DIAGEO PLC
Form 6-K
February 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF THE

SECURITIES EXCHANGE ACT OF 1934

8 February 2012

Commission File Number: 001-10691

DIAGEO plc

(Translation of registrant s name into English)

Lakeside Drive, Park Royal, London NW10 7HQ, England

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Interim Management Statement for the three months ended 30 September 2011

Diageo delivered 9% organic net sales growth in Q1

In the quarter ended 30 September 2011 Diageo delivered organic net sales growth of 9% against the comparable period with volume up 5%. Organic net sales growth by region was:

- North America 5%
- Europe 6%
- Latin America and Caribbean 30%
- Africa 9%
- Asia Pacific 14%

On a reported basis, including net sales of £29 million attributable to the acquisition of Mey İçki on 23 August 2011, net sales grew by 9% in the quarter against the comparable period.

In North America net sales growth was driven by continued positive price/mix across all categories while volume was down 2%. Price/mix in US spirits benefitted from comparison against the prior period which saw the launch of the lower priced R KK. The wine category remained weak and beer was broadly flat. Double digit growth in Russia and Eastern Europe, in Germany and the Nordic markets and in Spain, where performance benefitted from the comparison to a destock there in the prior period, drove net sales growth in Europe. There was some price/mix erosion as a result of the continued difficult consumer environment. Each market in the Latin America and Caribbean region delivered very strong double digit growth and the performance in Venezuela benefitted from comparison against reduced shipments in the prior period. In Africa there was continued strong performance in all markets except South Africa which saw negative price/mix due to the growth of lower priced locally produced spirits. In Asia Pacific the developed markets delivered low single digit net sales growth while the developing markets grew very strongly led by the performance of Johnnie Walker.

Net assets were £6,572 million at 30 September 2011, compared with £5,985 million at 30 June 2011 primarily as a result of net profit for the period. Net borrowings were £8,358 million at 30 September 2011 having been £6,450 million at 30 June 2011. The increase is primarily due to the acquisition of Mey İçki for £1.3 billion.

Foreign exchange movements are currently expected to reduce reported operating profit for the year ending 30 June 2012 by approximately £35 million against the prior year. This is higher than the guidance given at the time of the preliminary results as a result of the strength of sterling against a number of currencies partially offset by the strength of the US dollar against sterling.

Paul Walsh, Chief Executive of Diageo commented:

Diageo has delivered a good start to the new financial year. Net sales growth was marginally ahead of expectations and the quarter did benefit from some one-off factors which are not expected to reoccur in the second quarter. Consumer trends are broadly unchanged. We have delivered positive price/mix in North America, an improvement in net sales growth in Europe and we have driven strong growth in the developing markets with net sales up 20%. We continue to expect that net sales growth for the first half will improve on that delivered in fiscal 2011.

We are alert to any impact which the fragile global economy may have on trading patterns as we continue to build our brands with consumers and enhance our relationships with customers. The sharpened focus we have brought to our investment in marketing, innovation and sales to build the strength of our brands and our routes to market underpins our confidence in the performance of the business.

Supplemental Information for U.S. Investors

Reconciliation of Non-GAAP Performance Indicators

Please see Business Review Introduction Presentation of information in relation to the business in our annual report on Form 20-F for the year ended 30 June 2011 for a discussion of non-GAAP performance indicators used by the group s management.

The organic movement calculations for net sales for the three-month period ended 30 September 2011 were as follows:

	Q1 FY2011 Reported £ million	Exchange £ million	Disposals £ million	Acquisitions £ million	Organic movement £ million	Q1 FY2012 Reported £ million	Organic movement %
North America	728	(22)	(7)		33	732	5
Europe	541	16	(3)	29	33	616	6
Latin America and Caribbean	209	(21)			56	244	30
Africa	285	(20)		12	23	300	9
Asia Pacific	279	11			40	330	14
Corporate	21				2	23	10
Total	2,063	(36)	(10)	41	187	2,245	9

The organic movement calculations for volume for the three-month period ended 30 September 2011 were as follows:

	Q1 FY2011 Reported units million	Acquisitions units million	Organic movement units million	Q1 FY2012 Reported units million	Organic movement %
Group	30.0	0.8	1.5	32.3	5

Capitalization

The table below sets forth, on an IFRS basis, the capitalization of Diageo as at 31 December 2011. Other than the changes described in notes 1 through 6 accompanying the table below, there has been no material change in the capitalization and indebtedness of Diageo since 31 December 2011.

	As of 31 December 2011 (unaudited) £ million
Short term borrowings and bank overdrafts (including current portion of long term borrowings)	2,741
Long term borrowings	

Due from one to five years	4,534
Due after five years	2,329
	6,863
Finance lease obligations	81
Non-controlling interests	965
Equity attributable to the equity shareholders of the parent company	
Called up share capital	797
Share premium	1,343
Capital redemption reserve	3,146
Fair value, hedging and exchange reserve	49
Own shares	(2,306)
Other retained earnings	2,104
	5,133
Total capitalization	15,783

Notes

(1) At 31 December 2011, the group had cash and cash equivalents of £1,121 million.

(2) At 31 December 2011, £74 million of the group s net borrowings due within one year and £19 million of the group s net borrowings due after more than one year were secured on assets of the group.

(3) At 31 January 2012, 2,754,045,755 ordinary shares of 28 101/108 pence each were issued, all of which were fully paid, including shares issued, shares issued and held in employee share trusts and those held as treasury shares.

(4) Except as disclosed in Diageo s Annual Report on Form 20-F for the year ended 30 June 2011, as of 31 December 2011 the group has no material performance guarantees or indemnities to third parties.

(5) Since 31 December 2011 no shares have been acquired by Diageo as part of the share buyback programs or to be held as treasury shares for hedging share scheme grant provided to employees.

(6) Save as disclosed above, there has been no material change since 31 December 2011 in the group s net borrowings, performance guarantees, indemnities and capitalization.

Contacts

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Editor notes

Diageo is the world s leading premium drinks business with an outstanding collection of beverage alcohol brands across spirits, beer and wine. These brands include Johnnie Walker, Crown Royal, J B, Buchanan s, Windsor and Bushmills whiskies, Smirnoff, Cîroc and Ketel One vodkas, Baileys, Captain Morgan, Jose Cuervo, Tanqueray and Guinness.

Diageo is a global company, with its products sold in more than 180 countries around the world. The company is listed on both the New York Stock Exchange (DEO) and the London Stock Exchange (DGE). For more information about Diageo, its people, brands, and performance, visit us at Diageo.com. For our global resource that promotes responsible drinking through the sharing of best practice tools, information and initiatives, visit DRINKiQ.com.

Forward-looking statements

This document contains forward-looking statements . These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward looking statements include all statements that express forecasts, expectations, plans, outlook and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability or cost of financing to Diageo, anticipated cost savings or synergies, the completion of Diageo s strategic transactions and restructuring programmes, anticipated tax rates, expected cash payments, outcomes of litigation and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo s control. All oral and written forward-looking statements made on or after the date of this document and attributable to Diageo are expressly qualified in their entirety by the risk factors contained in Diageo s annual report on Form 20-F for the year ended 30 June 2011 filed with the US Securities and Exchange Commission (SEC). Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made. Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo s expectations or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Diageo may make in documents it publishes and/or files with the SEC. All readers, wherever located, should take note of these disclosures. This document includes names of Diageo's products, which constitute trademarks or trade names which Diageo owns, or which others own and license to Diageo for use. The information in this document does not constitute an offer to sell or an invitation to buy shares in Diageo plc or an invitation or inducement to engage in any other investment activities. Past performance cannot be relied upon as a guide to future performance.

SIGNATURES

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

Diageo plc
(Registrant)

Date: 8 February 2012

By: /s/ John Nicholls
Name: John Nicholls
Title: Deputy Company Secretary

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">**April 3, 2006 April 2, 2007**
Net income
$8,811 $8,465
Other comprehensive income (loss):

Foreign currency translation adjustments, net of tax
165
Unrealized loss on effective cash flow hedges, net of tax
(208)

Total other comprehensive income (loss), net of tax
(43)

Comprehensive income
$8,811 $8,422

(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 January 1, 2007, unrecognized income tax benefits totaled approximately $373. Of that amount, approximately $373 (net of the federal benefit on state income tax matters) carried in other long-term liabilities, net of current portion, 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 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 Company has been notified that the Florida Department of Revenue intends to audit the Company s 2003 2005 income tax returns. The State of California Franchise Tax Board has completed audits of the Company s income tax returns for the 2000 2001 years. As of April 2, 2007 and January 1, 2007, the 2002 2006 tax years remain subject to examination in the U.S. federal tax, various state tax and foreign jurisdictions. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

Estimated interest and penalties related to the unrecognized tax benefits are included in income tax expense and totaled $0 for the quarter ended April 2, 2007. Accrued interest and penalties were $41 and $41 as of January 1, 2007 and April 2, 2007, respectively, which, net of the federal benefit, is $27 and $27 as of January 1, 2007 and April 2, 2007, respectively.

(8) Commitments and Contingencies

Legal Matters

During 2001, the Company was advised that it has been added as a defendant in a patent infringement lawsuit filed in the U.S. District Court for the District of Arizona by Lemelson Medical, Education and Research Foundation, Limited Partnership. The suit alleges that the Company has infringed certain machine vision and other patents owned by the plaintiff and seeks injunctive relief, unspecified damages for the alleged infringements and payment of the plaintiff s attorneys fees. In March 2002, the lawsuit was stayed pending the outcome of *Symbol Technologies, et al. v. Lemelson* in the U.S. District Court for the District Court of Nevada, in which a declaratory relief suit filed by certain manufacturers challenged the validity, enforceability and infringement of Lemelson s bar code and machine vision patents. As a result of the stay, we have not filed an answer to the complaint nor has any discovery been conducted. In January 2004, the Nevada court found the Lemelson patents, including those patents asserted by the Lemelson Foundation against us in the Arizona case, to be invalid, not infringed and unenforceable. The Lemelson Foundation has the right to appeal the Nevada court s judgment. Although the ultimate outcome of this matter is not currently determinable, management believes the Company has meritorious defenses to these allegations and, based in part on the licensing terms offered by the Lemelson Partnership, does not expect this litigation to materially impact the Company s results of operations, financial condition or liquidity. Accordingly, the Company has not established a reserve. However, there can be no assurance that the ultimate resolution of this matter will not have a material adverse effect. Furthermore, there can be no assurance that the Company will prevail in any such litigation.

Prior to the Company s acquisition of PCG, 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 facilities 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 US EPA and Connecticut DEP include the fulfillment of a Compliance Management Plan until at least July 2009 and completion of a wastewater audit and installation of rinse water recycling systems at the Stafford, Connecticut, facilities. As of April 2, 2007, approximately $1,000 remains to be expended in the form of capital improvements to meet the rinse water recycling systems requirements. 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 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 December 31, 2006 and April 2, 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 is also obligated to investigate the 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 $875 and $890 as of December 31, 2006 and April 2, 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 $952 to $1,212 on an undiscounted basis. The liabilities recorded do not take into account any claims for recoveries from insurance or third parties and none is 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 April 2, 2007, the Company anticipates paying these costs ratably over the next 12 to 60 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.

(9) Earnings Per Share

Basic earnings per common share (Basic EPS) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share (Diluted EPS) reflects the potential dilution that could occur if stock options or other common stock equivalents were exercised or converted into common stock.

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The following is a reconciliation of the numerator and denominator used to calculate Basic EPS and Diluted EPS for the quarters ended April 3, 2006 and April 2, 2007:

	Quarter Ended April 3, 2006			Quarter Ended April 2, 2007		
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
Basic EPS	$ 8,811	41,441	$ 0.21	$ 8,465	42,149	$ 0.20
Dilutive effect of options		537			249	
Diluted EPS	$ 8,811	41,978	$ 0.21	$ 8,465	42,398	$ 0.20

The computation of Diluted EPS does not assume exercise or conversion of securities that would have an antidilutive effect on earnings per common share. Stock options and restricted stock units to purchase 1,479 and 2,528 shares of common stock for the quarters ended April 3, 2006, and April 2, 2007, respectively, were not considered in calculating Diluted EPS because the effect would be anti-dilutive.

(10) Stock-Based Compensation

In June 2006, the Company adopted the 2006 Incentive Compensation Plan (The Plan). The Plan provides for the grant of Incentive Stock Options, as defined by the Internal Revenue Code (the Code), and nonqualified stock options to our key employees, non-employee directors and consultants. Awards under this Plan may constitute qualified performance-based compensation as defined in Section 162(m) of the Code. Other types of awards such as restricted stock units and stock appreciation rights are also permitted under the Plan. This plan allows for the issuance of 6,873 shares through the Plan s expiration date of June 22, 2016. Prior to the adoption of the Plan, the Company adopted the Amended and Restated Management Stock Option Plan (the Prior Plan) in 2000. The Prior Plan provided for the grant of Incentive Stock Options, as defined by the Code, and nonqualified stock options to our key employees, non-employee directors and consultants. Awards under the Plan and the Prior Plan may constitute qualified performance-based compensation as defined in Section 162(m) of the Code. Under both the Plan and the Prior Plan, the exercise price is determined by the compensation committee of the Board of Directors and, for options intended to qualify as Incentive Stock Options, may not be less than the fair market value as determined by the closing stock price at the date of the grant. Each option and award shall vest and expire as determined by the compensation committee, generally four years for employees and three or four years for non-employee directors. Options expire no later than ten years from the grant date. All grants provide for accelerated vesting if there is a change in control, as defined in the Plan. Awards under the Prior Plan ceased as of June 22, 2006. For the quarter ended April 2, 2007, of the 2,605 options outstanding, 452 options were issued under the Plan and 2,153 options were issued under the Prior Plan. Additionally 472 restricted stock units were issued under the Plan and were outstanding as of April 2, 2007. These restricted stock units will vest over three years. The restricted stock units do not have voting rights.

Upon the exercise of outstanding stock options or vesting of restricted stock units, the Company s practice is to issue new registered shares that are reserved for issuance under the Plan and Prior Plan.

Stock-based compensation expense recognized in the financial statements in the quarters ended April 3, 2006 and April 2, 2007 was classified as follows:

	Quarter ended	
	April 3, 2006	April 2, 2007
Cost of goods sold	$ 90	$ 187
Selling and marketing	20	50
General and administrative	145	423
Stock-based compensation expense recognized	$ 255	$ 660

Income tax benefit recognized	(8)	(157)
Total stock-based compensation expense after income taxes	$ 247	503

There were no grants of stock option awards during the quarter ended April 2, 2007. As of April 2, 2007, $5,050 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.5 years.

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Restricted stock unit activity under the Plan for the quarter ended April 2, 2007 was as follows:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2006		$
Granted	472	10.58
Vested		
Forfeited		
Nonvested at April 2, 2007	472	$ 10.58

We estimate the value of share-based restricted stock unit awards on the date of grant using the closing share price. As of April 2, 2007, $4,227 of total unrecognized compensation cost related to restricted stock units is expected to be recognized over a weighted-average period of 1.4 years.

(11) Customer Concentration

The Company s customers include both original equipment manufacturers (OEMs) and electronic manufacturing services companies (EMS companies). The Company s OEM customers often direct a significant portion of their purchases through EMS companies.

For the fiscal quarter ended April 2, 2007, one customer accounted for approximately 11% of net sales. For the fiscal quarter ended April 3, 2006, two customers accounted for approximately 29% and 11% of net sales. Sales to our ten largest customers were 60% and 45% of net sales in the fiscal quarters ended April 3, 2006 and April 2, 2007, 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.

(12) Concentration of Credit Risk

In the normal course of business, the Company extends credit to its customers, which are concentrated in the networking/communications and aerospace/defense end markets 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 makes judgments as to its ability to collect outstanding trade receivables when collection becomes doubtful. Provisions are made based upon a specific review of significant outstanding invoices, historical collection experience and current economic trends.

For the purposes of evaluating collection risk, the Company considers the credit risk profile of the entity from which the receivable is due. As of December 31, 2006 and April 2, 2007, five customers in the aggregate accounted for 33% and 33%, respectively, of total accounts receivable at each period end. 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.

(13) Segment Information

The operating segments reported below are our 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. Effective October 27, 2006, with the purchase of PCG (see Note 2), the Company has two reportable segments: PCB Manufacturing and Commercial Assembly. Prior to October 27, 2006, the Company operated in one operating segment. 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 Commercial Assembly is a contract manufacturing business which specializes in assembling backplanes and subsystem 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 intercompany transactions, primarily sales of PCBs from the PCB Manufacturing segment to the Commercial Assembly segment, have been eliminated. Reportable segment assets exclude short-term investments, which are managed centrally.

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	Quarter Ended	
	April 3, 2006	April 2, 2007
Net Sales:		
PCB Manufacturing	$ 72,688	$ 152,151
Commercial Assembly		33,657
Total Sales	72,688	185,808
Inter-segment sales		(8,911)
Total Net Sales	72,688	$ 176,897
Operating Segment Income:		
PCB Manufacturing	$ 13,290	$ 16,397
Commercial Assembly		2,452
Total operating segment income	13,290	18,849
Amortization of intangibles	(330)	(1,055)
Total operating income	12,960	17,794
Total other income (expense)	916	(4,339)
Income before income taxes	$ 13,876	$ 13,455

	Quarter Ended	
	December 31, 2006	April 2, 2007
Segment Assets:		
PCB Manufacturing	$ 497,206	$ 486,977
Commercial Assembly	65,496	50,454
Unallocated corporate assets	10,996	
Total assets	$ 573,698	$ 537,431

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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, 2006, 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, aerospace and industrial/medical markets which are characterized by high levels of complexity and moderate production volumes. Our customers include original equipment manufacturers, or OEMs, electronic manufacturing services, or EMS, providers and defense and aerospace 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.

On October 27, 2006, we completed the acquisition of PCG from Tyco International Ltd. The total purchase price of this acquisition was $226.8 million, excluding acquisition costs. This acquisition enhanced our business in the following ways:

- positioned us as the largest PCB fabricator in North America as well as the largest PCB fabricator in the defense and aerospace end market;
- expanded and diversified our customer base;
- added complementary commercial PCB fabrication facilities to our original three commercial PCB manufacturing sites;
- added global backplane and sub-system assembly capability;
- entered the backplane assembly market in China with a facility in Shanghai;
- expanded engineering and materials expertise.

We measure customers as those companies that have placed at least two orders in the preceding 12-month period. As of April 2, 2007, we had approximately 945 customers and approximately 575 as of April 3, 2006. Sales to our 10 largest customers accounted for 60% of our net sales in the first fiscal quarter 2006 and 45% of our net sales in the first fiscal quarter 2007. We sell to OEMs both directly and indirectly through EMS companies. Sales attributable to our five largest OEM customers accounted for approximately 45% and 24% of our net sales in the first fiscal quarter 2006 and 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. Because of the significant increase in aerospace/defense business due to the recent acquisition of PCG, we have modified our end market classifications to more accurately portray our resulting customer base.

	First Fiscal Quarter	
End Markets (1)	**2006**	**2007**
Networking/Communications	42%	43%

Computing/Storage/Peripherals	32	13
Medical/Industrial/Instrumentation/Other	13	16
Aerospace/Defense	13	28
Total	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 21% of net PCB sales in the first quarter 2006 to 15% of net PCB sales in the first quarter 2007, due to the inclusion of the PCG facilities, which focus primarily on standard lead-time services. We also deliver a large percentage of compressed lead-time work with 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 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 less than 2% of gross sales. We provide our customers a limited right of return for defective printed circuit boards. We record an amount for estimated sales returns and allowances at the time of sale based on our historical results. To the extent actual returns vary from our historical experience, revisions to these allowances may be required.

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 we believe there are a number of potential suppliers for the raw materials we use. We believe that our cost of goods sold will continue to fluctuate as a percentage of net sales.

Selling and marketing expenses consist primarily of salaries and commissions paid to our internal sales force and commissions paid to 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. We expect our selling and marketing expenses to continue to fluctuate as a percentage of net sales.

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. We expect these expenses to continue to fluctuate as a percentage of net sales as we add personnel and incur additional costs related to the growth of our business and the requirements of operating as a public company.

Amortization of intangibles consists of intangible assets, which we recorded as a result of the Power Circuits acquisition in July 1999 as well as the PCG acquisition in October 2006.

Our interest expense relates to our senior secured credit facility and our other long-term obligations as well as the amortization of debt issuance costs of the loan origination fees and related legal and administrative expenses. Interest and other income consist primarily of interest received on our cash and short-term investment balances.

Critical Accounting Policies and Estimates

Our consolidated 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, the use of independent valuation firms and licensed environmental professionals, 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. Senior 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 to include asset valuation related to bad debts and inventory obsolescence; sales returns and allowances; impairment of long-lived assets, including goodwill and intangible assets; establishing the fair value of derivative financial instruments; realizability of deferred tax assets; establishing the fair value of individual assets acquired and individual liabilities assumed when we acquire other businesses; determining stock-based compensation expense, self-insured medical reserves, asset retirement obligations and environmental liabilities. A detailed description of these estimates and our policies to account for them is included in the notes to our consolidated financial statements in the Company s most recent Annual Report on Form 10-K.

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.

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 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.

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.

We have significant long-lived tangible and intangible assets consisting of property, plant and equipment; goodwill; and definite-lived intangibles. 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 fiscal quarter 2006, we performed an impairment assessment of our goodwill, which required the use of a fair-value based analysis, and determined that no impairment existed. At April 2, 2007, we determined that there were no events or changes in circumstances that indicated that the carrying amount of long-lived tangible assets and definite-lived intangible assets may not be recoverable. 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.

The Company accounts for derivative financial instruments and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging* Activities, an Amendment of FAS 133 and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. The Company does not use derivative financial instruments for trading or speculative purposes and current derivative financial instruments are limited to a single interest rate swap agreement. On October 27, 2006, the Company entered into a Credit Agreement. The Credit Agreement provides for a $200.0 million senior term loan, which bears interest at a floating rate. The variable rate debt exposes the Company to variability in interest payments due to changes in interest rates. The Company is required by the Credit Agreement to provide either a fixed interest rate or interest rate protection on at least 40% of its total outstanding term loan debt, for a period of three years. To satisfy this requirement the Company has entered into a fixed interest rate swap agreement to manage fluctuations in cash flows resulting from changes in interest rates on its variable rate debt. The Company s interest rate swap agreement effectively converts approximately 40% or more of our variable rate term debt to fixed rate debt, mitigating our exposure to increases in interest rates. At April 2, 2007, all of the total debt outstanding consisted of variable rate debt, excluding the effect of our interest rate swap. Including the effect of our interest rate swaps, total fixed rate debt comprised approximately 47% of our total debt portfolio as of April 2, 2007.

When the derivative contract was executed, the Company designated the derivative instrument as a hedge of the variability of cash flows to be paid (cash flow hedge) on the first interest payments of the debt. For its hedging relationship, the Company formally documented the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the item, the nature of the risk being hedged, how the hedging instrument s effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. The Company also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivative that is used in hedging transactions is highly effective in offsetting changes in cash flows of hedged items.

Derivative financial instruments are recognized as either assets or liabilities on the consolidated balance sheets with measurement at fair value. On a quarterly basis, the fair value of our interest rate swap is determined based on current market quotes for the underlying LIBOR interest rate. These values represent the estimated amount the Company would receive or pay to terminate the agreement taking into consideration the difference between the contract rate of interest and rates currently quoted for agreements of similar terms and maturities. The value of the actual difference between the market rate and the hedged rate applied to the notional value of the hedge is recorded to interest expense each period. To the extent the swap provides an effective hedge, the differences between the fair value and the book value of the swap is recognized in accumulated other comprehensive income, net of tax, as a component of shareholders equity.

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 April 2, 2007, we have net deferred income tax assets of $6.4 million, which is net of a valuation allowance of approximately $2.4 million. Should our expectations of taxable income change in future periods, it may be necessary to adjust our valuation allowance, which could affect our results of operations in the period such a determination is made. 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 we determine in the future that it is more likely than not that some or all of our deferred income tax assets would be realizable in an amount greater than what already is recorded, we would reverse all or a portion of valuation allowance in the period the determination is made. 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.

We apply the provisions of purchase accounting when recording our acquisitions. Application of purchase accounting requires that we estimate the fair value of the individual assets acquired and liabilities assumed of a business. Determination of the fair value of the assets involves a number of judgments and estimates. In our acquisitions to date, we have engaged an outside valuation firm to provide us with an appraisal report, which we utilized in determining the purchase price allocation. The allocation of the purchase price to different asset classes impacts the depreciation and amortization expense we subsequently record. The principal assets we have acquired to date are receivables, inventory, real estate, property and equipment, as well as intangible assets such as customer relationships. The principal liabilities we have assumed to date are payables, asset retirement obligations and future environmental remediation obligations. The fair values assigned to certain assets acquired and liabilities assumed in our 2006 acquisition of Tyco Printed Circuit Group has not been finalized and is subject to change pending the receipt of additional information necessary to finalize the fair values of: accounts receivable; property, plant and equipment; asset retirement obligations; environmental reserves; and certain other accrued liabilities. The additional information includes, among other items, adequate support for certain credits in the accounts receivable, completion of the appraisals being obtained on certain property and equipment, and information being obtained to finalize the values of asset retirement obligations, environmental reserves and certain other accrued liabilities. The Company will continue to obtain the necessary information to finalize the fair values of these items during 2007 and may make further purchase accounting adjustments, if appropriate, which would primarily affect the amount of goodwill that we recorded.

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 undiscounted 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%. We may use outside environmental consultants to assist us in making these estimates. We also are required to estimate the amount of any probable recoveries, including insurance recoveries.

The Company accounts for share-based payment awards using the fair value recognition provisions of SFAS No. 123R Share-Based Payments (SFAS 123R). Under the guidance of SFAS 123R, we recognize compensation expense for all share-based payments granted on and after January 1, 2006, and prior to but not yet vested as of January 1, 2006, which was the date of adoption. Under the fair value recognition provisions of SFAS No. 123R, we recognize stock-based compensation 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 share-based restricted stock unit awards on the date of grant using the closing share price. We estimate the value of share-based option awards on the date of grant using the Black-Scholes option pricing model. Calculating the fair value of share-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 management s best estimates, but these estimates involve inherent uncertainties and the application of management 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 7 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 year ended December 31, 2006, share-based compensation expense was $1.6 million. At April 2, 2007, total unrecognized estimated compensation expense related to non-vested stock options was $5.0 million, which is expected to be recognized over a weighted-average period of 1.5 years. As of

April 2, 2007, $4.2 million of total unrecognized compensation cost related to restricted stock units is expected to be recognized over a weighted-average period of 1.4 years.

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 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.

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Results of Operations

First Fiscal Quarter 2007 Compared to the First Fiscal Quarter 2006

There were 93 and 92 days in the first fiscal quarters 2006 and 2007, respectively.

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

	Quarter Ended	
	April 3, 2006	April 2, 2007
Net sales	100.0%	100.0%
Cost of goods sold	72.2	80.4
Gross profit	27.8	19.6
Operating expenses:		
Selling and marketing	4.6	4.3
General and administrative	5.0	4.7
Amortization of definite-lived intangibles	0.4	0.5
Total operating expenses	10.0	9.5
Operating income	17.8	10.1
Other income (expense):		
Interest expense	(0.1)	(2.9)
Interest income and other, net	1.4	0.4
Total other income (expense), net	1.3	(2.5)
Income before income taxes	19.1	7.6
Income tax provision	(7.0)	(2.8)
Net income	12.1%	4.8%

Business Segments

The Company has two reportable segments: PCB Manufacturing and Commercial Assembly. Prior to our acquisition of PCG we had one reportable segment. These reportable segments are managed separately because they distribute and manufacture distinct products with different production processes. PCB Manufacturing fabricates printed circuit boards. Commercial Assembly is a contract manufacturing business that specializes in assembling backplanes into subassemblies and subsystem assemblies. Our Commercial Assembly segment includes our Hayward, California and Shanghai, China plants and our Ireland sales and distribution infrastructure. Our PCB manufacturing segment is composed of nine domestic PCB fabrication plants and an assembly operation that is closely affiliated with one of the PCB manufacturing plants and primarily serves aerospace/defense customers.

We evaluate each segment on the basis of segment operating income, which excludes profit on inter-segment sales, amortization of intangible assets, certain interest income and expense, and income tax expense. Corporate expenses and certain centrally-managed expenses are allocated to the PCB Manufacturing segment. The following table presents sales and operating income for our reportable segments. For further information regarding our reportable segments, refer to Note 13 to our consolidated condensed financial statements.

	Quarter Ended	
	April 3, 2006	April 2, 2007
Net sales:		
PCB Manufacturing	$ 72,688	$ 152,151
Commercial Assembly		33,657
Total Sales	72,688	185,808
Inter-segment sales		(8,911)
Total Net Sales	72,688	$ 176,897
Operating income:		
PCB Manufacturing	$ 13,290	$ 16,397
Commercial Assembly		2,452
Total operating segment income	13,290	18,849
Amortization of intangibles	(330)	(1,055)
Total operating income	12,960	17,794
Total other income (expense)	916	(4,339)
Income before income taxes	$ 13,876	$ 13,455

The first fiscal quarter 2006 does not include the results of operations from our PCG acquisition, which occurred on October 27, 2006. The acquisition has had and will continue to have a significant effect on our operations as discussed in the various comparisons noted below.

Net Sales

Net sales increased $104.2 million, or 143.3%, from $72.7 million in the first fiscal quarter 2006 to $176.9 million in the first fiscal quarter 2007 mainly due to the addition of the PCG facilities. The $104.2 million increase in sales represented $108.7 million in sales from our PCG acquisition, including $31.1 million from the commercial assembly segment, offset by a $4.5 million reduction in sales from our original facilities. Volume increased approximately 82% due to the inclusion of the PCG facilities. Prices rose approximately 1% due to increased demand for PCBs as well as a shift in production mix toward more high technology production. Our quick-turn production, which generally is characterized by higher prices, decreased from 21% of PCB revenue in the first fiscal quarter 2006 to 15% of PCB revenue in the first fiscal quarter 2007 due to the inclusion of the PCG facilities, which focus primarily on standard lead-time services.

Gross Profit

Cost of goods sold increased $89.7 million, or 170.9%, from $52.5 million for the first fiscal quarter 2006 to $142.2 million for the first fiscal quarter 2007. Cost of goods sold rose mainly due to the addition of the PCG facilities and increased material prices. As a percentage of net sales, cost of goods sold increased from 72.2% for the first fiscal quarter 2006 to 80.4% for the first fiscal quarter 2007 primarily due to increased cost content in the newly acquired commercial assembly business. In addition, higher wage rates, greater headcount, increased incentive compensation and the inclusion of restricted stock expense led to increased labor costs.

As a result of the foregoing, gross profit increased $14.5 million, or 71.8%, from $20.2 million for the first fiscal quarter 2006 to $34.7 million for the first fiscal quarter 2007. Our gross margin decreased from 27.8% in the first fiscal quarter 2006 to 19.6% in the first fiscal quarter 2007. The decrease in our gross margin was due to higher cost of goods sold as a percent of sales, which increased due to the factors discussed above and the inclusion of the commercial assembly operations, which have inherently lower gross margins.

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 significant cost increases. However, at higher capacity utilization rates, additional employees and capital may be required.

Operating Expenses

Selling and marketing expenses increased $4.2 million, or 123.5%, from $3.4 million for the first fiscal quarter 2006 to $7.6 million for the first fiscal quarter 2007, primarily due to the inclusion of the PCG facilities in our results for 2006 as well as higher commission expense due to higher revenue. As a percentage of net sales, selling and marketing expenses decreased from 4.6% in the first fiscal quarter 2006 to 4.3% in the first fiscal quarter 2007 due to greater absorption of fixed costs.

General and administrative expenses and amortization of definite-lived intangibles increased $5.5 million from $3.9 million, or 5.4% of net sales, for the first fiscal quarter 2006 to $9.4 million, or 5.2% of net sales, for the first fiscal quarter 2007. The increase in expenses resulted primarily from the inclusion of the PCG facilities in our results for the first fiscal quarter 2007. Other factors that increased general and administrative expense were higher amortization of intangibles related to the acquisition of the PCG business and higher stock-based compensation expense as well as increased accounting, legal fees, and consulting expenses related to completion and integration of the acquisition.

Other Income (Expense)

Other income (expense) declined $5.2 million from income of $0.9 million in the first fiscal quarter 2006 to expense of $4.3 million in the first fiscal quarter 2007. This net decrease resulted from an increase of $5.0 million in interest expense and amortization of debt issuance costs related to our new $200 million senior secured term loan used to fund the acquisition of PCG and a decrease of $0.2 million from interest earned on lower balances in cash and cash equivalents and short-term investments.

Income Taxes

The provision for income taxes decreased from a $5.1 million provision for first fiscal quarter 2006 to a $5.0 million provision for the first fiscal quarter 2007. Our effective tax rate was 36.5% in first fiscal quarter 2006, and 37.1% in first fiscal quarter 2007. 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. During our first fiscal quarter 2007, we revalued our state deferred income tax assets and liabilities to reflect the rates which are expected to apply to taxable income in the periods in which the temporary differences are expected to reverse. The net impact of this revaluation was insignificant on the first fiscal quarter provision for income tax. The increase from this rate to the first fiscal quarter 2007 effective tax rate of 37.1% is due primarily to the acquisition of the PCG facilities, which are generally in states with higher tax rates, most notably California.

Liquidity and Capital Resources

Our principal sources of liquidity have been cash provided by operations, borrowings under our senior secured credit facility, and proceeds from employee exercises of stock options. Our principal uses of cash have been to finance acquisitions, meet debt service requirements, finance capital expenditures and fund working capital requirements. We anticipate that servicing debt, funding working capital requirements and financing capital expenditures will continue to be the principal demands on our cash in the future. On October 27, 2006, we completed the PCG acquisition for $226.8 million, excluding acquisition costs. This purchase price was paid using some of our available cash and cash equivalents as well as proceeds from a new $200 million senior secured term loan. We cancelled our existing $25 million revolving credit facility and replaced it with a new $40 million senior secured revolving credit facility.

As of April 2, 2007, we had net working capital of approximately $95.7 million, compared to $127.4 million as of December 31, 2006. The decrease in working capital is primarily attributable to the repayment of $50.0 million of our outstanding debt during the first fiscal quarter 2007 offset by reduced accounts receivable, increased accounts payable as well as cash generated from earnings.

Our 2007 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 April 2, 2007 (in thousands):

Contractual Obligations (1)	**Total**	**Less than 1 year**	**1 3 years**	**4 5 years**	**After 5 years**
Operating leases	$ 8,525	$ 2,327	$ 4,070	$ 780	$ 1,347
Debt obligations	150,000	55,000	2,532	2,532	89,936
Interest on debt obligations (2)	41,845	8,841	14,159	13,777	5,068
Total contractual obligations	$ 200,370	$ 66,168	$ 20,761	$ 17,089	$ 96,351

(1) FIN 48 unrecognized

tax benefits of $373 are not included in table above as management considers this amount not material.

(2) For variable rate debt, interest is based upon the rates in effect at April 2, 2007, adjusted for the impact of our interest rate hedge entered into January 25, 2007.

In connection with the 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 $1.0 million to $1.2 million over the next 12 to 60 months related to these matters. In addition, the Company has obligations to the Connecticut Department of Environmental Protection to complete a compliance management plan through July 2009 under which the Company will make certain environmental asset improvements to its waste water systems, which are estimated to cost $1.0 million.

Based on our current level of operations, we believe that cash generated from operations, available cash and amounts available under our five-year senior secured $40 million revolving credit facility 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 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 $28.3 million in the first fiscal quarter 2007, compared to $10.0 million in the first fiscal quarter 2006. Our first fiscal quarter 2007 operating cash flow of $28.3 million primarily reflects net income of $8.5 million, $8.5 million of depreciation and amortization, a net decrease in working capital of $ 10.5 million and $0.8 million from a variety of other factors.

Net cash provided by investing activities was $7.4 million in the first fiscal quarter 2007, compared to net cash used in investing activities of $15.3 million in the first fiscal quarter 2006. In the first fiscal quarter 2007, we made net purchases of approximately $3.6 million of property, plant, and equipment, offset by a reduction of $11.0 million in our net short-term investments.

Net cash used in financing activities was $50.3 million in the first fiscal quarter 2007, compared to net cash provided by financing activities of $1.3 million in the first fiscal quarter 2006. Our first fiscal quarter 2007 financing net cash flow reflects repayment of $50.0 million of our outstanding debt, repayment of $0.7 million capital lease obligations and $0.1 million from a variety of other factors, partially offset by $0.5 million from the proceeds of employee stock option exercises. As of the first fiscal quarter 2007, we had $150 million of long-term debt obligations outstanding under our senior secured term loan facility and no borrowing outstanding under our senior secured revolving credit facility.

In accordance with EITF No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, the Company recorded as a cost of the acquisition involuntary employee severance and other exit activity liabilities of $3,225 associated with its plan to close the PCG Dallas, Oregon, facility, and terminate certain sales employees of the acquired business. Prior to completing the acquisition, the Company began assessing the need to close certain PCG facilities and on December 7, 2006, the Company finalized its plan to close the Dallas facility. The closure of the Dallas facility is expected to be completed during the second quarter of 2007 after which the Company will commence the process of selling the building and certain assets. The company also recorded a charge of $199 in 2006 to establish a restructuring reserve for a corporate realignment, all of which was still accrued at December 31, 2006. The beginning and ending balance of restructuring charges is included in other accrued expenses. The table below shows the utilization of the accrued restructuring charges during the quarter ended April 2, 2007.

	Severance	Other Exit Charges	Total
Accrued at December 31, 2006	$ 3,147	$ 114	$ 3,261
Utilization	(1,075)	(13)	(1,088)
Accrued at April 2, 2007	$ 2,072	$ 101	$ 2,173

On October 27, 2006, we entered into a credit agreement (the Credit Agreement) with certain lenders lead by UBS Securities LLC. The Credit Agreement provides for a $200 million senior secured term loan that matures in October 2012, and a $40 million senior secured revolving loan facility, that matures in October 2011. Borrowings under the Credit Agreement will bear interest at a floating rate of either a base rate (the Alternate Base Rate) plus an applicable interest margin or LIBOR plus an applicable interest margin. The Alternate Base Rate is equal to the greater of (i) the federal funds rate plus 0.50% or (ii) the prime rate. Under terms of the Credit Agreement, borrowings under the term loan and the revolving loan facility will, at the Borrower s option, initially bear interest at a rate based on either (a) LIBOR plus 2.25% or (b) the Alternate Base rate plus 1.25%. The applicable interest margins on both Alternate Base Rate loans and LIBOR loans under the revolving loan facility may decrease under the terms of the Credit Agreement by up to 0.5% as our leverage ratio decreases. There is no provision in the credit agreement, other than in the event of default, for these interest margins to increase. Each calendar year we are required to repay 1% of the outstanding term loan balance, subject to adjustment for prior period repayments, and excess cash flow as defined in the credit agreement. Discretionary use of cash or cash flow by the Company is constrained by certain leverage and interest coverage ratio tests required to be met under the terms of our Credit Agreement. These ratios become more restrictive over each of the next successive quarters. If the financial performance of our business falls short of expectations, we might be required to repay additional debt beyond current planned repayments.

The Credit Agreement contains customary limitations, including limitations on indebtedness; limitations on liens; limitations on investments and acquisitions; limitations on dividends, stock repurchases, stock redemptions and the redemption or prepayment of other debt; limitations on mergers, consolidations or sales of assets; limitations on capital expenditures; and limitations on transactions with affiliates. We are also subject to financial covenants, including a maximum total leverage ratio and minimum interest coverage ratio and limitations on capital expenditures. The leverage ratio is the ratio of total indebtedness to consolidated EBITDA, and the interest coverage ratio is the ratio of consolidated EBITDA to consolidated interest expense. EBITDA used for our debt covenants is adjusted for certain costs related to our PCG transactions (not to exceed $9 million) and other non-cash charges as defined in the credit agreement. Our maximum leverage ratio covenant ranges from 1.85:1 to 1:00:1 during the term of the agreement. Our minimum interest coverage ratio ranges from 5.75:1 to 10.50:1 during the term. The term loan and revolving loan facility are secured by substantially all of our domestic assets and 65% of our foreign assets.

On January 25, 2007, we entered into an interest rate swap, to comply with the terms of our credit agreement, to hedge 40% or $70.0 million of our outstanding debt. This amount reflects a repayment of $25.0 million of the debt that occurred on January 2, 2007. The interest rate swap has been designated as a cash flow hedge and will be accounted for in accordance with SFAS No. 133 Accounting for Derivative Instruments See Note 5 of the Notes to the Condensed Consolidated Financial Statements.

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.

Seasonality

We have historically experienced some seasonality in our second and third fiscal quarters in our computing/storage/peripherals end market.

Fair Value of Financial Instruments

The carrying amounts of assets and liabilities as reported on the balance sheets at December 31, 2006 and April 2, 2007, which qualify as financial instruments, approximate fair value. As of December 31, 2006, the Company had a $200,000 term loan outstanding, and the fair value, based on quoted market prices, of the Company s term loan was $201,000. As of April 2, 2006, the Company had a $150,000 term loan outstanding, and the fair value, based on quoted market prices, of the Company s term loan was $150,750. The fair value of this term loan may increase or decrease due to various factors, including fluctuations in the market price of the Company s common stock, fluctuations in market interest rates and fluctuations in general economic conditions.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 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 No. 157 are effective beginning January 1, 2008. The Company currently is evaluating the impact this standard will have on its financial position and results of operations.

In February 2007, FASB Statement No. 159 The Fair Value Option for Financial Assets and Financial Liabilities was released. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. FAS 159 will be effective for the Company beginning January 1, 2008. The Company currently is evaluating the potential effect of SFAS 159 on our financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk. We are exposed to interest rate risk relating to our senior secured term loan, which bears interest at (a) either an alternate base rate plus an applicable margin or (b) LIBOR plus an additional margin. A 1.0% increase in the interest rate would result in a $1.3 million increase in interest expense per annum.

Our revolving credit facility bears interest at floating rates. The revolving credit facility bears interest ranging from 1.75% to 2.25% per year plus the applicable LIBOR or from 0.75% to 1.25% per year plus the Alternate Base Rate, as defined in our credit agreement. As of April 2, 2007, we have no outstanding revolving loans. However, $0.3 million of the available capacity for letters of credit is utilized in support of a real estate lease.

On January 25, 2007, we entered into an interest rate swap to comply with the terms of our credit agreement to hedge 40%, or $70.0 million, of our outstanding debt, effectively fixing the interest rate for such portion of our outstanding debt at 7.46%. This amount reflects a repayment of $25.0 million of the debt on January 2, 2007. The interest rate swap has been designated as a cash flow hedge and amortizes to a zero notional value on January 25, 2010. Accounting for this swap agreement is covered by SFAS No. 133 Accounting for Derivative Instruments and

Hedging Activities . As of April 2, 2007, the fair value of the swap was recorded as a liability in other accrued expenses of $330 and the effective offset is recorded in accumulated other comprehensive income, net of tax, in our Consolidated Condensed Balance Sheet. The benefit to interest expense for the quarter ending April 2, 2007 was $19.

Foreign Currency Exchange Risk. We are subject to risks associated with transactions that are denominated in currencies other than the US dollar, as well as the effects of translating amounts denominated in a foreign currency to the US dollar as a normal part of the reporting process. Our recently acquired 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 US dollar were not material during the fiscal quarters ended April 3, 2006 and April 2, 2007. We currently do not utilize any derivative instruments to hedge foreign currency risks.

Item 4. Controls and Procedures

An evaluation was performed under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of April 2, 2007. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported as specified in the SEC s rules and forms. There has been no change in our internal control over financial reporting during the three months ended April 2, 2007, that has materially affected, or is reasonably likely to materially affect, 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.

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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.

We were added as a defendant in a patent infringement lawsuit filed in 2001 in the U.S. District Court for the District of Arizona by Lemelson Medical, Education and Research Foundation, Limited Partnership. The suit alleges that we have infringed certain bar code, machine vision and other patents owned by the plaintiff and seeks injunctive relief, damages for the alleged infringements and payment of the plaintiff s attorneys fees. In March 2002, the lawsuit was stayed pending the outcome of *Symbol Technologies, et al. v. Lemelson* in the U.S. District Court for the District Court of Nevada, in which a declaratory relief suit filed by certain manufacturers challenged the validity, enforceability and infringement of Lemelson s bar code and machine vision patents. As a result of the stay, we have not filed an answer to the complaint nor has any discovery been conducted. In January 2004, the Nevada court found the Lemelson patents, including those patents asserted by the Lemelson Foundation against us in the Arizona case, to be invalid, not infringed and unenforceable. The Lemelson Foundation has the right to appeal the Nevada court s judgment. Although the ultimate outcome of this matter is not currently determinable, we believe we have meritorious defenses to these allegations and do not expect this litigation to materially impact our business, results of operations or financial condition. However, there can be no assurance that the ultimate resolution of this matter will not have a material adverse effect on our results of operations for any quarter.

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 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 a contraction in the U.S. economy and 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. 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. For example, our net sales declined from $129.0 million in 2001 to $89.0 million in 2002 due to a significant downturn in demand in the electronics industry during 2001 and 2002. A decline in our net 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.

We recently completed a major acquisition and expect to continue to pursue acquisitions to expand our operations. We may have trouble integrating acquisitions. Acquisitions involve 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 existing business. On October 27, 2006, we acquired the Printed Circuit Group business unit from Tyco International Ltd. The acquired PCG business generally consists of nine printed circuit board or backplane and subassembly plants, including one in China, and the total purchase price was $226.8 million, excluding acquisition costs.

We paid for the transaction from our available cash and cash equivalents and from a new senior credit financing. We obtained a new senior secured term loan of $200 million with a six-year maturity and a senior secured revolving credit facility of $40 million with a five-year maturity from a syndicate of financial institutions. The term loan and revolving credit facility are secured by substantially all of our domestic assets and 65% of our foreign assets.

Our acquisition of businesses and expansion of operations involve risks, including the following:

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- 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;

- 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;

- 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.

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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.

On April 2, 2007, we had total indebtedness of approximately $150 million, which represented approximately 34% of our total capitalization.

Our discretionary use of cash or cash flow is constrained by certain leverage and interest coverage ratio tests required to be met under the terms of our credit agreement. These ratios become more restrictive over each of the next successive quarters. As a result, if the financial performance of our business falls short of expectations, then we might be required to repay additional debt beyond current planned repayments. We also are required to apply any excess cash flow, as defined by the credit agreement, to pay down our debt.

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 dedication 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 are dependent upon a relatively small number of OEM customers for a large portion of our net 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 net sales. Our five largest OEM customers accounted for approximately 39% of our net sales in 2006 and approximately 24% of our net sales in the first fiscal quarter 2007. Sales attributed to OEMs include both direct sales as well as sales that the OEMs place through EMS providers. As a result of the acquisition of PCG, 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 OEMs could adversely affect our business.

Recently, some of our large customers, including Siemens and Nokia, have consolidated. 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 at the OEM could result in the termination of a product line that we currently support. While there is potential for increasing our position with the combined Company, 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 OEM because of its increased market share.

Our failure to comply with the requirements of environmental laws could result in 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, 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 Act as well as analogous state 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, etc. 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, and 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 believe that our operations substantially comply with all applicable environmental laws. However, any material violations of environmental laws by us could subject us to revocation of our effluent discharge permits. Any such revocations 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 facilities in Connecticut. The obligations include fulfillment of a Compliance Management Plan through at least July 2009 and completion of a wastewater audit and installation of rinse water recycling systems at the Stafford, Connecticut facility. 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.

In addition, we are increasingly required to certify compliance to the European Union Restriction of Hazardous Substances (RoHS) directive and non-applicability to the Waste Electrical and Electronic Equipment directive for some of the 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 certification.

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 53% of our net sales in 2006 and approximately 45% of our net sales in the first fiscal quarter 2007. 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 the 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 12% of our net accounts receivable as of April 2, 2007 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 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

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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 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 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.

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.

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 DDi, Endicott Interconnect Technologies, Merix, Sanmina-SCI, Coretec, Pioneer Circuits and Unicircuit. Our principal international PCB competitors include Elec & Eltek, Hitachi, Ibiden, and Multek. Our principal assembly competitors include Amphenol, Sanmina-SCI, Simclair, 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.

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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;
- 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 affect 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 net 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 65% of our net sales in 2006 and approximately 51% of our net sales in the first fiscal quarter 2007. 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.

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

As of April 2, 2007, our consolidated balance sheet reflected $158.2 million of goodwill and intangible assets. We evaluate whether events and circumstances have occurred that indicate the remaining balance of goodwill and 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 intangible assets, which could harm our results during the periods in which such a reduction is recognized. Our goodwill and 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 event could harm our financial results.

We have U.S. manufacturing facilities in California, Connecticut, Oregon, Utah, Washington, and Wisconsin. We also have a manufacturing facility in China. The destruction or closure of any of our manufacturing 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 in the 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.

Our profitability is impacted by the global interest rate environment.

We are exposed to interest rate risk relating to our senior secured term loan and revolving credit facility, which bears interest at either the Alternate Base Rate, as defined in our credit agreement, plus an applicable margin or LIBOR plus an additional margin. The interest rate on our term loan is linked to LIBOR and re-prices at intervals of 30, 60, 90, or 180 days as selected by the Company. A 1.0% increase in the interest rate would result in an increase of approximately $1.3 million in interest expense per year.

Our revolving credit facility bears interest at floating rates. The revolving credit facility bears interest at rates ranging from 1.75% to 2.25% per year plus the applicable LIBOR or from 0.75% to 1.25% per year plus the Alternate Base Rate. As of April 2, 2007, we have no outstanding revolving loans.

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 are derived from products and services ultimately sold to the U.S. government and are 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 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

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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 commercial 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.

Products we manufacture may contain design or manufacturing defects, which could result in reduced demand for our services and liability claims against us.

We manufacture products to our customers specifications, which are highly complex and may contain design or manufacturing errors or failures, despite our quality control and quality assurance efforts. Defects in the products we manufacture, whether caused by a design, manufacturing, or materials failure or error, may result in delayed shipments, customer dissatisfaction, a reduction or cancellation of purchase orders, or liability claims against us. If these defects occur either in large quantities or too frequently, our business reputation may be impaired. Our sales mix has shifted towards standard delivery time products, which have larger production runs, thereby increasing our exposure to these types of defects. Since our products are used in products that are integral to our customers businesses, errors, defects, or other performance problems could result in financial or other damages to our customers beyond the cost of the printed circuit board, for which we may be liable. Although our invoices and sales arrangements generally contain provisions designed to limit our exposure to product liability and related claims, existing or future laws or unfavorable judicial decisions could negate these limitation of liability provisions. Product liability litigation against us, even if it were unsuccessful, would be time consuming and costly to defend. Although we maintain technology errors and omissions insurance, we cannot assure you that we will continue to be able to purchase such insurance coverage in the future on terms that are satisfactory to us, if at all.

We are subject to risks of currency fluctuations.

A portion of our cash and other current assets are held in currencies other than the U.S. dollar. As of April 2, 2007, we had approximately $21.8 million of current assets denominated in Chinese RMB. Changes in exchange rates among other currencies and the U.S. dollar will affect the value of these assets as translated to U.S. dollars in our balance sheet. To the extent that we ultimately decide to repatriate some portion of these funds to the United States, the actual value transferred could be impacted by movements in exchange rates. Any such type of movement could negatively impact the amount of cash available to fund operations or to repay debt.

We export defense and commercial products from the United States to other countries. If we fail to comply with export laws, we could be subject to fines and other punitive actions.

Exports from the United States are regulated by the U.S. Department of State and U.S. Department of Commerce. Failure to comply with these regulations can result in significant fines and penalties. Additionally, violations of these laws can result in punitive penalties, which would restrict or prohibit us from exporting certain products, resulting in significant harm to our business.

Changes in business relationships with Tyco International subsidiaries as a result of our recent acquisition could lead to lower revenue or increased costs.

The PCG facilities we acquired from Tyco International Ltd. generate a significant portion of our revenue. Over time, the PCG locations developed business relationships with other Tyco entities. These relationships involved the purchase of raw materials from other Tyco entities and sale of products to other Tyco entities. Sales to other Tyco entities accounted for approximately $2.3 million of our net sales in the first fiscal quarter 2007. If we are unable to maintain these relationships or if the pricing with the Tyco entities changes as a result of the acquisition of PCG, we could face higher raw material costs or lower revenues if the Tyco entities elect to purchase product from other suppliers.

Our business has benefited from OEMs deciding to outsource their PCB manufacturing and backplane assembly needs to us. If OEMs choose to provide these services in-house or select other providers, our business could suffer.

Our future revenue growth partially depends on new outsourcing opportunities from OEMs. Current and prospective customers continuously evaluate our performance against other providers. They also evaluate the potential benefits of manufacturing their products themselves. To the extent that outsourcing opportunities are not available either due to OEM decisions to produce these products themselves or to use other providers, our future growth could be adversely affected.

We may not be able to fully recover our costs for providing design services to our customers, which could harm our financial results.

Although we enter into design service activities with purchase order commitments, the cost of labor and equipment to provide these services may in fact exceed what we are able to fully recover through purchase order coverage. We also may be subject to agreements with customers in which the cost of these services is recovered over a period of time or through a certain number of units shipped as part of the ongoing product price. While we may make contractual provisions to recover these costs in the event that the product does not go into production, the actual recovery can be difficult and may not happen in full. In other instances, the business relationship may involve investing in these services for a customer as an ongoing service not directly recoverable through purchase orders. In any of these cases, the possibility exists that some or all of these activities are considered costs of doing business, are not directly recoverable, and may adversely impact our operating results.

Unanticipated changes in our tax rates or in our assessment of the realizability of our deferred tax assets or exposure to additional income tax liabilities could affect our operating results and financial condition.

We are subject to income taxes in both the United States and various foreign jurisdictions. Significant judgment is required in determining our provision for income taxes and, in the ordinary course of business, there are many transactions and calculations in which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries and states with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, as well as other factors. Our tax determinations are regularly subject to audit by tax authorities, and developments in those audits could adversely affect our income tax provision. Although we believe that our tax estimates are reasonable, the final determination of tax audits or tax disputes may be different from what is reflected in our historical income tax provisions, which could affect our operating results.

If our net earnings do not remain at or above recent levels, or we are not able to predict with a reasonable degree of probability that they will continue, we may have to record an additional valuation allowance against our net deferred tax assets.

As of April 2, 2007, we had deferred tax assets of approximately $6.4 million, which is net of a valuation allowance of $2.4 million. If we should determine that it is more likely than not that we will not generate taxable income in sufficient amounts to be able to use our net deferred tax assets, we would be required to increase our current valuation allowance against these deferred tax assets. This would result in an additional income tax provision and a deterioration of our results of operations. Based on our forecast for future earnings, we

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believe we will utilize the deferred tax asset in future periods. However, if our estimates of future earnings are lower than expected, we may record a higher income tax provision due to a write down of our net deferred tax assets, which would reduce our earnings per share.

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

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

Exhibit Number	Exhibits
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32.1	CEO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
32.2	CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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SIGNATURES

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

	TTM Technologies, Inc.
Dated: May 14, 2007	/s/ Kenton K. Alder
	Kenton K. Alder President and Chief Executive Officer
Dated: May 14, 2007	/s/ Steven W. Richards
	Steven W. Richards Chief Financial Officer and Secretary

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