeitures and uses assumed future exercise patterns to account for option holders' expected exercise and post-vesting termination behavior for outstanding stock options over their remaining contractual terms. Expected volatility is calculated by weighting the Company's historical stock price to calculate expected volatility over the expected term of each grant. The risk-free interest rate for the expected term of each option granted is based on the U.S. Treasury yield curve in effect at the time of grant. As of September 29, 2008, \$2,751 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 0.9 year.

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

Additionally, the Company also granted 2 and 1 restricted stock units for the quarters ended September 29, 2008 and October 1, 2007, respectively, and 504 and 500 for the three quarters ended September 29, 2008 and October 1, 2007, respectively. The units granted were estimated to have a weighted-average fair value per unit of \$11.25 and \$10.62 for the quarters ended September 29, 2008 and October 1, 2007, respectively, and \$11.46 and \$10.70 for the three quarters ended September 29, 2008 and October 1, 2007, respectively. The fair value for restricted stock units granted during the period is based on the closing share price on the date of grant. As of September 29, 2008, \$6,078 of total unrecognized compensation cost related to restricted stock units is expected to be recognized over a weighted-average period of 1 year.

**(13) Concentration of Credit Risk**

In the normal course of business, the Company extends credit to its customers, which are concentrated primarily in the computer and electronics instrumentation and aerospace/defense industries, and some of which are located outside the United States. The Company performs ongoing credit evaluations of customers and does not require collateral. The Company also considers the credit risk profile of the entity from which the receivable is due in further evaluating collection risk.

As of September 29, 2008 and December 31, 2007, the Company's 10 largest customers in the aggregate accounted for 53% and 49%, respectively, of total accounts receivable. If one or more of the Company's significant customers were to become insolvent or were otherwise unable to pay for the manufacturing services provided, it would have a material adverse effect on the Company's financial condition and results of operations.

**(14) Segment Information**

The operating segments reported below are the Company's segments for which separate financial information is available and upon which operating results are evaluated by the chief operating decision maker on a timely basis to assess performance and to allocate resources. The Company has two reportable segments: PCB Manufacturing and Backplane Assembly. These reportable segments are each managed separately as they distribute and manufacture distinct products with different production processes. Each reportable segment operates predominately in the same industry with production facilities that produce similar customized products for its customers and use similar means of product distribution. PCB Manufacturing fabricates printed circuit boards, and Backplane Assembly is a contract manufacturing business that specializes in assembling backplanes and sub-system assemblies.

The Company evaluates segment performance based on operating segment income, which is operating income before amortization of intangibles. Interest expense and interest income are not presented by segment since they are not included in the measure of segment profitability reviewed by the chief operating decision maker. All inter-company transactions, including sales of PCBs from the PCB Manufacturing segment to the Backplane Assembly segment, have been eliminated.

**Table of Contents****TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)**

	<b>Quarter Ended</b>		<b>Three Quarters Ended</b>	
	<b>September 29,</b>	<b>October 1,</b>	<b>September 29,</b>	<b>October 1,</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(In thousands)</b>			
<b>Net Sales:</b>				
PCB Manufacturing	\$ 148,003	\$ 140,514	\$ 446,304	\$ 431,316
Backplane Assembly	29,254	30,679	92,984	96,500
Total sales	177,257	171,193	539,288	527,816
Inter-company sales	(8,238)	(8,114)	(23,223)	(25,824)
Total net sales	\$ 169,019	\$ 163,079	\$ 516,065	\$ 501,992
<b>Operating Segment Income:</b>				
PCB Manufacturing	\$ 14,312	\$ 13,899	\$ 54,771	\$ 42,285
Backplane Assembly	2,144	2,294	7,073	6,832
Total operating segment income	16,456	16,193	61,844	49,117
Amortization of intangibles	(951)	(1,019)	(2,848)	(3,090)
Total operating income	15,505	15,174	58,996	46,027
Total other expense	(1,238)	(2,307)	(6,920)	(9,778)
Income before income taxes	\$ 14,267	\$ 12,867	\$ 52,076	\$ 36,249

The Company's customers include both OEMs and EMS companies. The Company's OEM customers often direct a significant portion of their purchases through EMS companies.

For the quarter and three quarters ended September 29, 2008 one customer accounted for approximately 12% and 13% of net sales, respectively. For the quarter and three quarters ended October 1, 2007 one customer accounted for 10% of net sales. Sales to our 10 largest customers for the quarter ended September 29, 2008 and October 1, 2007 were 51% and 45%, respectively. Sales to our 10 largest customers for the three quarters ended September 29, 2008 and October 1, 2007 were 50% and 44% of net sales, respectively. The loss of one or more major customers or a decline in sales to the Company's major customers would have a material adverse effect on the Company's financial condition and results of operations.

**(15) Metal Reclamation**

During the first quarter of 2008, the Company recognized \$3,700 of income related to a pricing reconciliation of metal reclamation activity attributable to a single vendor. As a result of the pricing reconciliation, the Company discovered that the vendor had inaccurately compensated the Company for gold reclamations over the last several years.



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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated condensed financial statements and the related notes and the other financial information included in this Quarterly Report on Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of specified factors, including those set forth in Item 1A Risk Factors of Part II below and elsewhere in this Quarterly Report on Form 10-Q.

This discussion and analysis should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in our annual report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission.

**Overview**

We are a one-stop provider of time-critical and technologically complex printed circuit boards (PCBs) and backplane assemblies, which serve as the foundation of sophisticated electronic products. We serve high-end commercial and aerospace/defense markets including the networking/communications infrastructure, high-end computing, defense, and industrial/medical markets which are characterized by high levels of complexity and moderate production volumes. Our customers include original equipment manufacturers (OEMs), electronic manufacturing services (EMS) providers, and aerospace/defense companies. Our time-to-market and high technology focused manufacturing services enable our customers to reduce the time required to develop new products and bring them to market.

We measure customers as those companies that have placed at least two orders in the preceding 12-month period. We had approximately 900 customers as of September 29, 2008 and October 1, 2007. Sales to our 10 largest customers accounted for 51% of our net sales in the third quarter ended September 29, 2008, and 45% of our net sales in the third quarter ended October 1, 2007. Sales to our 10 largest customers for the three quarters ended September 29, 2008 and October 1, 2007 were 50% and 44% of net sales, respectively. We sell to OEMs both directly and indirectly through EMS companies. Sales attributable to our five largest OEM customers accounted for approximately 30% and 25% of our net sales in the quarter ended September 29, 2008 and October 1, 2007, respectively.

The following table shows the percentage of our net sales attributable to each of the principal end markets we served for the periods indicated.

End Markets(1)	Quarter Ended		Three Quarters Ended	
	September 29, 2008	October 1, 2007	September 29, 2008	October 1, 2007
Networking/Communications	39%	40%	41%	42%
Aerospace/Defense	39	32	36	30
Computing/Storage/Peripherals	11	13	11	13
Medical/Industrial/Instrumentation/Other	11	15	12	15
Total	100%	100%	100%	100%

(1) Sales to EMS companies are classified by the end markets of their OEM customers.

For PCBs we measure the time sensitivity of our products by tracking the quick-turn percentage of our work. We define quick-turn orders as those with delivery times of 10 days or less, which typically captures research and development, prototype, and new product introduction work, in addition to unexpected short-term demand among our customers. Generally, we quote prices after we receive the design specifications and the time and volume requirements from our customers. Our quick-turn services command a premium price as compared to standard lead time products. Quick-turn orders decreased from approximately 13% of net PCB sales for the quarter ended October 1, 2007 to 11% of net PCB sales for the quarter ended September 29, 2008, partially due to the increasingly complex nature of our quick-turn work, which requires more time to manufacture, thereby extending some of these orders beyond the 10 day delivery window. We also deliver a large percentage of compressed lead-time work with

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lead times of 11 to 20 days. We receive a premium price for this work as well. Purchase orders may be cancelled prior to shipment. We charge customers a fee, based on percentage completed, if an order is cancelled once it has entered production.

We derive revenues primarily from the sale of printed circuit boards and backplane assemblies using customer-supplied engineering and design plans. We recognize revenues when persuasive evidence of a sales arrangement exists, the sales terms are fixed and determinable, title and risk of loss have transferred, and collectibility is reasonably assured generally when products are shipped to the customer. Net sales consist of gross sales less an allowance for returns, which typically has been approximately 2% of gross sales. We provide our customers a limited right of return for defective printed circuit boards and backplane assemblies. We record an estimated amount for sales returns and allowances at the time of sale based on historical information.

Cost of goods sold consists of materials, labor, outside services, and overhead expenses incurred in the manufacture and testing of our products as well as stock-based compensation expense. Many factors affect our gross margin, including capacity utilization, product mix, production volume, and yield. We do not participate in any significant long-term contracts with suppliers, and, generally, we believe there are a number of potential suppliers for the raw materials and components we use.

Selling and marketing expenses consist primarily of salaries and commissions paid to our internal sales force and independent sales representatives, salaries paid to our sales support staff, stock-based compensation expense as well as costs associated with marketing materials and trade shows. We generally pay higher commissions to our independent sales representatives for quick-turn work, which generally has a higher gross profit component than standard lead-time work.

General and administrative costs primarily include the salaries for executive, finance, accounting, information technology, facilities and human resources personnel, as well as insurance expenses, expenses for accounting and legal assistance, incentive compensation expense, stock-based compensation expense, and bad debt expense.

## **Critical Accounting Policies and Estimates**

Our consolidated condensed financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management has discussed the development, selection, and disclosure of these estimates with the audit committee of our board of directors. Actual results may differ from these estimates under different assumptions or conditions.

Accounting policies for which significant judgments and estimates are made include asset valuation related to bad debts and inventory obsolescence; sales returns and allowances; impairment of long-lived assets, including goodwill and intangible assets; realizability of deferred tax assets; determining stock-based compensation expense, self-insured medical reserves, asset retirement obligations, and environmental liabilities.

### ***Allowance for Doubtful Accounts***

We provide customary credit terms to our customers and generally do not require collateral. We perform ongoing credit evaluations of the financial condition of our customers and maintain an allowance for doubtful accounts based

upon historical collections experience and expected collectibility of accounts. Our actual bad debts may differ from our estimates.

***Inventories***

In assessing the realization of inventories, we are required to make judgments as to future demand requirements and compare these with current and committed inventory levels. Provision is made to reduce excess and obsolete inventories to their estimated net realizable value. Our inventory requirements may change based on our



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projected customer demand, changes due to market conditions, technological and product life cycle changes, longer or shorter than expected usage periods, and other factors that could affect the valuation of our inventories. We maintain certain finished goods inventories near certain key customer locations in accordance with agreements. Although this inventory is typically supported by valid purchase orders, should these customers ultimately not purchase these inventories, our results of operations and financial condition would be adversely affected.

### ***Revenue Recognition***

We derive revenues primarily from the sale of printed circuit boards and backplane assemblies using customer-supplied engineering and design plans and recognize revenues when persuasive evidence of a sales arrangement exists, the sales terms are fixed and determinable, title and risk of loss have transferred, and collectibility is reasonably assured generally when products are shipped to the customer. We provide our customers a limited right of return for defective printed circuit boards and backplane assemblies. We accrue an estimated amount for sales returns and allowances at the time of sale based on historical information. To the extent actual experience varies from our historical experience, revisions to these allowances may be required.

### ***Long-lived Assets***

We have significant long-lived tangible and intangible assets consisting of property, plant and equipment, definite-lived intangibles, and goodwill. We review these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In addition, we perform an impairment test related to goodwill at least annually. Our goodwill and intangibles are largely attributable to our acquisitions of other businesses. During the fourth quarter 2007, we performed an impairment assessment of our goodwill, which requires the use of a fair-value based analysis and determined that no impairment existed. At September 29, 2008, there were no indications that the carrying amount of long-lived tangible assets, definite-lived intangible assets and goodwill may not be recoverable. If future market conditions continue to deteriorate, such events and circumstances may necessitate our review of the recoverability of long-lived assets.

We use an estimate of the future undiscounted net cash flows in measuring whether our long-lived tangible assets and definite-lived intangible assets are recoverable. If forecasts and assumptions used to support the realizability of our long-lived assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.

### ***Income Taxes***

Deferred income tax assets are reviewed for recoverability, and valuation allowances are provided, when necessary, to reduce deferred tax assets to the amounts expected to be realized. At September 29, 2008 and December 31, 2007, we had net deferred income tax assets of \$12.2 million and \$4.4 million, respectively. In addition, we record income tax provision or benefit during interim periods at a rate that is based on expected results for the full year. If future changes in market conditions cause actual results for the year to be more or less favorable than those expected, adjustments to the effective income tax rate could be required.

### ***Stock-Based Awards***

We adopted the fair value recognition provisions of SFAS No. 123R, *Share-Based Payments*, (SFAS 123R) using the modified prospective transition method. Under this method we recognize compensation expense net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest over the requisite service period of the award using a straight-line method.

We estimate the value of stock-based restricted stock unit awards on the date of grant using the closing share price. We estimate the value of stock-based option awards on the date of grant using the Black-Scholes option pricing model. Calculating the fair value of stock-based option payment awards requires the input of highly subjective assumptions, including the expected term of the share-based payment awards and expected stock price volatility. The expected term represents the average time that options that vest are expected to be outstanding. The expected volatility rates are estimated based on a weighted average of the historical volatilities of our common stock. The assumptions used in calculating the fair value of share-based payment awards represent our best

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estimates, but these estimates involve inherent uncertainties and the application of our judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We have currently estimated our forfeiture rate to be 8 percent. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. For the quarters ended September 29, 2008 and October 1, 2007, stock-based compensation expense was \$1.0 million and \$0.6 million, respectively, net of tax. For the three quarters ended September 29, 2008 and October 1, 2007, stock-based compensation expense was \$2.5 million and \$1.8 million, respectively, net of tax. At September 29, 2008, total unrecognized estimated compensation expense related to non-vested stock options was \$2.8 million, which is expected to be recognized over a weighted-average period of 0.9 year. At September 29, 2008, \$6.1 million of total unrecognized compensation cost related to restricted stock units is expected to be recognized over a weighted-average period of 1 year.

### ***Self Insurance***

We are self-insured for group health insurance benefits provided to our employees, and we purchase insurance to protect against claims at the individual and aggregate level. The insurance carrier adjudicates and processes employee claims and is paid a fee for these services. We reimburse our insurance carrier for paid claims subject to variable monthly limitations. We estimate our exposure for claims incurred but not paid at the end of each reporting period and use historical information supplied by our insurance carrier and broker on an annual basis to estimate our liability for these claims. This liability is subject to an aggregate stop-loss that varies based on employee enrollment and factors that are established at each annual contract renewal. Our actual claims experience may differ from our estimates.

### ***Asset Retirement Obligation and Environmental Liabilities***

We establish liabilities for the costs of asset retirement obligations when a legal or contractual obligation exists to dispose of or restore an asset upon its retirement and the timing and cost of such work is reasonably estimable. We record such liabilities only when such timing and costs are reasonably determinable. In addition, we accrue an estimate of the costs of environmental remediation for work at identified sites where an assessment has indicated it is probable that cleanup costs are or will be required and may be reasonably estimated. In making these estimates, we consider information that is currently available, existing technology, enacted laws and regulations, and our estimates of the timing of the required remedial actions, and we discount these estimates at 8 percent. We also are required to estimate the amount of any probable recoveries, including insurance recoveries.

## **Results of Operations**

### **Quarter and Three Quarters Ended September 29, 2008 Compared to Quarter and Three Quarters Ended October 1, 2007**

There were 91 days in both of the quarters ended September 29, 2008 and October 1, 2007 and 273 and 274 days in the three quarters ended September 29, 2008 and October 1, 2007, respectively.

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The following table sets forth statement of operations data expressed as a percentage of net sales for the periods indicated:

	<b>Quarter Ended</b>		<b>Three Quarters Ended</b>	
	<b>September 29, 2008</b>	<b>October 1, 2007</b>	<b>September 29, 2008</b>	<b>October 1, 2007</b>
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	81.0	80.8	79.4	81.0
Gross profit	19.0	19.2	20.6	19.0
Operating (income) expenses:				
Selling and marketing	4.5	4.4	4.5	4.4
General and administrative	4.8	4.9	4.9	4.8
Amortization of definite-lived intangibles	0.5	0.6	0.5	0.6
Metal reclamation			(0.7)	
Total operating expenses	9.8	9.9	9.2	9.8
Operating income	9.2	9.3	11.4	9.2
Other income (expense):				
Interest expense	(0.9)	(1.6)	(1.3)	(2.2)
Interest income	0.4	0.1	0.2	0.3
Other, net	(0.2)	0.1	(0.2)	
Total other expense, net	(0.7)	(1.4)	(1.3)	(1.9)
Income before income taxes	8.5	7.9	10.1	7.3
Income tax provision	(2.9)	(2.9)	(3.7)	(2.7)
Net income	5.6%	5.0%	6.4%	4.6%

The Company has two reportable segments: PCB Manufacturing and Backplane Assembly. These reportable segments are managed separately because they distribute and manufacture distinct products with different production processes. PCB Manufacturing fabricates printed circuit boards. Backplane Assembly is a contract manufacturing business that specializes in assembling backplanes into sub-assemblies and other complete electronic devices. PCB Manufacturing customers are either EMS or OEM companies, while Backplane Assembly customers are usually OEMs. Our Backplane Assembly segment includes our Hayward, California and Shanghai, China plants and our Ireland sales and distribution infrastructure. Our PCB Manufacturing segment is composed of eight domestic PCB fabrication plants, and a facility which provides follow on value-added services primarily for one of the PCB Manufacturing plants. The following table compares net sales by reportable segment for the quarters and three quarters ended September 29, 2008, and October 1, 2007:

	<b>Quarter Ended</b>		<b>Three Quarters Ended</b>	
	<b>September 29,</b>	<b>October 1,</b>	<b>September 29,</b>	<b>October 1,</b>

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	2008	2007	2008	2007
	(In thousands)			
<b>Net sales:</b>				
PCB Manufacturing	\$ 148,003	\$ 140,514	\$ 446,304	\$ 431,316
Backplane Assembly	29,254	30,679	92,984	96,500
Total sales	177,257	171,193	539,288	527,816
Inter-company sales	(8,238)	(8,114)	(23,223)	(25,824)
Total net sales	\$ 169,019	\$ 163,079	\$ 516,065	\$ 501,992

**Table of Contents*****Net Sales***

Net sales increased \$5.9 million, or 3.6%, from \$163.1 million for the quarter ended October 1, 2007 to \$169.0 million for the quarter ended September 29, 2008 due to increased demand from aerospace/defense customers. PCB sales volume decreased approximately 9%, however, prices rose approximately 11% due to a shift in production mix toward more high technology production. Our quick-turn production, which we measure as orders placed and shipped within 10 days, decreased from 13% of net PCB sales for the quarter ended October 1, 2007 to 11% of net PCB sales for the quarter ended September 29, 2008. The increasingly complex nature of our quick-turn work requires more time to manufacture, thereby extending some of these orders beyond the 10-day delivery window.

Net sales increased \$14.1 million, or 2.8%, from \$502.0 million for the three quarters ended October 1, 2007 to \$516.1 million for the three quarters ended September 29, 2008 due to increased demand from aerospace/defense customers, partially offset by the closure of our Dallas, Oregon facility in April 2007. The Dallas, Oregon facility contributed approximately \$11.8 million of revenue to the PCB Manufacturing segment during the three quarters ended 2007. Excluding revenue derived from our Dallas, Oregon facility, the \$25.9 million revenue improvement reflects increased net sales at our other PCB Manufacturing facilities, partially offset by lower net sales in our Backplane Assembly operations. PCB sales volume declined approximately 9% for the three quarters ended September 29, 2008 as compared to the three quarters ended October 1, 2007. Prices rose approximately 13% due to a shift in production mix toward more high technology production. Our quick-turn production, which we measure as orders placed and shipped within 10 days, decreased from 15% of net PCB sales for the three quarters ended October 1, 2007 to 12% of net PCB sales for the three quarters ended September 29, 2008. The increasingly complex nature of our quick-turn work requires more time to manufacture, thereby extending some of these orders beyond the 10-day delivery window.

***Cost of Goods Sold***

Cost of goods sold increased \$5.1 million, or 3.9%, from \$131.8 million for the quarter ended October 1, 2007 to \$136.9 million for the quarter ended September 29, 2008. Cost of goods sold increased mainly due to increased sales. As a percentage of net sales, cost of goods sold increased from 80.8% for the quarter ended October 1, 2007 to 81.0% for the quarter ended September 29, 2008, primarily due to higher repair and maintenance expenses.

Cost of goods sold increased \$3.2 million, or 0.8%, from \$406.5 million for the three quarters ended October 1, 2007 to \$409.7 million for the three quarters ended September 29, 2008. Cost of goods sold increased for the three quarters ended September 29, 2008 mainly due to increased sales. For the three quarters ended September 29, 2008 cost of goods sold, as a percentage of sales, decreased to 79.4% from 81.0% for the three quarters ended October 1, 2007, primarily due to higher pricing.

***Gross Profit***

As a result of the foregoing, gross profit increased \$0.9 million, or 2.9%, from \$31.2 million for the quarter ended October 1, 2007 to \$32.1 million for the quarter ended September 29, 2008 with gross margin decreasing from 19.2% for the quarter ended October 1, 2007 to 19.0% for the quarter ended September 29, 2008. Gross margin decreased slightly as a result of higher repair and maintenance expenses in the quarter ended September 29, 2008.

Additionally, gross profit increased \$10.8 million, or 11.3%, from \$95.5 million for the three quarters ended October 1, 2007 to \$106.3 million for the three quarters ended September 29, 2008 with gross margin increasing from 19.0% for the three quarters ended October 1, 2007 to 20.6% for the three quarters ended September 29, 2008. The change in our gross margin for the three quarters ended September 29, 2008 was primarily due to a shift in production mix toward more high technology production and higher pricing.

Printed circuit board manufacturing is a multi-step process that requires a certain level of equipment and staffing for even minimal production volumes. As production increases, our employees are able to work more efficiently and produce more printed circuit boards without incurring proportionally more costs. However, at higher capacity utilization rates, additional employees and capital may be required.

**Table of Contents*****Selling and Marketing Expenses***

Selling and marketing expenses increased \$0.5 million, or 7.0%, from \$7.1 million for the quarter ended October 1, 2007 to \$7.6 million for the quarter ended September 29, 2008. Additionally, selling and marketing expenses increased \$0.8 million, or 3.6%, from \$22.2 million for the three quarters ended October 1, 2007 to \$23.0 million for the three quarters ended September 29, 2008. The increase for the quarter and three quarters ended September 29, 2008 is primarily due to increased labor expenses and higher commission expense for increased sales. As a percentage of net sales, selling and marketing expenses remained consistent at 4.5% for the quarter and three quarters ended September 29, 2008 compared to 4.4% for the quarter and three quarters ended October 1, 2007.

***General and Administrative Expense***

General and administrative expenses increased \$0.1 million from \$8.0 million, or 4.9% of net sales, for the quarter ended October 1, 2007 to \$8.1 million, or 4.8% of net sales, for the quarter ended September 29, 2008. The increase in expenses resulted primarily from higher incentive bonus expense and stock-based compensation expense for restricted stock and stock option awards, offset by lower accounting costs.

General and administrative expenses increased \$1.0 million from \$24.2 million, or 4.8% of net sales, for the three quarters ended October 1, 2007 to \$25.2 million, or 4.9% of net sales, for the three quarters ended September 29, 2008. The increase in expenses resulted primarily from higher incentive bonus expense and stock-based compensation expense for restricted stock and stock option awards, partially offset by lower accounting, consulting, and bad debt expenses.

***Amortization of Definite-lived Intangibles***

Amortization expense related to definite-lived intangibles remained consistent at \$1.0 million, for both quarters ended October 1, 2007 and September 29, 2008. Additionally, amortization expense related to definite-lived intangibles decreased \$0.3 million from \$3.1 million for the three quarters ended October 1, 2007 to \$2.8 million for the three quarters ended September 29, 2008. The decrease in amortization expense for the quarter and three quarter period is primarily due to the gradual decline in strategic customer relationship intangibles related to the PCG acquisition in October 2006.

***Metal Reclamation***

During the first quarter of 2008, we recognized \$3.7 million of income related to a pricing reconciliation of metal reclamation activity attributable to a single vendor. As a result of the pricing reconciliation, we discovered that the vendor had inaccurately compensated us for gold reclamations over the last several years. While pricing reconciliations of this nature occur periodically, we do not expect to recognize a similar amount in future periods.

***Other Income (Expense)***

Other expense, net decreased \$1.1 million from \$2.3 million for the quarter ended October 1, 2007 to \$1.2 million for the quarter ended September 29, 2008. The net decrease in expense consists of a \$1.1 million decrease in interest expense, offset by an increase of \$0.5 million in interest income and higher expense in other, net of \$0.5. Interest expense includes debt service interest costs and the amortization of related debt issuance costs. Debt service interest and related debt issuance costs for the quarter ended September 29, 2008 decreased by \$0.8 and \$0.3 million, respectively, as a result of overall lower interest rates on outstanding Convertible Notes for the quarter ended September 29, 2008 as compared to the interest rates related to the Credit Agreement for the quarter ended October 1, 2007 and by the decrease of debt issuance costs, primarily driven by a longer amortization period related to the



Convertible Notes. Interest income increased as a result of higher cash and cash equivalent balances earning interest for the quarter ended September 29, 2008 as compared to the quarter ended October 1, 2007. Other, net expense consists primarily of a \$0.6 million estimated loss on a money market fund that suspended redemptions and is being liquidated.

Other expense decreased by \$2.9 million from \$9.8 million for the three quarters ended October 1, 2007 to \$6.9 million for the three quarters ended September 29, 2008. The net decrease consists of a \$4.4 million decrease in

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interest expense, offset by a \$1.5 million increase in other, net. Interest expense for the three quarters includes debt service interest costs and the amortization of related debt issuance costs. Debt service interest and related debt issuance costs for the three quarters ended September 29, 2008 decreased by \$3.9 and \$0.5 million, respectively as compared to the three quarters ended October 1, 2007, resulting from a combination of overall lower outstanding Credit Agreement debt balances in 2008, our repayment in full of the Credit Agreement in May 2008 and lower interest rates on outstanding Convertible Notes issued in May 2008. This decrease was offset by the increase in other, net expense of \$1.5 million primarily related to the realized loss on the settlement of a derivative of \$1.2 million during the quarter ended June 30, 2008 associated with the repayment in full of the credit Agreement and the \$0.6 million estimated loss on a money market fund that suspended redemptions and is being liquidated.

**Income Tax Provision**

The provision for income taxes increased \$0.1 million from \$4.7 million for the quarter ended October 1, 2007 to \$4.8 million for the quarter ended September 29, 2008. Our effective tax rate was 33.7% in the quarter ended September 29, 2008 and 36.3% for the quarter ended October 1, 2007. Additionally, the provision for income taxes increased \$5.4 million from \$13.4 million for the three quarters ended October 1, 2007 to \$18.8 million for the three quarters ended September 29, 2008. Our effective tax rate was 36.1% in the three quarters ended September 29, 2008 and 37.0% for the three quarters ended October 1, 2007. The increase in the provision is due to the increase in pretax income. The decrease in our effective tax rate is due to additional state tax credits and the decrease in liability for unrecognized tax benefits. Our effective tax rate is primarily impacted by the federal income tax rate, apportioned state income tax rates, utilization of other credits and deductions available to us, and certain non-deductible items.

**Liquidity and Capital Resources**

Our principal sources of liquidity have been cash provided by operations, the issuance of Convertible Senior Notes (Convertible Notes), and employee exercises of stock options. Our principal uses of cash have been to meet debt service requirements, finance capital expenditures, and fund working capital requirements. We anticipate that servicing debt, funding working capital requirements, financing capital expenditures, and potential acquisitions will continue to be the principal demands on our cash in the future.

As of September 29, 2008, we had net working capital of approximately \$265.9 million, compared to \$98.8 million as of December 31, 2007. The increase in working capital is primarily attributable to the growth in cash balances resulting from the Convertible Notes offering during the second quarter of 2008.

Our 2008 capital expenditure plan is expected to total approximately \$15 million and will fund capital equipment purchases to increase capacity and expand our technological capabilities at certain of our facilities.

The following table provides information on contractual obligations as of September 29, 2008 (in thousands):

<b>Contractual Obligations(1)(2)</b>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 - 3 Years</b>	<b>4 - 5 Years</b>	<b>After 5 Years</b>
Operating leases	\$ 6,795	\$ 2,983	\$ 2,126	\$ 584	\$ 1,102
Debt obligations	175,000				175,000
Interest on debt obligations	39,828	5,703	11,375	11,375	11,375
Purchase obligations	2,899	2,899			
<b>Total contractual obligations</b>	<b>\$ 224,522</b>	<b>\$ 11,585</b>	<b>\$ 13,501</b>	<b>\$ 11,959</b>	<b>\$ 187,477</b>

- (1) FIN 48 unrecognized tax benefits of \$0.1 million are not included in the table above as we are not sure when the amount will be paid.
- (2) Environmental liabilities of \$0.9 million, not included in the table above, are accrued and recorded as long-term liabilities in the consolidated balance sheet.

In connection with the 2006 PCG acquisition, the Company is involved in various stages of investigation and cleanup related to environmental remediation at two Connecticut sites and is obligated to investigate a third Connecticut site. The Company currently estimates that it will incur remediation costs of \$0.9 million over the next 12 to 84 months related to these matters. In addition, the Company has obligations to the Connecticut Department of Environmental Protection to make certain environmental asset improvements to the waste water treatment systems

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in two Connecticut plants. These costs are estimated to be \$0.5 million and have been considered in our capital expenditures plan for 2008. Lastly, we are required to maintain a compliance management plan through July 2009 under a compliance agreement with the U.S. Environmental Protection Agency, that we assumed from Tyco.

Based on our current level of operations, we believe that cash generated from operations, proceeds from the issuance of Convertible Notes and available cash will be adequate to meet our currently anticipated debt service, capital expenditure, and working capital needs for the next 12 months. Our principal liquidity needs for periods beyond the next 12 months are to meet debt service requirements, including interest payments, as well as for other contractual obligations as indicated in our contractual obligations table above and for capital purchases under our annual capital expenditure plan.

Net cash provided by operating activities was \$52.9 million for the three quarters ended September 29, 2008, compared to \$56.9 million for the three quarters ended October 1, 2007. Our operating cash flow of \$52.9 million for the three quarters ended September 29, 2008 reflects net income of \$33.3 million, \$21.3 million of depreciation and amortization, \$3.9 million of stock-based compensation, and a decrease in net deferred income tax assets of \$5.4 million, offset by a net increase in working capital of \$11.0 million.

Net cash used in investing activities was \$31.6 million for the three quarters ended September 29, 2008, compared to cash provided of \$1.0 million for the three quarters ended October 1, 2007. For the three quarters ended September 29, 2008, we made purchases of approximately \$12.2 million of property, plant, and equipment and redesignated \$19.5 million from cash and cash equivalents to short-term investments.

At September 29, 2008, the fair value of our investment in The Reserve Primary Fund (Primary Fund), a money market fund that has suspended redemptions and is being liquidated, was \$19.5 million. We have requested redemption of our investment in the Primary Fund and expect distribution to occur as the Primary Fund's assets mature or are sold. On October 31, 2008, we received a partial distribution of \$10.2 million. While we expect to receive substantially all of our current holdings in the Primary Fund, we cannot predict when the remaining amount will be received.

Net cash provided by financing activities was \$74.8 million for the three quarters ended September 29, 2008, compared to a use of cash of \$90.5 million for the three quarters ended October 1, 2007. This primarily reflects cash proceeds from the issuance of Convertible Notes of \$175.0 million, proceeds from warrants of \$26.2 million and exercises of employee stock options of \$2.4 million, partially offset by debt repayment of \$85.0 million, payment for the convertible note hedge of \$38.3 million and debt issuance costs of \$5.8 million.

In May 2008, we issued 3.25% Convertible Notes due May 15, 2015, in a public offering with an aggregate principal amount of \$175.0 million. The Convertible Notes bear interest at a rate of 3.25% per annum. Interest will be payable semiannually in arrears on May 15 and November 15 of each year, beginning November 15, 2008. The Convertible Notes are senior unsecured obligations and will rank equally to our future unsecured senior indebtedness and senior in right of payment to any of our future subordinated indebtedness. We received proceeds of \$169.2 million after the deduction of offering expenses of \$5.8 million. These offering expenses are being amortized to interest expense over the term of the Convertible Notes.

At any time prior to November 15, 2014, holders may convert their Convertible Notes into cash and, if applicable, into shares of our common stock based on a conversion rate of 62.6449 shares of our common stock per \$1,000 principal amount of Convertible Notes, subject to adjustment, under the following circumstances: (1) during any calendar quarter beginning after June 30, 2008 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each

applicable trading day of such preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading day period in which the trading price per note for each day of that 10 consecutive trading day period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such day; or (3) upon the occurrence of specified corporate transactions described in the prospectus supplement. As of September 29, 2008, none of the conversion criteria had been met.

On or after November 15, 2014 until the close of business on the third scheduled trading day preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon

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conversion, for each \$1,000 principal amount of notes, we will pay cash for the lesser of the conversion value or \$1,000 and shares of our common stock, if any, based on a daily conversion value calculated on a proportionate basis for each day of the 60 trading day observation period. Additionally, in the event of a fundamental change as defined in the prospectus supplement, or other conversion rate adjustments such as share splits or combinations, other distributions of shares, cash or other assets to stockholders, including self-tender transactions (Other Conversion Rate Adjustments), the conversion rate maybe modified to adjust the number of shares per \$1,000 principal amount of the notes.

The maximum number of shares issuable upon conversion, including the effect of a fundamental change and subject to Other Conversion Rate Adjustments, would be approximately 14 million.

We are not permitted to redeem the notes at any time prior to maturity. In the event of a fundamental change or certain default events, as defined in the prospectus supplement, prior to November 15, 2014, holders may require us to repurchase for cash all or a portion of their notes at a price equal to 100% of the principal amount, plus any accrued and unpaid interest.

In connection with the issuance of the Convertible Notes, we entered into a convertible note hedge and warrant transaction (Call Spread Transaction), with respect to our common stock. The convertible note hedge, which cost an aggregate \$38.3 million and was recorded, net of tax, as a reduction of additional paid-in capital, consists of our option to purchase up to 11.0 million common stock shares at a price of \$15.96 per share. This option expires on May 15, 2015 and can only be executed upon the conversion of the above mentioned Convertible Notes. Additionally, we sold warrants for the option to purchase 11.0 million of our common stock at a price of \$18.15 per share. The warrants expire on August 17, 2015. The proceeds from the sale of warrants of \$26.2 million was recorded as an addition to additional paid-in capital. The Call Spread Transaction has no effect on the terms of the Convertible Notes and reduces potential dilution by effectively increasing the conversion price of the Convertible Notes to \$18.15 per share of our common stock.

As of September 29, 2008, we had outstanding a \$1.0 million standby letter of credit related to the lease of one of our production facilities. The standby letter of credit expires on May 1, 2009.

**Impact of Inflation**

We believe that our results of operations are not dependent upon moderate changes in the inflation rate as we expect that we generally will be able to pass along component price increases to our customers.

**Fair Value of Financial Instruments**

The carrying amount and estimated fair value of our financial instruments at September 29, 2008 and December 31, 2007 were as follows:

	<b>September 29, 2008</b>		<b>December 31, 2007</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
	<b>(In thousands)</b>			
Short-term investments	\$ 19,522	\$ 19,522		
Convertible senior notes	175,000	150,133		
Long-term debt			\$ 85,000	\$ 84,150

Interest rate swap derivative	1,021	1,021
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The carrying amount of the our derivative financial instruments were adjusted to fair value and represent the amount we would pay/receive to terminate the derivative taking into account current market quotes and the current creditworthiness of the counterparty. The fair value of the convertible senior notes and the long-term debt was estimated based on quoted market prices at the end of the reporting period.

### **Recent Accounting Pronouncements**

In September 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement*

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*No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 16* (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amend FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument; amend FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to require an additional disclosure about the current status of the payment/performance risk of a guarantee and further clarify the effective date of FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. FSP 133-1 and FIN 45-4 shall be effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. The adoption of the provisions of FSP 133-1 and FIN 45-4 is not anticipated to materially impact our consolidated financial position and results of operations.

In June 2008, the Emerging Issue Task Force issued EITF No. 08-3, *Accounting by Lessees for Maintenance Deposits* (EITF 08-3). EITF 08-3 clarifies how a lessee shall account for a maintenance deposit under an arrangement accounted for as a lease and its accounting for maintenance deposits paid under an arrangement accounted for as a lease that are refunded only if the lessee performs specified maintenance activities. EITF 08-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact of adopting the provisions of EITF 08-3 on our lease arrangements.

In May 2008, the FASB issued FASB Staff Position APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, (FSP APB 14-1). FSP APB 14-1 specifies that issuers of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact of adopting the provisions of FSP APB 14-1 for our current Convertible Notes.

In April 2008, the FASB issued FASB Staff Position 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP 142-3 shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. The adoption of the provisions of FSP 142-3 is not anticipated to materially impact our consolidated financial position and results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of Statement of Financial Accounting Standards No. 133*, (SFAS 161). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's financial position, financial performance, and cash flow. SFAS 161 applies to derivative instruments within the scope of Statement of Financial Accounting Standards 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS 133) as well as related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS 161 must provide more robust qualitative disclosure and expanded quantitative disclosures. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. We are currently evaluating the disclosure implication of the statement.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations*, (SFAS 141(R)). SFAS 141(R) changes the requirements for an acquirer's recognition and measurement



of the assets acquired and the liabilities assumed in a business combination. SFAS 141(R) is effective for annual periods beginning after December 15, 2008 and should be applied prospectively for all business combinations entered into after the date of adoption. We expect the impact of adopting SFAS 141(R) will depend on future acquisitions.

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In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, (SFAS 160). SFAS 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders' equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. The adoption of the provisions of Statement No. 160 is not anticipated to materially impact our consolidated financial position and results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 were originally to be effective beginning January 1, 2008. Subsequently, the FASB provided for a one-year deferral of the provisions of SFAS 157 for non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a non-recurring basis. We are currently evaluating the impact of adopting the provisions of SFAS 157 for non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

*Interest Rate Risk.* Our interest income is more sensitive to fluctuation in the general level of U.S. interest rates than to changes in rates in other markets. Changes in U.S. interest rates affect the interest earned on cash and cash equivalents. Our outstanding debt bears a fixed interest rate and therefore is not subject to the effects of interest rate fluctuation.

*Foreign Currency Exchange Risk.* We are subject to risks associated with transactions that are denominated in currencies other than the U.S. dollar, as well as the effects of translating amounts denominated in a foreign currency to the U.S. dollar as a normal part of the reporting process. Our Chinese operations utilize the Chinese Yuan or RMB as the functional currency, which results in the Company recording a translation adjustment that is included as a component of accumulated other comprehensive income within stockholders' equity. Net foreign currency transaction gains and losses on transactions denominated in currencies other than the U.S. dollar were not material during the quarter and three quarters ended September 29, 2008 and October 1, 2007. We currently do not utilize any derivative instruments to hedge foreign currency risks.

**Item 4. *Controls and Procedures******Evaluation of Disclosure Controls and Procedures.***

We maintain a system of disclosure controls and procedures for financial reporting to give reasonable assurance that information required to be disclosed in our reports submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, (SEC). These controls and procedures also give reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

Our Chief Executive Officer, (CEO), and Chief Financial Officer, (CFO), together with management, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 29, 2008, pursuant to Rules 13a-15 of the Exchange Act. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) are effective.

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***Changes in Internal Control over Financial Reporting.***

There has been no change in our internal control over financial reporting that occurred during the quarter ended September 29, 2008 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

**Inherent Limitations on Effectiveness of Controls**

Our management, including our principal executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

**PART II. OTHER INFORMATION**

**Item 1. *Legal Proceedings***

From time to time we may become a party to various legal proceedings arising in the ordinary course of our business. There can be no assurance that we will prevail in any such litigation.

Prior to our acquisition of Printed Circuit Group (PCG) in October 2006, PCG made legal commitments to the U.S. Environmental Protection Agency (U.S. EPA) and the State of Connecticut regarding settlement of enforcement actions against the PCG operations in Connecticut. On August 17, 2004, PCG was sentenced for Clean Water Act violations and was ordered to pay a \$6 million fine and an additional \$3.7 million to fund environmental projects designed to improve the environment for Connecticut residents. In September 2004, PCG agreed to a stipulated judgment with the Connecticut Attorney General's office and the Connecticut Department of Environmental Protection (DEP) under which PCG paid a \$2 million civil penalty and agreed to implement capital improvements of \$2.4 million to reduce the volume of rinse water discharged from its manufacturing facilities in Connecticut. The obligations to the U.S. EPA and Connecticut DEP include the fulfillment of a Compliance Management Plan until at least July 2009 and installation of rinse water recycling systems at the Stafford, Connecticut, facilities. As of September 29, 2008, one recycling system was completed and placed into operation, and approximately \$0.5 million remains to be expended in the form of capital improvements to meet the second rinse water recycling system requirement. We have assumed these legal commitments as part of our purchase of PCG. Failure to meet either commitment could result in further costly enforcement actions, including exclusion from participation in federal contracts.

**Item 1A. *RISK FACTORS***

*An investment in our common stock involves a high degree of risk. You should carefully consider the factors described below, in addition to those discussed elsewhere in this report, in analyzing an investment in our common stock. If any*

*of the events described below occurs, our business, financial condition, and results of operations would likely suffer, the trading price of our common stock could fall, and you could lose all or part of the money you paid for our common stock.*

*In addition, the following risk factors and uncertainties could cause our actual results to differ materially from those projected in our forward-looking statements, whether made in this Form 10-Q or the other documents we file*

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*with the SEC, or our annual or quarterly reports to stockholders, future press releases, or orally, whether in presentations, responses to questions, or otherwise.*

### **Risks Related to Our Company**

***We are heavily dependent upon the worldwide electronics industry, which is characterized by significant economic cycles and fluctuations in product demand. A significant downturn in the electronics industry could result in decreased demand for our manufacturing services and could lower our sales and gross margins.***

A majority of our revenues are generated from the electronics industry, which is characterized by intense competition, relatively short product life cycles, and significant fluctuations in product demand. Furthermore, the industry is subject to economic cycles and recessionary periods and would be negatively affected by contraction in the U.S. economy or in the worldwide electronics market. Moreover, due to the uncertainty in the end markets served by most of our customers, we have a low level of visibility with respect to future financial results. The current credit crisis and related turmoil in the financial system has negatively impacted the global economy and could result in a significant downturn in the electronics industry. A lasting economic recession, excess manufacturing capacity, or a decline in the electronics industry could negatively affect our business, results of operations, and financial condition. A decline in our sales could harm our profitability and results of operations and could require us to record an additional valuation allowance against our deferred tax assets or recognize an impairment of our long-lived assets, including goodwill and other intangible assets.

***The global financial crisis may impact our business and financial condition in ways that we currently cannot predict.***

The continued credit crisis and related turmoil in the global financial system has had and may continue to have an impact on our business and financial condition. For example, we are currently unable to access cash invested in our Reserve Primary Fund, a money market fund that has suspended redemptions and is being liquidated. We had invested approximately \$20.1 million in this fund, which had a fair value of \$19.5 million at September 29, 2008. Despite making redemption requests for the entire amount of our investment, we have only received a partial distribution of \$10.2 million as of October 31, 2008. While we expect to receive substantially all of our current holdings in this fund, we cannot predict when this will occur or the amount we will ultimately receive.

In addition to the impact that the global financial crisis has already had on us, we may face significant challenges if conditions in the financial markets do not improve or continue to worsen. For example, continuation of the credit crisis could adversely impact overall demand in the electronics industry, which could have a negative effect on our revenues and profitability. In addition, our ability to access the capital markets may be severely restricted at a time when we would like, or need, to do so, which could have an impact on our flexibility to react to changing economic and business conditions or our ability to pursue acquisitions.

***Our acquisition strategy involves numerous risks.***

As part of our business strategy, we expect that we will continue to grow by pursuing acquisitions of businesses, technologies, assets, or product lines that complement or expand our business. Risks related to an acquisition may include:

the potential inability to successfully integrate acquired operations and businesses or to realize anticipated synergies, economies of scale, or other expected value;

diversion of management's attention from normal daily operations of our existing business to focus on integration of the newly acquired business;

unforeseen expenses associated with the integration of the newly acquired business;

difficulties in managing production and coordinating operations at new sites;

the potential loss of key employees of acquired operations;

the potential inability to retain existing customers of acquired companies when we desire to do so;

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insufficient revenues to offset increased expenses associated with acquisitions;

the potential decrease in overall gross margins associated with acquiring a business with a different product mix;

the inability to identify certain unrecorded liabilities;

the potential need to restructure, modify, or terminate customer relationships of the acquired company;

an increased concentration of business from existing or new customers; and

the potential inability to identify assets best suited to our business plan.

Acquisitions may cause us to:

enter lines of business and/or markets in which we have limited or no prior experience;

issue debt and be required to abide by stringent loan covenants;

assume liabilities;

record goodwill and non-amortizable intangible assets that will be subject to impairment testing and potential periodic impairment charges;

become subject to litigation and environmental issues;

incur unanticipated costs;

incur large and immediate write-offs;

issue common stock that would dilute our current stockholders' percentage ownership; and

incur substantial transaction-related costs, whether or not a proposed acquisition is consummated.

Acquisitions of high technology companies are inherently risky, and no assurance can be given that our recent or future acquisitions will be successful and will not harm our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions we make could harm our business and operating results in a material way. Even when an acquired company has already developed and marketed products, product enhancements may not be made in a timely fashion. In addition, unforeseen issues might arise with respect to such products after the acquisition.

***During periods of excess global printed circuit board manufacturing capacity, our gross margins may fall and/or we may have to incur restructuring charges if we choose to reduce the capacity of or close any of our facilities.***

When we experience excess capacity, our sales revenues may not fully cover our fixed overhead expenses, and our gross margins will fall. In addition, we generally schedule our quick-turn production facilities at less than full capacity to retain our ability to respond to unexpected additional quick-turn orders. However, if these orders are not received, we may forego some production and could experience continued excess capacity.



If we conclude we have significant, long-term excess capacity, we may decide to permanently close one or more of our facilities, and lay off some of our employees. Closures or lay-offs could result in our recording restructuring charges such as severance, other exit costs, and asset impairments.

***We face a risk that capital needed for our business and to repay our debt obligations will not be available when we need it. Additionally, our leverage and our debt service obligations may adversely affect our cash flow.***

As of September 29, 2008, we had total indebtedness of approximately \$175 million, which represented approximately 32% of our total capitalization.

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Our indebtedness could have significant negative consequences, including:

increasing our vulnerability to general adverse economic and industry conditions,

limiting our ability to obtain additional financing,

requiring the use of a substantial portion of any cash flow from operations to service our indebtedness, thereby reducing the amount of cash flow available for other purposes, including capital expenditures,

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete, and

placing us at a possible competitive disadvantage to less leveraged competitors and competitors that have better access to capital resources.

***We depend upon a relatively small number of OEM customers for a large portion of our sales, and a decline in sales to major customers could harm our results of operations.***

A small number of customers are responsible for a significant portion of our sales. Our five largest OEM customers accounted for approximately 30% of our net sales for the quarter ended September 29, 2008 and approximately 25% of our net sales for the quarter ended October 1, 2007. Sales attributed to OEMs include both direct sales as well as sales that the OEMs place through EMS providers. Our customer concentration could fluctuate, depending on future customer requirements, which will depend in large part on market conditions in the electronics industry segments in which our customers participate. The loss of one or more significant customers or a decline in sales to our significant customers could harm our business, results of operations, and financial condition and lead to declines in the trading price of our common stock. In addition, we generate significant accounts receivable in connection with providing manufacturing services to our customers. If one or more of our significant customers were to become insolvent or were otherwise unable to pay for the manufacturing services provided by us, our results of operations would be harmed.

***We compete against manufacturers in Asia, where production costs are lower. These competitors may gain market share in our key market segments, which may have an adverse effect on the pricing of our products.***

We may be at a competitive disadvantage with respect to price when compared to manufacturers with lower-cost facilities in Asia and other locations. We believe price competition from printed circuit board manufacturers in Asia and other locations with lower production costs may play an increasing role in the market. Although we do have a backplane assembly facility in China, we do not have offshore facilities for PCB fabrication in lower-cost locations such as Asia. While historically our competitors in these locations have produced less technologically advanced printed circuit boards, they continue to expand their capacity and capabilities with advanced equipment to produce higher technology printed circuit boards. In addition, fluctuations in foreign currency exchange rates may benefit these offshore competitors. As a result, these competitors may gain market share, which may force us to lower our prices, reducing our gross margins.

***A trend toward consolidation among our customers could adversely affect our business.***

Recently, some of our large customers have consolidated and further consolidation of customers may occur. Depending on which organization becomes the controller of the supply chain function following the consolidation, we may not be retained as a preferred or approved supplier. In addition, product duplication could result in the termination of a product line that we currently support. While there is potential for increasing our position with the

combined customer, there does exist the potential for decreased revenue if we are not retained as a continuing supplier. We also face the risk of increased pricing pressure from the combined customer because of its increased market share.

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***Our failure to comply with the requirements of environmental laws could result in litigation, fines and revocation of permits necessary to our manufacturing processes. Failure to operate in conformance with environmental laws could lead to debarment from our participation in federal government contracts.***

Our operations are regulated under a number of federal, state, local, and foreign environmental and safety laws and regulations that govern, among other things, the discharge of hazardous materials into the air and water, as well as the handling, storage, and disposal of such materials. These laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Superfund Amendment and Reauthorization Act, the Comprehensive Environmental Response, Compensation and Liability Act, and the Federal Motor Carrier Safety Improvement Act as well as analogous state, local, and foreign laws. Compliance with these environmental laws is a major consideration for us because our manufacturing processes use and generate materials classified as hazardous, such as ammoniacal and cupric etching solutions, copper, nickel and other plating baths. Because we use hazardous materials and generate hazardous wastes in our manufacturing processes, we may be subject to potential financial liability for costs associated with the investigation and remediation of our own sites, or sites at which we have arranged for the disposal of hazardous wastes, if such sites become contaminated. Even if we fully comply with applicable environmental laws and are not directly at fault for the contamination, we may still be liable. The wastes we generate include spent ammoniacal and cupric etching solutions, metal stripping solutions, waste acid solutions, waste alkaline cleaners, waste oil, and waste waters that contain heavy metals such as copper, tin, lead, nickel, gold, silver, cyanide, and fluoride; and both filter cake and spent ion exchange resins from equipment used for on-site waste treatment.

We are also required to obtain permits from governmental authorities for certain operations, including waste water discharge. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. Any material violations of environmental laws or environmental permits by us could subject us to fines, penalties, and other sanctions, including the revocation of our effluent discharge permits, which could require us to cease or limit production at one or more of our facilities, and harm our business, results of operations, and financial condition. Even if we ultimately prevail, environmental lawsuits against us would be time consuming and costly to defend.

Prior to our acquisition of the PCG business, PCG made legal commitments to the U.S. Environmental Protection Agency and to the State of Connecticut regarding settlement of enforcement actions related to the PCG operations in Connecticut. The obligations include fulfillment of a Compliance Management Plan through at least July 2009 and installation of two rinse water recycling systems at the Stafford, Connecticut facilities. (One was completed as of September 29, 2008.) Failure to meet either commitment could result in further costly enforcement actions, including exclusion from participation in defense and other federal contracts, which would materially harm our business, results of operations, and financial condition.

Environmental laws also could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violation. We operate in environmentally sensitive locations, and we are subject to potentially conflicting and changing regulatory agendas of political, business, and environmental groups. Changes or restrictions on discharge limits, emissions levels, material storage, handling, or disposal might require a high level of unplanned capital investment or global relocation. It is possible that environmental compliance costs and penalties from new or existing regulations may harm our business, results of operations, and financial condition.

We are increasingly required to certify compliance to various material content restrictions in our products based on laws of various jurisdictions or territories such as the Restriction of Hazardous Substances (RoHS) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) directives in the European Union and China's RoHS legislation. New York City has adopted identical restrictions and many U.S. states are considering similar rules and legislation. In addition, we must also certify as to the non-applicability to the EU's Waste Electrical and Electronic

Equipment directive for certain products that we manufacture. As with other types of product certifications that we routinely provide, we may incur liability and pay damages if our products do not conform to our certifications.

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***We are exposed to the credit risk of some of our customers and to credit exposures in weakened markets.***

Most of our sales are on an open credit basis, with standard industry payment terms. We monitor individual customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts. During periods of economic downturn in the electronics industry and the global economy, our exposure to credit risks from our customers increases. Although we have programs in place to monitor and mitigate the associated risks, such programs may not be effective in reducing our credit risks.

Our 10 largest customers accounted for approximately 51% of our net sales for the quarter ended September 29, 2008 and approximately 45% of our net sales for the quarter ended October 1, 2007. Additionally, our OEM customers often direct a significant portion of their purchases through a relatively limited number of EMS companies. Our contractual relationship is often with the EMS companies, who are obligated to pay us for our products. Because we expect our OEM customers to continue to direct our sales to EMS companies, we expect to continue to be subject to this credit risk with a limited number of EMS customers. If one or more of our significant customers were to become insolvent or were otherwise unable to pay us, our results of operations would be harmed.

Some of our customers are EMS companies located abroad. Our exposure has increased as these foreign customers continue to expand. With the primary exception of sales from our facility in China and a portion of sales from our Ireland sales office, our foreign sales are denominated in U.S. dollars and are typically on the same open credit basis and terms described above. Our foreign receivables were approximately 15% of our net accounts receivable as of September 29, 2008 and are expected to continue to grow as a percentage of our total receivables. We do not utilize credit insurance as a risk management tool.

***We rely on suppliers for the timely delivery of raw materials and components used in manufacturing our printed circuit boards and backplane assemblies, and an increase in industry demand or the presence of a shortage for these raw materials or components may increase the price of these raw materials or components and reduce our gross margins. If a raw material supplier fails to satisfy our product quality standards, it could harm our customer relationships.***

To manufacture printed circuit boards, we use raw materials such as laminated layers of fiberglass, copper foil, chemical solutions, gold, and other commodity products, which we order from our suppliers. Although we have preferred suppliers for most of these raw materials, the materials we use are generally readily available in the open market, and numerous other potential suppliers exist. In the case of backplane assemblies, components include connectors, sheet metal, capacitors, resistors and diodes, many of which are custom made and controlled by our customers' approved vendors. These components for backplane assemblies in some cases have limited or sole sources of supply. From time to time, we may experience increases in raw material or component prices, based on demand trends, which can negatively affect our gross margins. In addition, consolidations and restructuring in our supplier base may result in adverse materials pricing due to reduction in competition among our suppliers. Furthermore, if a raw material or component supplier fails to satisfy our product quality standards, it could harm our customer relationships. Suppliers may from time to time extend lead times, limit supplies, or increase prices, due to capacity constraints or other factors, which could harm our ability to deliver our products on a timely basis. We have recently experienced an increase in the price we pay for gold. In general, we are able to pass this price increase on to our customers, but we cannot be certain we will continue to be able to do so in the future.

***If we are unable to respond to rapid technological change and process development, we may not be able to compete effectively.***

The market for our manufacturing services is characterized by rapidly changing technology and continual implementation of new production processes. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities, to manufacture products that meet changing customer needs, and to successfully anticipate or respond to technological changes on a cost-effective and timely basis. We expect that the investment necessary to maintain our technological position will increase as customers make demands for products and services requiring more advanced technology on a quicker turnaround basis. We may not be able to raise additional funds in order to respond to technological changes as quickly as our competitors.

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In addition, the printed circuit board industry could encounter competition from new or revised manufacturing and production technologies that render existing manufacturing and production technology less competitive or obsolete. We may not respond effectively to the technological requirements of the changing market. If we need new technologies and equipment to remain competitive, the development, acquisition, and implementation of those technologies and equipment may require us to make significant capital investments.

***Competition in the printed circuit board market is intense, and we could lose market share if we are unable to maintain our current competitive position in end markets using our quick-turn, high technology and high-mix manufacturing services.***

The printed circuit board industry is intensely competitive, highly fragmented, and rapidly changing. We expect competition to continue, which could result in price reductions, reduced gross margins, and loss of market share. Our principal North American PCB competitors include Coretec, DDi, Endicott Interconnect Technologies, FTG, ISU/Petasys, Merix, Pioneer Circuits, and Sanmina-SCI. Our principal international PCB competitors include Elec & Eltek, Hitachi, Ibsiden, ISU/Petasys and Multek. Our principal assembly competitors include Amphenol, Sanmina-SCI, Simclar, TT Electronics, and Via Systems. In addition, we increasingly compete on an international basis, and new and emerging technologies may result in new competitors entering our markets.

Some of our competitors and potential competitors have advantages over us, including:

- greater financial and manufacturing resources that can be devoted to the development, production, and sale of their products;

- more established and broader sales and marketing channels;

- more manufacturing facilities worldwide, some of which are closer in proximity to OEMs;

- manufacturing facilities that are located in countries with lower production costs;

- lower capacity utilization, which in peak market conditions can result in shorter lead times to customers;

- ability to add additional capacity faster or more efficiently;

- preferred vendor status with existing and potential customers;

- greater name recognition; and

- larger customer bases.

In addition, these competitors may respond more quickly to new or emerging technologies, or adapt more quickly to changes in customer requirements, and devote greater resources to the development, promotion, and sale of their products than we do. We must continually develop improved manufacturing processes to meet our customers' needs for complex products, and our manufacturing process technology is generally not subject to significant proprietary protection. During recessionary periods in the electronics industry, our strategy of providing quick-turn services, an integrated manufacturing solution, and responsive customer service may take on reduced importance to our customers. As a result, we may need to compete more on the basis of price, which could cause our gross margins to decline. Periodically, printed circuit board manufacturers and backplane assembly providers experience overcapacity. Overcapacity, combined with weakness in demand for electronic products, results in increased competition and price erosion for our products.



***Our quarterly results of operations are often subject to demand fluctuations and seasonality. With a high level of fixed operating costs, even small revenue shortfalls would decrease our gross margins and potentially cause the trading price of our common stock to decline.***

Our quarterly results of operations fluctuate for a variety of reasons, including:

timing of orders from and shipments to major customers;

the levels at which we utilize our manufacturing capacity;

price competition;

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changes in our mix of revenues generated from quick-turn versus standard delivery time services;

expenditures, charges or write-offs, including those related to acquisitions, facility restructurings, or asset impairments; and

expenses relating to expanding existing manufacturing facilities.

A significant portion of our operating expenses is relatively fixed in nature, and planned expenditures are based in part on anticipated orders. Accordingly, unexpected revenue shortfalls may decrease our gross margins. In addition, we have experienced sales fluctuations due to seasonal patterns in the capital budgeting and purchasing cycles, as well as inventory management practices of our customers and the end markets we serve. In particular, the seasonality of the computer industry and quick-turn ordering patterns affects the overall printed circuit board industry. These seasonal trends have caused fluctuations in our quarterly operating results in the past and may continue to do so in the future. Results of operations in any quarterly period should not be considered indicative of the results to be expected for any future period. In addition, our future quarterly operating results may fluctuate and may not meet the expectations of securities analysts or investors. If this occurs, the trading price of our common stock likely would decline.

***Because we sell on a purchase order basis, we are subject to uncertainties and variability in demand by our customers that could decrease revenues and harm our operating results.***

We generally sell to customers on a purchase order basis rather than pursuant to long-term contracts. Our quick-turn orders are subject to particularly short lead times. Consequently, our sales are subject to short-term variability in demand by our customers. Customers submitting purchase orders may cancel, reduce, or delay their orders for a variety of reasons. The level and timing of orders placed by our customers may vary, due to:

customer attempts to manage inventory;

changes in customers' manufacturing strategies, such as a decision by a customer to either diversify or consolidate the number of printed circuit board manufacturers or backplane assembly service providers used or to manufacture or assemble its own products internally;

variation in demand for our customers' products; and

changes in new product introductions.

We have periodically experienced terminations, reductions, and delays in our customers' orders. Further terminations, reductions, or delays in our customers' orders could harm our business, results of operations, and financial condition.

***The increasing prominence of EMS providers in the printed circuit board industry could reduce our gross margins, potential sales, and customers.***

Sales to EMS providers represented approximately 50% of our net sales in the third quarter ended September 29, 2008. Sales to EMS providers include sales directed by OEMs as well as orders placed with us at the EMS providers' discretion. EMS providers source on a global basis to a greater extent than OEMs. The growth of EMS providers increases the purchasing power of such providers and could result in increased price competition or the loss of existing OEM customers. In addition, some EMS providers, including some of our customers, have the ability to directly manufacture printed circuit boards and create backplane assemblies. If a significant number of our other EMS customers were to acquire these abilities, our customer base might shrink, and our sales might decline substantially.

Moreover, if any of our OEM customers outsource the production of printed circuit boards and creation of backplane assemblies to these EMS providers, our business, results of operations, and financial condition may be harmed.

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***If events or circumstances occur in our business that indicate that our goodwill and definite-lived intangibles may not be recoverable, we could have impairment charges that would negatively affect our earnings.***

As of September 29, 2008, our consolidated balance sheet reflected \$150.5 million of goodwill and definite-lived intangible assets. We evaluate whether events and circumstances have occurred that indicate the remaining balance of goodwill and definite-lived intangible assets may not be recoverable. If factors indicate that assets are impaired, we would be required to reduce the carrying value of our goodwill and definite-lived intangible assets, which could harm our results during the periods in which such a reduction is recognized. Our goodwill and definite-lived intangible assets may increase in future periods if we consummate other acquisitions. Amortization or impairment of these additional intangibles would, in turn, harm our earnings.

***Damage to our manufacturing facilities due to fire, natural disaster, or other events could harm our financial results.***

We have U.S. manufacturing and assembly facilities in California, Connecticut, Utah, Washington, and Wisconsin. We also have an assembly facility in China. The destruction or closure of any of our facilities for a significant period of time as a result of fire; explosion; blizzard; act of war or terrorism; or flood, tornado, earthquake, lightning, or other natural disaster could harm us financially, increasing our costs of doing business and limiting our ability to deliver our manufacturing services on a timely basis.

***Our manufacturing processes depend on the collective industry experience of our employees. If a significant number of these employees were to leave us, it could limit our ability to compete effectively and could harm our financial results.***

We have limited patent or trade secret protection for our manufacturing processes. We rely on the collective experience of our employees involved in our manufacturing processes to ensure we continuously evaluate and adopt new technologies in our industry. Although we are not dependent on any one employee or a small number of employees, if a significant number of our employees involved in our manufacturing processes were to leave our employment, and we were not able to replace these people with new employees with comparable experience, our manufacturing processes might suffer as we might be unable to keep up with innovations in the industry. As a result, we may lose our ability to continue to compete effectively.

***We may be exposed to intellectual property infringement claims by third parties that could be costly to defend, could divert management's attention and resources, and if successful, could result in liability.***

We could be subject to legal proceedings and claims for alleged infringement by us of third-party proprietary rights, such as patents, from time to time in the ordinary course of business. It is possible that the circuit board designs and other specifications supplied to us by our customers might infringe on the patents or other intellectual property rights of third parties, in which case our manufacture of printed circuit boards according to such designs and specifications could expose us to legal proceedings for allegedly aiding and abetting the violation, as well as to potential liability for the infringement. If we do not prevail in any litigation as a result of any such allegations, our business could be harmed.

***We depend heavily on a single end customer, the U.S. government, for a substantial portion of our business, including programs subject to security classification restrictions on information. Changes affecting the government's capacity to do business with us or our direct customers or the effects of competition in the defense industry could have a material adverse effect on our business.***

A significant portion of our revenues is derived from products and services ultimately sold to the U.S. government and is therefore affected by, among other things, the federal budget process. We are a supplier, primarily as a subcontractor, to the U.S. government and its agencies as well as foreign governments and agencies. These contracts are subject to the respective customers' political and budgetary constraints and processes, changes in customers' short-range and long-range strategic plans, the timing of contract awards, and in the case of contracts with the U.S. government, the congressional budget authorization and appropriation processes, the government's

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ability to terminate contracts for convenience or for default, as well as other risks such as contractor suspension or debarment in the event of certain violations of legal and regulatory requirements. The termination or failure to fund one or more significant contracts by the U.S. government could have a material adverse effect on our business, results of operations or prospects.

***Our business may suffer if any of our key senior executives discontinues employment with us or if we are unable to recruit and retain highly skilled engineering and sales staff.***

Our future success depends to a large extent on the services of our key managerial employees. We may not be able to retain our executive officers and key personnel or attract additional qualified management in the future. Our business also depends on our continuing ability to recruit, train, and retain highly qualified employees, particularly engineering and sales and marketing personnel. The competition for these employees is intense, and the loss of these employees could harm our business. Further, our ability to successfully integrate acquired companies depends in part on our ability to retain key management and existing employees at the time of the acquisition.

***Increasingly, our larger customers are requesting that we enter into supply agreements with them that have increasingly restrictive terms and conditions. These agreements typically include provisions that increase our financial exposure, which could result in significant costs to us.***

Increasingly, our larger customers are requesting that we enter into supply agreements with them. These agreements typically include provisions that generally serve to increase our exposure for product liability and warranty claims as compared to our standard terms and conditions which could result in higher costs to us as a result of such claims. In addition, these agreements typically contain provisions that seek to limit our operational and pricing flexibility and extend payment terms, which can adversely impact our cash flow and results of operations.

***Our backplane assembly operation serves customers and has a manufacturing facility outside the United States and is subject to the risks characteristic of international operations. These risks include significant potential financial damage and potential loss of the business and its assets.***

Because we have manufacturing operations and sales offices located in Asia and Europe, we are subject to the risks of changes in economic and political conditions in those countries, including but not limited to:

managing international operations;

export license requirements;

fluctuations in the value of local currencies;

labor unrest and difficulties in staffing;

government or political unrest;

longer payment cycles;

language and communication barriers as well as time zone differences;

cultural differences;

increases in duties and taxation levied on our products;

imposition of restrictions on currency conversion or the transfer of funds;

limitations on imports or exports of our product offering;

travel restrictions;

expropriation of private enterprises; and

the potential reversal of current favorable policies encouraging foreign investment and trade.

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***Our operations in the People's Republic of China subject us to risks and uncertainties relating to the laws and regulations of the People's Republic of China.***

Under its current leadership, the Chinese government has been pursuing economic reform policies, including the encouragement of foreign trade and investment and greater economic decentralization. No assurance can be given, however, that the government of the People's Republic of China (PRC) will continue to pursue such policies, that such policies will be successful if pursued, or that such policies will not be significantly altered from time to time. Despite progress in developing its legal system, the PRC does not have a comprehensive and highly developed system of laws, particularly with respect to foreign investment activities and foreign trade. Enforcement of existing and future laws and contracts is uncertain, and implementation and interpretation thereof may be inconsistent. As the Chinese legal system develops, the promulgation of new laws, changes to existing laws and the preemption of local regulations by national laws may adversely affect foreign investors. Further, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. In addition, some government policies and rules are not timely published or communicated in the local districts, if they are published at all. As a result, we may operate our business in violation of new rules and policies without having any knowledge of their existence. These uncertainties could limit the legal protections available to us.