SANMINA-SCI CORP
Form 10-Q
February 05, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended December 30, 2006
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission File Number 0-21272

Sanmina-SCI Corporation

(Exact name of registrant as specified in its charter)

Delaware	**77-0228183**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2700 N. First St., San Jose, CA	**95134**
(Address of principal executive offices)	(Zip Code)

(408) 964-3500

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of January 25, 2007, there were 530,057,856 shares outstanding of the issuer s common stock, $0.01 par value per share.

SANMINA-SCI CORPORATION

INDEX

SANMINA-SCI CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 30, 2006 (Unaudited) (In thousands)	September 30, 2006 *
ASSETS		
Current assets:		
Cash and cash equivalents	$ 538,828	$ 491,829
Accounts receivable, net of allowances of $9,695 and $8,971, at December 30, 2006 and September 30, 2006, respectively	1,558,141	1,526,373
Inventories	1,328,141	1,318,400
Prepaid expenses and other current assets	169,174	154,401
Restricted cash	532,875	
Total current assets	4,127,159	3,491,003
Property, plant and equipment, net	615,203	620,132
Other intangible assets, net	27,924	29,802
Goodwill	1,618,087	1,613,230
Other non-current assets	95,254	94,512
Restricted cash	13,040	13,751
Total assets	$ 6,496,667	$ 5,862,430
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,481,682	$ 1,494,603
Accrued liabilities	249,969	223,263
Accrued payroll and related benefits	137,684	156,248
Current portion of long-term debt	624,779	100,135
Total current liabilities	2,494,114	1,974,249
Long-term liabilities:		
Long-term debt, net of current portion	1,582,526	1,507,218
Other	112,143	110,400
Total long-term liabilities	1,694,669	1,617,618
Commitments and contingencies		
Stockholders equity:		
Common stock	5,515	5,519
Treasury stock	(186,026)	(186,361)
Additional paid-in capital	5,955,496	5,952,857
Accumulated other comprehensive income	48,710	42,608
Accumulated deficit	(3,515,811)	(3,544,060)
Total stockholders equity	2,307,884	2,270,563
Total liabilities and stockholders equity	$ 6,496,667	$ 5,862,430

* Derived from the September 30, 2006 audited consolidated financial statements. Certain amounts have been reclassified to conform to the current presentation.

See accompanying notes.

SANMINA-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 30, 2006	December 31, 2005 (Restated)
	(Unaudited) (In thousands, except per share data)	
Net sales	$ 2,778,790	$ 2,861,797
Cost of sales	2,610,112	2,693,310
Gross profit	168,678	168,487
Operating expenses:		
Selling, general and administrative	96,318	90,103
Research and development	8,962	9,047
Amortization of intangible assets	1,650	2,233
Restructuring costs	3,215	35,628
Total operating expenses	110,145	137,011
Operating income	58,533	31,476
Interest income	10,900	5,925
Interest expense	(43,331)	(32,952)
Other income (expense), net	10,961	(5,707)
Interest and other expense, net	(21,470)	(32,734)
Income (loss) before income taxes and cumulative effect of accounting change	37,063	(1,258)
Provision for (benefit from) income taxes	8,814	(12,957)
Income before cumulative effect of accounting change	28,249	11,699
Cumulative effect of accounting change, net of tax		5,695
Net income	$ 28,249	$ 17,394
Net income per share before cumulative effect of accounting change:		
Basic	$ 0.05	$ 0.02
Diluted	$ 0.05	$ 0.02
Net income per share:		
Basic	$ 0.05	$ 0.03
Diluted	$ 0.05	$ 0.03
Weighted average shares used in computing per share amounts:		
Basic	527,110	524,311
Diluted	528,298	524,694

See accompanying notes.

SANMINA-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 30, 2006	December 31, 2005 (Restated)
	(Unaudited) (In thousands)	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	$ 28,249	$ 17,394
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	30,459	35,170
Restructuring non-cash costs (recovery)	(2,875)	15,585
Provision for (recovery of) doubtful accounts	773	(51)
Stock-based compensation	2,635	6,619
Gain on disposal of property, plant and equipment, net	(6,190)	(1,177)
Loss on interest rate swap		5,464
Cumulative effect of accounting changes, net		(5,695)
Proceeds from sale of accounts receivable	478,378	348,201
Other, net	362	307
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(504,472)	(487,179)
Inventories	(3,588)	(110,576)
Prepaid expenses and other current and non-current assets	(17,418)	9,648
Accounts payable and accrued liabilities	(14,065)	108,866
Restricted cash	1,170	
Income tax accounts	(3,644)	(8,823)
Cash used in operating activities	(10,226)	(66,247)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of long-term investments	(250)	(128)
Purchases of property, plant and equipment	(19,134)	(22,546)
Proceeds from sale of property, plant and equipment	24,883	4,310
Cash paid for businesses acquired, net of cash acquired	(4,053)	(157)
Purchases of short-term investments		(16,562)
Proceeds from maturities and sale of short-term investments		45,432
Cash provided by investing activities	1,446	10,349
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Payment made to trustee, held in escrow	(532,875)	
Proceeds from long-term debt, net of issuance cost	593,409	
Payments of notes and credit facilities, net	(39)	(262)
Proceeds from sale of common stock		5,607
Cash provided by financing activities	60,495	5,345
Effect of exchange rate changes	(4,716)	(6,402)
Increase (decrease) in cash and cash equivalents	46,999	(56,955)
Cash and cash equivalents at beginning of period	491,829	1,068,053
Cash and cash equivalents at end of period	$ 538,828	$ 1,011,098
Supplemental disclosures of cash flow information:		
Cash paid during the period		
Interest	$ 4,672	$ 1,159
Income taxes	$ 13,156	$ 9,078

See accompanying notes.

SANMINA-SCI CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of Sanmina-SCI Corporation (Sanmina-SCI , we , our , the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules or regulations. The interim financial statements are unaudited, but reflect all normal recurring adjustments and non-recurring adjustments that are, in the opinion of management, necessary for a fair presentation.

The results of operations for the three months ended December 30, 2006, is not necessarily indicative of the results that may be expected for the full fiscal year. We have restated our Condensed Consolidated Financial Statements for the three month period ended December 31, 2005, refer to our 2006 Annual Report on Form 10-K for more information.

These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto for the year ended September 30, 2006, included in our 2006 Annual Report on Form 10-K.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Recent Accounting Pronouncements

On September 13, 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements . SAB No. 108, addresses quantifying the financial statement effects of misstatements; specifically, how the effects of prior year uncorrected misstatements must be considered in quantifying misstatements in the current year financial statements. In addition, SAB No. 108 provides guidance on the correction of misstatements, including the correction of prior period financial statements for immaterial misstatements. Importantly, SAB No. 108 offers a one-time special transition provision for correcting certain prior year misstatements that were uncorrected as of the beginning of the fiscal year of adoption. SAB No. 108 is effective for fiscal years ended after November 15, 2006. We expect to adopt this standard at year end September 29, 2007. We are currently reviewing this bulletin to determine the potential impact to our financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an Amendment of FASB Statements No. 87, 88, 106 and 132(R). The statement requires an employer to recognize in its statement of financial position an asset for a plan s over-funded status or a liability for a plan s under-funded status. The measurement date of the plans assets and obligations that determine the funded status will be as of the end of the employer s fiscal year. The statement will be effective as of the end of fiscal 2007. We are currently reviewing this statement to determine the potential impact to our financial position, results of operations, and related cash flows.

Note 2. Stock-Based Compensation

Effective October 2, 2005, the Company began recording compensation expense associated with stock options and other forms of equity compensation in accordance with the SFAS No. 123R. We adopted the modified prospective transition method pursuant to SFAS No. 123R, and consequently have not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with equity compensation recognized in the first quarter of fiscal year 2007 and the first quarter of fiscal year 2006, now includes: 1) quarterly amortization related to the remaining unvested portion of all equity compensation awards granted prior to October 2, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and 2) quarterly amortization related to all stock option awards granted subsequent to October 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. The compensation expense for stock based compensation awards includes an estimate for forfeitures and is

recognized over the vesting term using the ratable method. The Company recorded a cumulative effect benefit adjustment for estimated forfeitures of approximately $5.7 million for previously issued restricted stock and stock options upon the adoption of SFAS No. 123R.

Total stock compensation expense (excluding the $5.7 million benefit recorded on cumulative effect of accounting change) for the three months ended December 30, 2006, and December 31, 2005 (restated), respectively, are represented by expense categories in the table below:

	Three Months Ended December 30, 2006	**December 31, 2005 (Restated)**
	(In thousands)	
Cost of sales	$ 1,038	$ 2,586
Selling, general & administrative	1,502	3,784
Research & development	95	249
	$ 2,635	$ 6,619

Stock Options

Our stock option plans provide our employees the right to purchase common stock at the fair market value of such shares on the grant date. The Company amortizes its stock options over the vesting period which is generally five years. New hire options vest 20% at the end of year one and then vest ratably each month, thereafter, for the remaining four years. Recurring option grants vest ratably each month over a five-year period. The contract term of the options is ten years. We applied SFAS No. 123R fair value based on a historical approach. For all option grants prior to the adoption of SFAS No. 123R, we recognize compensation cost using the multiple option approach. For all option grants subsequent to the adoption of SFAS No. 123R, we recognize compensation cost ratably over the service period..

The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model and the assumptions noted in the following table. The expected life of options is based on observed historical exercise patterns. The expected volatility is an equally weighted blend of implied volatilities from traded options on our stock having a life of more than one year and historical volatility over the expected life of the options. The risk free interest rate is based on the implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the option. The dividend yield reflects that we have not paid any dividends and have no intention to pay dividends in the foreseeable future.

The assumptions used for options granted during the three months ended December 30, 2006 and December 31, 2005 are presented below:

	Three Months Ended December 30, 2006		**December 31, 2005**	
Volatility	56.3	%	53.0	%
Risk-free interest rate	4.60	%	4.35	%
Dividend yield	0	%	0	%
Expected life of options	5.5 years		5.4 years	

7

We recorded approximately $904,000 and $3.3 million of compensation expense related to stock options for the three months ended December 30, 2006 and December 31, 2005 (restated), respectively, in accordance with SFAS No. 123R. A summary of stock option activity under the plans for the three months ended December 30, 2006, is presented as follows:

Summary Details for Plan Share Options

	Number of Shares	Weighted-Average Exercise Price ($)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value of In-The-Money Options ($)
Outstanding, September 30, 2006	50,713,754	8.47	6.22	458,342
Granted	103,500	3.94		
Exercised				
Cancelled/Forfeited/Expired	(4,121,288)	6.94		
Outstanding, December 30, 2006	46,695,966	8.60	6.15	320,953
Vested and expected to vest, December 30, 2006	45,357,549	8.73	6.07	310,225
Exercisable, December 30, 2006	40,441,678	9.30	5.73	270,820

The weighted-average grant date fair value of stock options granted during the three months ended December 30, 2006 and December 31, 2005 (restated) was $2.18 for both periods. There were no stock options exercised during the three months ended December 30, 2006. The total intrinsic value of stock options exercised during the three months ended December 31, 2005 was $2.4 million. The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value of in-the-money options based on the Company s closing stock price of $3.45 as of December 29, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of December 30, 2006 was 259,259 and the weighted average exercise price was $2.41.

At December 30, 2006, an aggregate of 70.8 million shares were authorized for future issuance under our stock plans, which covers stock options, employee stock purchase plans, and restricted stock awards. A total of 16.5 million shares of common stock were available for grant under our stock option plans as of December 30, 2006. Awards that expire or are cancelled without delivery of shares generally become available for issuance under the plans.

As of December 30, 2006, there was $17.3 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 3.89 years.

During the three months ended December 31, 2005, a one-time, non-cash benefit of approximately $0.3 million (restated) for estimated future forfeitures of stock options previously expensed was recorded as of the SFAS No. 123R implementation date and reported as a cumulative effect of accounting change. Pursuant to APB No. 25, stock compensation expense was not reduced for estimated future forfeitures, but instead was reversed upon actual forfeiture.

Employee Stock Purchase Plan

In fiscal 2003, the Board of Directors and stockholders of the Company approved the 2003 Employee Stock Purchase Plan (the 2003 ESPP). The maximum number of shares of common stock available for issuance under the 2003 ESPP is nine million shares. On February 27, 2006 an additional six million shares were reserved under the 2003 Employee Stock Purchase Plan. Under the 2003 ESPP, employees may purchase, on a periodic basis, a limited number of shares of common stock through payroll deductions over a six-month period. The per share purchase price is 85% of the fair market value of the stock at the beginning or end of the offering period, whichever is lower.

We have treated the Employee Stock Purchase Plan as a compensatory plan and have recorded compensation expense of approximately $1.3 million for the three months ended December 31, 2005, in accordance with SFAS No. 123R. As a result of the stock option investigation, which has recently been concluded, the Company suspended the ESPP for the six month offering period ended March 31, 2007. The Company did not record compensation expense for ESPP during the three months ended December 30, 2006.

The assumptions used for the three months ended December 31, 2005 are presented below:

	Three Months Ended December 31, 2005 (Restated)	
Volatility	51.0	%
Risk-free interest rate	4.37	%
Dividend yield	0	%
Expected life	0.75 years	

Restricted Stock Awards

We grant awards of restricted stock to executive officers, directors and certain management employees. These awards vest at various periods ranging from one to four years.

Compensation expense computed for the three months ended December 30, 2006, was approximately $1.5 million. Compensation expense computed for the three months ended December 31, 2005 (restated) was approximately $1.9 million.

There were no restricted stock awards granted during the three months ended December 30, 2006 and December 31, 2005, respectively. At December 30, 2006, unrecognized cost related to restricted stock awards totaled approximately $8.3 million. These costs are expected to be recognized over a weighted average period of 0.82 years.

During the three months ended December 31, 2005, a one-time, non-cash benefit of approximately $5.4 million (restated) for estimated future forfeitures of restricted stock awards previously expensed was recorded as of the SFAS No. 123R implementation date and reported as a cumulative effect of accounting change. Pursuant to APB No. 25, stock compensation expense was not reduced for estimated future forfeitures, but instead was reversed upon actual forfeiture.

A summary of the status of the Company s nonvested restricted shares for the three months ended December 30, 2006 is presented below:

	Number of Shares		Weighted Average Grant-Date Fair Value ($)
Nonvested at September 30, 2006	3,038,490		10.43
Granted			
Vested			
Forfeited	(100,000	)	11.67
Nonvested at December 30, 2006	2,938,490		10.38

Restricted Stock Units

During fiscal year 2006, the Company began issuing restricted stock units to executive officers, directors and certain management employees. These awards cliff vest at four years. The units are automatically exchanged for shares at the vesting date.

Compensation expense computed under the fair value method for the three months ended December 30, 2006, was approximately $264,000. Compensation expense computed under the fair value method for the three months ended December 31, 2005 (restated), was approximately $5,000.

There were no restricted stock units granted during the three months ended December 30, 2006. During the three months ended December 31, 2005 (restated), there were 50,000 shares of restricted stock units granted and the weighted-average grant date fair value of the restricted stock units was $4.00. At December 30, 2006, unrecognized cost related to restricted stock units totaled approximately $6.3 million. These costs are expected to be recognized over a weighted average period of 3.29 years.

A summary of the status of the Company s nonvested restricted share units for the three months ended December 30, 2006 are presented below:

	Number of Shares	Weighted-Grant Date Fair Value ($)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic ($)
Non-vested restricted stock units at September 30, 2006	1,526,500	4.79	3.54	5,709,110
Granted				
Vested				
Cancelled	(41,250)	4.06		
Non-vested restricted stock units at December 30, 2006	1,485,250	4.10	3.29	5,124,112
Non-vested restricted stock units expected to vest at December 30, 2006	816,888	4.10	3.29	2,818,262

Performance Restricted Share Plan

During the three months ended December 31, 2005, the Company s Compensation Committee approved the issuance of approximately 2.5 million performance restricted units at a weighted-average grant date fair value of $4.02 per unit to selected executives and other key employees. The units are automatically exchanged for vested shares when certain performance targets are met.

The Company did not record any compensation expense related to the performance restricted shares for the three months ended December 30, 2006 as the Company did not meet the prescribed performance levels. The total unrecognized compensation expense to be recognized over the remaining two years would be approximately $7.5 million, assuming the performance targets are achieved.

Note 3. Derivative Instruments and Hedging Activities

We enter into short-term foreign currency forward contracts to hedge currency exposures associated with certain assets and liabilities denominated in foreign currencies. These contracts typically have maturities of three months or less. At December 30, 2006 and September 30, 2006, we had open forward contracts to exchange various foreign currencies for U.S. dollars in the aggregate notional amount of $380.8 million and $403.4 million, respectively. The net unrealized loss on the contracts at December 30, 2006 was not material and was recorded in accrued liabilities on the Condensed Consolidated Balance Sheet. Realized gains and losses on forward exchange contracts are recognized in the Condensed Consolidated Statement of Operations as offsets to the exchange gains and losses on the hedged transactions. The impact of these foreign exchange contracts was not material to the results of operations for the three months ended December 30, 2006 and December 31, 2005.

We also utilized foreign currency forward and option contracts to hedge certain forecasted foreign currency sales and cost of sales referred to as cash flow hedges. These contracts typically expire within 12 months. Gains and losses on these contracts related to the effective portion of the hedges are recorded in other comprehensive income until the forecasted transactions impact earnings. When the contracts expire, any amounts recorded in other comprehensive income are reclassified to earnings. Gains and losses related to the ineffective portion of the hedges are immediately recognized on the Condensed Consolidated Statement of Operations. At December 30, 2006 and September 30, 2006, we had forward and option contracts related to cash flow hedges in various foreign currencies in the aggregate notional amount of $70.5 million and $10.1 million, respectively. The net unrealized gain on the contracts at December 30, 2006 was not material and was recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets. The impact of the foreign currency forward and option contracts was not material to the results of operations for the three months ended December 30, 2006 and December 31, 2005.

We entered into interest rate swaps to hedge our mix of short-term and long-term interest rate exposures. The aggregate notional amount of the combined swap transactions is $400.0 million. At December 30, 2006 and September 30, 2006, $17.5 million and $17.1 million, respectively, have been recorded in other long-term liabilities to record the fair value of the interest rate swap transactions, with a corresponding decrease to the carrying value of the 6.75% Notes on the Condensed Consolidated Balance Sheets.

Our foreign exchange forward and option contracts and interest rate swaps expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. We minimize such risk by limiting our counterparties to major financial institutions. We do not expect material losses as a result of default by counterparties.

Note 4. Inventories

The components of inventories, net of provisions, are as follows:

	As of December 30, 2006 (In thousands)	September 30, 2006
Raw materials	$ 921,016	$ 905,236
Work-in-process	250,018	262,449
Finished goods	157,107	150,715
Total	$ 1,328,141	$ 1,318,400

Note 5. Goodwill and Other Intangibles Assets

On a consolidated basis, goodwill increased from $1,613 million to $1,618 million primarily as a result of translation adjustments.

Goodwill information for each reporting unit is as follows (in thousands):

	As of September 30, 2006	Additions to Goodwill	As of December 30, 2006
Reporting units:			
Standard Electronic Manufacturing Services	$ 1,524,099	$ 4,857	$ 1,528,956
Personal Computing	89,131		89,131
Total	$ 1,613,230	$ 4,857	$ 1,618,087

The gross and net carrying values of other intangible assets at December 30, 2006 and September 30, 2006 are as follows (in thousands):

	As of December 30, 2006				As of September 30, 2006			
	Gross Carrying Amount	Impairment of Intangibles	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Impairment of Intangibles	Accumulated Amortization	Net Carrying Amount
	(In thousands)							
Other intangible assets	$ 72,106	$ (7,928)	$ (36,254)	$ 27,924	$ 72,106	$ (7,928)	$ (34,376)	$ 29,802

The decrease in other intangible assets from September 30, 2006 to December 30, 2006 was due to amortization of approximately $1.9 million.

Estimated annual amortization expense for other intangible assets at December 30, 2006 is as follows:

Fiscal Years:	(In thousands)
2007 (remainder)	$ 5,653
2008	7,537
2009	4,992
2010	2,958
2011	2,957
Thereafter	3,827
	$ 27,924

11

Note 6. Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income , establishes standards for the reporting of comprehensive income and its components. SFAS No. 130 requires companies to report comprehensive income that includes unrealized holding gains and losses and other items that have previously been excluded from net income and reflected instead in stockholders equity.

The components of other comprehensive income (loss) for the three months ended December 30, 2006 and December 31, 2005 were as follows:

	Three Months Ended December 30, 2006	December 31, 2005 (Restated)
	(In thousands)	
Net income	$ 28,249	$ 17,394
Other comprehensive income (loss):		
Foreign currency translation adjustment	5,755	(11,047)
Unrealized holding gains (losses) on investments		(233)
Minimum pension liability	348	17
Comprehensive income	$ 34,352	$ 6,131

Accumulated other comprehensive income, net of tax as applicable, consists of the following:

	As of December 30, 2006	September 30, 2006
	(In thousands)	
Foreign currency translation adjustment	$ 52,918	$ 47,164
Minimum pension liability	(4,208)	(4,556)
Total accumulated other comprehensive income	$ 48,710	$ 42,608

Note 7. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share includes dilutive common stock equivalents, using the treasury stock method, and assumes that the convertible debt instruments were converted into common stock upon issuance, if dilutive. While the conceptual computation of earnings per share is not changed by SFAS No. 123R (Share-Based Payment), the inclusion of compensation cost will affect the mechanics of the calculation. The compensation cost will be recognized under SFAS No. 123R only for awards that are expected to vest (determined by applying the pre-vesting forfeiture rate assumption), all options or shares outstanding that have not been forfeited would be included in diluted earnings per share. The amount of stock-based compensation cost in the numerator includes a forfeiture rate assumption while the number of shares in the denominator does not.

The following table sets forth the calculation of basic and diluted income per share:

	Three Months Ended December 30, 2006	December 31, 2005 (Restated)
	(In thousands, except per share data)	
Numerator:		
Income before cumulative effect of accounting change	$ 28,249	$ 11,699
Cumulative effect of accounting change, net of tax		5,695
Net income	$ 28,249	$ 17,394
Denominator:		
Weighted average number of shares basic	527,110	524,311
Effect of dilutive potential common shares	1,188	383
Weighted average number of shares diluted	528,298	524,694
Income per share before cumulative effect of accounting change		
basic	$ 0.05	$ 0.02
diluted	$ 0.05	$ 0.02
Net income per share		
basic	$ 0.05	$ 0.03
diluted	$ 0.05	$ 0.03

The following table summarizes the weighted average dilutive securities that were excluded from the above computation of diluted net income per share because their inclusion would have an anti-dilutive effect:

	Three Months Ended December 30, 2006	December 31, 2005 (Restated)
Employee stock options	47,765,404	53,306,804
Restricted stock	1,348,107	3,488,193
Shares issuable upon conversion of 3% notes	12,697,848	12,697,848
Shares issuable upon conversion of 4% notes		6,269
Total anti-dilutive shares	61,811,359	69,499,114

After-tax interest expense of $2.7 million related to the Zero Coupon Convertible Subordinated Debentures and 3% Convertible Subordinated Notes for the three months ended December 30, 2006 and December 31, 2005, respectively, were not included in the computation of diluted income per share because to do so would be anti-dilutive. In addition, the related share equivalents on conversion of the debt were not included as to do so would be anti-dilutive.

Note 8. Debt

Senior Unsecured Term Loan. On October 13, 2006, the Company entered into a Credit and Guaranty Agreement (the Credit Agreement) providing for a $600.0 million senior unsecured term loan which matures on January 31, 2008. The Company drew down the $600.0 million term loan simultaneously with the closing of the transaction. A portion of the proceeds were used to effect the satisfaction and discharge of the 3% Notes. The Company intends to use the remaining proceeds for working capital and general corporate purposes.

The loans will bear interest at the election of the Company at either the prime rate plus 1.5% or at an adjusted LIBOR rate plus 2.5%. On the 181st day after closing, the margins with respect to all loans will increase by 0.5% for the remaining life of the loans. Interest is payable quarterly in arrears with respect to prime rate loans. Interest is payable at the end of each interest period in the case of LIBOR rate loans depending on the Company s election of the length of borrowing period (i.e. one month, three months or six months). Principal, together with accrued and unpaid interest, is due at maturity. In addition, the Company is required to make mandatory prepayments of principal with the net cash proceeds from the sale of certain assets and the incurrence of certain debt.

All of the Company s existing and future domestic subsidiaries will guaranty the obligations under the Credit Agreement, subject to some limited exceptions.

The Credit Agreement contains affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the Credit Agreement contains negative covenants limiting the ability of the Company and its subsidiaries, among other things, to incur debt, grant liens and make certain restricted payments. The events of default under the Credit Agreement include payment defaults, cross defaults with certain other indebtedness, breaches of covenants and bankruptcy events.

As of December 30, 2006 and September 30, 2006, we had no other term loans.

8.125% Senior Subordinated Notes. On February 15, 2006, the Company issued $600 million aggregate principal amount of 8.125% Senior Subordinated Notes due 2016 (the 8.125% Notes). Interest is payable on the 8.125% Notes on March 1 and September 1 of each year, beginning on September 1, 2006. The maturity date of the 8.125% Notes is March 1, 2016. Debt issuance costs of $12.9 million are included in prepaid expenses and other current assets and other non-current assets and amortized on a straight-line basis over the life of the debt as interest expense. The difference between the amortization calculated using the straight-line method as compared to the effective interest method was immaterial. The 8.125% Notes are unsecured and subordinated in right of payment to all of the Company s existing and future senior debt, as defined in the indenture under which the 8.125% Notes were issued.

The Company may redeem the 8.125% Notes, in whole or in part, at any time prior to March 1, 2011, at a redemption price that is equal to the sum of (1) the principal amount of the 8.125% Notes to be redeemed, (2) accrued and unpaid interest on those 8.125% Notes to, but excluding, the redemption date and (3) a make-whole premium calculated in the manner specified in the Indenture for the 8.125% Notes. The Company may redeem the 8.125% Notes, in whole or in part, beginning on March 1, 2011, at declining redemption prices ranging from 104.063% to 100% of the principal amount of the 8.125% Notes, plus accrued and unpaid interest to, but excluding, the redemption date, with the actual redemption price to be determined based on the date of redemption. At any time prior to March 1, 2009, the Company may redeem up to 35% of the 8.125% Notes with the proceeds of certain equity offerings at a redemption price equal to 108.125% of the principal amount of the 8.125% Notes, plus accrued and unpaid interest to, but excluding, the redemption date, so long as after giving effect to any such redemption, at least 65% of the aggregate principal amount of the 8.125% Notes remains outstanding.

Following a change of control, as defined in the Indenture, the Company will be required to make an offer to repurchase all or any portion of the 8.125% Notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest to, but excluding, the date of repurchase.

The 8.125% Notes Indenture includes covenants that limit the ability of the Company and its restricted subsidiaries to, among other things: incur additional debt, make investments and other restricted payments, pay dividends on capital stock, or redeem or repurchase capital stock or subordinated obligations; create specified liens; sell assets; create or permit restrictions on the ability of the Company s restricted subsidiaries to pay dividends or make other distributions to the Company; engage in transactions with affiliates; incur layered debt; and consolidate or merge with or into other companies or

14

sell all or substantially all of the Company s assets. The restrictive covenants are subject to a number of important exceptions and qualifications set forth in the Indenture for the 8.125% Notes.

The 8.125% Notes Indenture provides for customary events of default, including:

- payment defaults;
- breaches of covenants;
- certain payment defaults at final maturity or acceleration of certain other indebtedness;
- failure to pay certain judgments;
- certain events of bankruptcy, insolvency and reorganization; and
- certain instances in which a guarantee ceases to be in full force and effect.

If any event of default occurs and is continuing, subject to certain exceptions, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding 8.125% Notes may declare all the 8.125% Notes to be due and payable immediately, together with any accrued and unpaid interest, if any, to the acceleration date. In the case of an event of default resulting from certain events of bankruptcy, insolvency or reorganization, such amounts with respect to the 8.125% Notes will be due and payable immediately without any declaration or other act on the part of the trustee or the holders of the 8.125% Notes.

On January 3, 2007, the Company and U.S. Bank National Association, as trustee, entered into a supplemental indenture to the indenture under which the Company s 8.125% Senior Subordinated Notes due 2016 were issued. As permitted by the indenture, the supplemental indenture released each of the notes guarantors from its respective obligations under its notes guarantee and the indenture.

6.75% Senior Subordinated Notes. On February 24, 2005, the Company issued $400 million aggregate principal amount of our 6.75% Senior Subordinated Notes due 2013 (the 6.75% Notes). Interest is payable on the 6.75% Notes on March 1 and September 1 of each year, beginning on September 1, 2005. The maturity date of the 6.75% Notes is March 1, 2013. In June 2005, we completed an exchange offer pursuant to which substantially all of the 6.75% Notes were exchanged for notes registered under the Securities Act of 1933. These notes evidence the same debt as the original 6.75% Notes and are issued and entitled to the benefits of the same indenture that governs the original the 6.75% Notes except that they are not subject to transfer restrictions.

The 6.75% Notes are unsecured and subordinated in right of payment to all of our existing and future senior debt as defined in the 6.75% Notes Indenture. We may redeem the 6.75% Notes, in whole or in part, at any time prior to March 1, 2009, at a redemption price that is equal to the sum of (1) the principal amount of the 6.75% Notes to be redeemed, (2) accrued and unpaid interest to, but excluding, the redemption date on those 6.75% Notes and (3) a make-whole premium calculated in the manner specified in the 6.75% Notes Indenture. We may redeem the 6.75% Notes, in whole or in part, beginning on March 1, 2009, at declining redemption prices ranging from 103.375% to 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, with the actual redemption price to be determined based on the date of redemption. At any time prior to March 1, 2008, we may redeem up to 35% of the 6.75% Notes with the proceeds of certain equity offerings at a redemption price equal to 106.75% of the principal amount of the 6.75% Notes, plus accrued and unpaid interest to, but excluding, the redemption date, so long as after giving effect to any such redemption, at least 65% of the aggregate principal amount of the 6.75% Notes remains outstanding.

Following a change of control, as defined in the 6.75% Notes Indenture, we will be required to make an offer to repurchase all or any portion of the 6.75% Notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest to, but excluding, the date of repurchase.

The 6.75% Notes Indenture includes covenants that limit our ability and the ability of our restricted subsidiaries to, among other things: incur additional debt, make investments and other restricted payments, pay dividends on capital stock, or redeem or repurchase capital stock or subordinated obligations; create specified liens; sell assets; create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us; engage in transactions with affiliates; incur layered debt; and consolidate or merge with or into other companies or sell all or substantially all of our assets. The restricted covenants are subject to a number of important exceptions and qualifications set forth in the 6.75% Notes Indenture.

The 6.75% Notes Indenture provides for customary events of default, including payment defaults, breaches of covenants, certain payment defaults at final maturity or acceleration of certain other indebtedness, failure to pay certain judgments, certain events of bankruptcy, insolvency and reorganization and certain instances in which a guarantee ceases to

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be in full force and effect. If any event of default occurs and is continuing, subject to certain exceptions, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding 6.75% Notes may declare all the 6.75% Notes to be due and payable immediately, together with any accrued and unpaid interest, if any, to the acceleration date. In the case of an event of default resulting from certain events of bankruptcy, insolvency or reorganization, such amounts with respect to the 6.75% Notes will be due and payable immediately without any declaration or other act on the part of the trustee or the holders of the 6.75% Notes.

On January 3, 2007, the Company and U.S. Bank National Association, as trustee, entered into a supplemental indenture to the indenture under which the Company s 6.75% Senior Subordinated Notes due 2013 were issued. As permitted by the indenture, the supplemental indenture released each of the notes guarantors from its respective obligations under its notes guarantee and the indenture.

8.125% and 6.75% Senior Subordinated Notes. On September 6, 2006, the Company completed its consent solicitation from the holders of its 6.75% Notes and from the holders of its 8.125% Notes. Holders of a majority of the outstanding aggregate principal amount of its 6.75% Notes and 8.125% Notes submitted, and did not revoke, letters of consent prior to expiration of the consent solicitation period. Pursuant to the consent, the Company received a waiver, until December 14, 2006, of any default or event of default under the terms of the indentures governing such notes that may arise by virtue of the Company s failure to file with the Securities and Exchange Commission and furnish to the trustee and holders of such notes certain reports required to be filed under the Securities Exchange Act of 1934. The Company incurred $12.5 million in aggregate consent fees. These fees have been capitalized and are being amortized over the remaining life of the 6.75% Notes and 8.125% Notes, respectively. The waiver for each series of notes became effective following the payment of the consent fee to each consenting holder of such series of notes, which the Company paid on September 11, 2006. The Company filed Form 10-Q for the quarter ended July 1, 2006 with the Securities and Exchange Commission on December 13, 2006. As a result of filing the Form 10-Q for the quarter ended July 1, 2006 before December 14, 2006, the Company was not in default under the terms of the indentures governing such notes as of December 14, 2006. The Company was also delayed in its filing of the Form 10-K for 2006. This non-compliance matter was cured on January 3, 2007 when the Company filed its 2006 Form 10-K.

10.375% Senior Secured Notes due 2010. On December 23, 2002, we issued $750.0 million of 10.375% Senior Secured Notes due January 15, 2010 (the 10.375% Notes) in a private placement to qualified investors as part of a refinancing transaction pursuant to which we also entered into a $275.0 million senior secured credit facility. On February 28, 2006, the Offer to Purchase and Consent Solicitation (the Offer to Purchase) for any or all of the Company s $750 million 10.375% Notes expired. The total consideration was $1,103.17, which represented the present value of the remaining scheduled payments of principal and interest on the 10.375% Notes due on January 15, 2007 (which is the earliest redemption date for the 10.375% Notes) determined using a discount factor equal to the yield on the Price Determination Date of February 13, 2006 of the 3% U.S. Treasury Notes due December 31, 2006 plus 50 basis points and included a consent fee and accrued and unpaid interest. In conjunction with the offer, the Company solicited consents to proposed amendments to the indenture governing the 10.375% Notes, which eliminated substantially all of the restrictive covenants and certain events of default in the indenture. The Company offered a consent payment (which is included in the total consideration described above) of $30.00 per $1,000 principal amount of 10.375% Notes to holders who validly tendered their 10.375% Notes and delivered their consents prior to the Consent Payment Deadline of February 13, 2006. Holders who tendered their 10.375% Notes after the Consent Payment Deadline but prior to the expiration date received total consideration referred to above, less the consent payment, plus accrued and unpaid interest to the payment date.

As a result of the Company s offer to purchase the 10.375% Notes on January 31, 2006, the Company purchased approximately $721.7 million in aggregate principal. All of the net proceeds of $587 million from the issuance of the 8.125% Notes, together with approximately $239.2 million cash on hand were used to repurchase the 10.375% Notes. Additionally, in connection with the termination of the interest rate swap related to the 10.375% Notes, the Company released $22.5 million in restricted cash.

On February 16, 2006, the Company called for redemption on March 20, 2006 (the Redemption Date) of all the remaining outstanding 10.375% Notes. The aggregate principal amount to be redeemed was approximately $28.3 million. The total consideration amount of $1,108.56 for each $1,000 principal amount was calculated based on the principal amount of the Notes, plus accrued and unpaid interest up to but excluding the redemption date, plus the make-whole premium, totaling approximately $31.3 million. In the aggregate, the 10.375% Notes were redeemed in full on March 20, 2006, and no further interest was accrued.

The Company recorded a loss of approximately $84.6 million from the early extinguishment of the $750 million 10.375% Notes which is comprised of approximately $70.8 million of redemption premium, $2.2 million related to interest

16

rate swap termination, $13.9 million unamortized finance fees relating to the 10.375% Notes and $0.9 million of tender expenses offset by $3.2 million unamortized gain from previously terminated swaps. The loss on debt extinguishment was included in other income (expense), net.

3% Convertible Subordinated Notes due 2007. In March 2000, SCI issued $575.0 million aggregate principal amount of 3% Convertible Subordinated Notes due March 15, 2007, or 3% Notes. Interest on the 3% Notes is payable semi-annually on each March 15 and September 15. In connection with the merger with SCI, the Company entered into a supplemental indenture with respect to the 3% Notes providing a guaranty for the 3% Notes and allowing for the conversion of the 3% Notes into shares of our common stock, at a conversion price of $41.35 per share, subject to adjustment in certain events. The 3% Notes were subordinated in right of payment to all existing and future senior debt, as defined, of the Company. The 3% Notes were redeemable at SCI s option at any time on or after March 20, 2003, although there was no mandatory redemption prior to final maturity. During fiscal 2003, the Company repurchased approximately $50.0 million aggregate principal amount of our 3% Convertible Subordinated Notes due 2007 through unsolicited privately negotiated transactions.

On October 13, 2006, SCI Systems, Inc., one of the Company s wholly owned subsidiaries (SCI Systems), initiated, in accordance with the terms thereof, the satisfaction and discharge of the Indenture, dated as of March 15, 2000, by and between SCI Systems and The Bank of New York Trust Company, National Association, as trustee (as supplemented, the Indenture), pursuant to which SCI Systems issued its 3% Notes due 2007. As a result, $532.9 million in cash was deposited with the trustee, which is equal to the principal and interest due on the 3% Notes at maturity on March 15, 2007. The net proceeds obtained from the Senior Unsecured Term Loan (see below) which is due in January 2008 were used to initiate the satisfaction and discharge of the 3% Notes. Although the Company has satisfied its obligation in accordance with the Indenture, it has not legally been discharged from this obligation. As a result the $532.9 million was classified as restricted cash and classified in the Condensed Consolidated Financial Statements at a current asset as the loan will be repaid in full on March 15, 2007.

Senior Credit Facility. On October 26, 2004, we entered into a Credit and Guaranty Agreement (the Original Credit Agreement) providing for a $500 million senior secured revolving credit facility with a $150 million letter of credit sub-limit. The senior secured credit facility provided for a maturity date of October 26, 2007. We entered into an Amended and Restated Credit and Guaranty Agreement, dated as of December 16, 2005, among us, certain of our subsidiaries, as guarantors, and the lenders that are parties thereto from time to time (the Restated Credit Agreement). The Restated Credit Agreement amended and restated the Original Credit Agreement among other things, to:

- Extend the maturity date from October 26, 2007 to December 16, 2008;
- Amend the leverage ratio;
- Permit us and the guarantors to sell domestic receivables pursuant to factoring or similar arrangements if certain conditions are met; and
- Revise the collateral release provisions.

All of our existing and future domestic subsidiaries guaranty the obligations under the Restated Credit Agreement, subject to some limited exceptions. Our obligations and the obligations of our subsidiaries under the credit facility are secured by: substantially all of our assets; substantially all of the assets of substantially all of our United States subsidiaries located in the United States; a pledge of all capital stock of substantially all of our United States subsidiaries; a pledge of 65% of the capital stock of certain of our and our United States subsidiaries first-tier foreign subsidiaries; and mortgages on certain domestic real estate.

The Restated Credit Agreement provides for the collateral to be released at such time as our 10.375% Notes have been substantially paid in full, we have satisfied our obligations with respect to the Zero Coupon Subordinated Debentures described above, our long-term unsecured noncredit enhanced debt is rated not less than BB by Standard & Poor s and Ba2 by Moody s and we are in pro forma compliance with the financial covenants contained in the credit facility.

The Restated Credit Agreement requires us to comply with a fixed charge coverage ratio and a ratio of total debt to earnings before income tax, depreciation and amortization (EBITDA). Additionally, the credit facility contains numerous affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the credit facility contains negative covenants limiting the ability of us and our subsidiaries, among other things, to incur debt, grant liens, make acquisitions, make certain restricted payments, sell assets and enter into sale and lease back transactions. The events of default under the credit facility include payment defaults, cross defaults with certain other indebtedness, breaches of covenants and bankruptcy events.

At any time the aggregate face amount of receivables sold by us and the guarantors together with any outstanding amounts exceeds the thresholds set forth in the Restated Credit Agreement, the revolving credit commitments for purposes of making loans and issuing letters of credit will be zero. The Restated Credit Agreement provides for the release of the security interests in our and the guarantors accounts receivable at such time as specified conditions are met, including that we have paid at least 85% of the original principal amount of our 10.375% Senior Subordinated Notes, the liens granted there under have been released and our credit ratings meet specified thresholds. The Restated Credit Agreement provides for the collateral (other than stock pledges and other collateral we request not to be released) to be released at such time as specified conditions are met, including that we have paid at least 85% of the principal amount of the SCI Systems 3% Convertible Subordinated Notes due 2007 and our credit ratings meet specified thresholds. If following the release of any portion of the collateral pursuant to the provisions of the credit agreement described above, our credit ratings fall below specified thresholds, then we are required to take such actions as are necessary to grant and perfect a security interest in the assets and properties that would at that time comprise the collateral if the relevant collateral documents were still in effect.

On June 30, 2006, the Company entered into an amendment to the Restated Credit Agreement related to accounts receivable which made some modifications to certain definitions and one of the negative covenants on liens.

On August 10, 2006, the Company entered into a Letter Waiver (Credit Agreement Waiver Letter) with the lenders under its Restated Credit Agreement which waiver was extended multiple times pursuant to a Letter Waiver Extension entered into most recently on December 7, 2006 (the December Waiver). Pursuant to the December Waiver, the lenders under the Restated Credit Agreement waived compliance by the Company with the requirements of the Restated Credit Agreement to deliver financial statements and the compliance certificate for the quarter ended July 1, 2006 and any cross defaults with other indebtedness that may arise from such failure through December 14, 2006. The December Waiver provided the waiver termination date for the Credit Agreement Waiver Letter to December 14, 2006, provided, that if the required date of delivery of the financial statements for the fiscal quarter ended July 1, 2006 under the Company s 8.125% Notes and 6.75% Notes has been extended (by waiver or otherwise) beyond December 14, 2006, the waiver terminates on the earlier of (i) March 31, 2007 and (ii) the third business day preceding the required date of delivery beyond December 14, 2006 for such financial statements as provided in the initial extension thereof by the respective requisite holders of such Notes. The Company filed Form 10-Q for the quarter ended July 1, 2006 with the Securities and Exchange Commission on December 13, 2006. As a result of filing the Form 10-Q for the quarter ended July 1, 2006 before December 14, 2006, the Company was not in default under the terms of the indentures governing such notes as of December 14, 2006. The Company was also delayed in its filing of the Form 10-K for 2006. This non-compliance matter was cured on January 3, 2007 when the Company filed its 2006 Form 10-K.

In addition, the December Waiver waived compliance by the Company with the requirements of the Restated Credit Agreement to deliver financial statements, related reports and a compliance certificate for the fiscal year ended September 30, 2006 and any cross defaults with other indebtedness that may arise from such failure through January 10, 2007, provided, that if the required date of delivery of the financial statements for the 2006 fiscal year under the Company s 8.125% Notes and the 6.75% Notes has been extended (by waiver or otherwise) beyond January 10, 2007, the earlier of (i) March 31, 2007 or (ii) the third business day preceding the required date of delivery beyond January 10, 2007 for such financial statements as provided in the initial extension thereof by the respective holders of such Notes. During the same period, the lenders waived compliance with certain conditions to extensions of credit under the Restated Credit Agreement.

On October 13, 2006, the Company and the required lenders entered into an amendment for its Restated Credit Agreement. Pursuant to the amendment, certain amendments were made to the Restated Credit Agreement to permit the transactions contemplated by the Credit and Guaranty Agreement described below. The amendment also revised the collateral release provision under the Restated Credit Agreement such that collateral (other than stock pledges and other collateral we request not to be released) to be released at such time as specified conditions are met, including that we have repaid in full the outstanding amount under the Credit and Guaranty Agreement and our credit ratings meets specified thresholds.

On December 29, 2006, the Company entered into an amendment and waiver to the Restated Credit Agreement. Among other things, this amendment amended the minimum required levels for both financial covenants and certain related definitions. The fees in regards to the amendment and waiver were deferred and amortize over the debt period. The amount of the fees was immaterial to the financial statements.

There was approximately $100 million of loans outstanding under the Restated Credit Agreement at an average interest rate of 8.75% as of December 30, 2006. Additionally, the Company pays a commitment fee of 0.35% on the unused portion of the credit facility.

The Company is in compliance with its covenants for the above debt instruments.

Note 9. Sale of Accounts Receivable

Certain of the Company s subsidiaries have entered into agreements that permit them to sell specified accounts receivable. The purchase price for receivables sold under these Agreements range from 95% to 100% of its face amount less a discount charge (based on LIBOR plus a percentage ranging from 0.4% to 1.5%) for the period from the date the receivable is sold to its collection date. Accounts receivable sales under these Agreements were $478.4 million and $348.2 million for the three month periods ended December 30, 2006 and December 31, 2005, respectively. The sold receivables are subject to certain limited recourse provisions. In accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liability, accounts receivable sold will be removed from the Condensed Consolidated Balance Sheet and will be reflected as cash provided by operating activities in the Condensed Consolidated Statement of Cash Flows. As of December 30, 2006, $249.1 million of sold accounts receivable remain subject to certain recourse provisions. We have not experienced any credit losses under these recourse provisions. The discount charge recorded during the period was not material to the financial statements. The discount charge is recorded in selling, general and administrative expenses on the Condensed Consolidated Statement of Operations.

As part of the sale of accounts receivables, the Company had a retained interest of $10.2 million at December 30, 2006. There was no retained interest at December 31, 2005. The accounts receivable relating to this retained interest was reclassified from accounts receivable to prepaid and other current assets. The retained interest has subsequently been collected.

Note 10. Commitments and Contingencies

Litigation and other contingencies. The Company is involved in a shareholder derivative actions and a Securities and Exchange Commission (SEC) Informal Inquiry, and has received a subpoena from the U.S. Attorney s office in connection with certain historical stock option grants. Presently, the Company is unable to predict the outcome of these investigations.

From time to time, we are a party to litigation and other contingencies, including examinations by taxing authorities, which arise in the ordinary course of business. We believe that the resolution of such litigation and other contingencies will not materially harm our business, financial condition or results of operations.

Note 11. Restructuring Costs

In recent periods, we have initiated restructuring plans as a result of the slowdown in the global electronics industry and the worldwide economy. These plans were designed to reduce excess capacity and affected facilities across all services offered in our vertically integrated manufacturing organization. The majority of the restructuring charges recorded as a result of these plans related to facilities located in North America and Europe, and in general, manufacturing activities at these plants were transferred to other facilities.

Costs associated with restructuring activities initiated on or after January 1, 2003, other than those activities related to purchase business combinations, are accounted for in accordance with SFAS No. 146 and SFAS No. 112 where applicable. Pursuant to SFAS No. 112, restructuring costs related to employee severance are recorded when probable and estimable. For all other restructuring costs a liability is recognized in accordance with SFAS No. 146 only when incurred. Accrued restructuring costs are included in accrued liabilities in the Condensed Consolidated Balance Sheets. Below is a summary of the activity related to restructuring costs recorded pursuant to SFAS No. 146 and SFAS No. 112 through the first quarter of fiscal year 2007:

	Employee Termination Benefits	Lease and Contract Termination Costs	Other Restructuring Costs (In thousands)	Impairment of Fixed Assets	
	Cash	**Cash**	**Cash**	**Non-Cash**	**Total**
Balance at October 2, 2004	$ 15,496	$ 1,587	$ 42	$	$ 17,125
Charges to operations	84,451	14,070	6,404	6,932	111,857
Charges utilized	(64,823)	(12,533)	(6,446)	(6,932)	(90,734)
Reversal of accrual	(2,508)				(2,508)
Balance at October 1, 2005	32,616	3,124			35,740
Charges to operations	95,563	1,306	12,956	24,165	133,990
Charges utilized	(96,738)	(1,732)	(13,206)	(24,165)	(135,841)
Reversal of accrual	(4,790)		(40)		(4,830)
Balance at September 30, 2006	26,651	2,698	(290)		29,059
Charges to operations	2,871		3,292	87	6,250
Charges utilized	(17,427)	(334)	(3,002)	(87)	(20,850)
Balance at December 30, 2006	$ 12,095	$ 2,364	$	$	$ 14,459

During the three month period ended December 30, 2006, we recorded restructuring charges of approximately $6.3 million related to restructuring activities pursuant to SFAS No. 146 and SFAS No. 112. These charges included employee termination benefits of approximately $2.9 million, other restructuring costs of approximately $3.3 million, incurred primarily to prepare facilities for closure, and impairment of fixed assets of approximately $87,000 pursuant to SFAS No. 144, Impairment of Long-Lived Assets , mainly consisting of a building complex in one of our European facilities. These facilities have been reclassified as assets held for sale and included in prepaid expenses and other current assets in our Condensed Consolidated Balance Sheets. During the quarter, we sold one of our European facilities previously classified as assets held for sale to a group of our former employees for a net gain of approximately $6.0 million which is recorded in other income (expense), net, on the Condensed Consolidated Statement of Operations. As part of this transaction, we entered into a supply agreement in regards to receiving manufacturing services from the buyer. The employee termination benefits were related to involuntary termination of employees, the majority of which were involved in manufacturing activities. Approximately $17.4 million of employee termination benefits were utilized and 2,739 employees were terminated during the three months ended December 30, 2006 pursuant to the restructuring plan. We also utilized $334,000 of lease and contract termination costs and $3.0 million of the other restructuring costs during the three month period ended December 30, 2006. We expect to pay the balance of the employee termination benefits in the near term and the accrued lease costs will be paid over the next four years.

In fiscal 2006, we recorded charges of approximately $129.1 million (net of $4.8 million reversal of accrual) related to restructuring activities pursuant to SFAS No. 146 and SFAS No. 112, all of which related to our restructuring plan. These charges included employee termination benefits of approximately $95.6 million, lease and contract termination costs of approximately $1.3 million, other restructuring costs of approximately $13.0 million, incurred primarily to prepare facilities for closure, and impairment of fixed assets of approximately $24.2 million consisting of excess facilities and equipment to be disposed of. The employee termination benefits were related to the involuntary termination of employees, the majority of which were involved in manufacturing activities. Approximately $97.0 million of employee termination benefits were

utilized and a total of approximately 15,042 employees were terminated during fiscal 2006. We also utilized $1.7 million of lease and contract termination costs and $13.2 million of the other restructuring costs (other facilities charges) during fiscal 2006. We incurred charges to operations of $24.1 million during fiscal 2006 for the impairment of excess fixed assets at the vacated facilities, all of which were utilized as of September 30, 2006. We reversed approximately $4.8 million of accrued employee termination benefits. The reversal of accrual was primarily a result of the changes in estimates.

In fiscal 2005, we recorded charges of approximately $109.3 million (net of $2.5 million reversal of accrual) related to restructuring activities pursuant to SFAS No. 146 and SFAS No. 112, of which $106.3 million related to our phase three restructuring plan and $3.0 million related to our phase two restructuring plan. These charges included employee termination benefits of approximately $84.5 million, lease and contract termination costs of approximately $14.1 million, other restructuring costs of approximately $6.4 million, incurred primarily to prepare facilities for closure, and impairment of fixed assets of approximately $6.9 million consisting of excess facilities and equipment to be disposed of. The employee termination benefits were related to the involuntary termination of employees, the majority of which were involved in manufacturing activities. Approximately $64.8 million of employee termination benefits were utilized and a total of approximately 11,800 employees were terminated during fiscal 2005. We also utilized $12.5 million of lease and contract termination costs and $6.4 million of the other restructuring costs (other facilities charges) during fiscal 2005. We incurred charges to operations of $6.9 million during fiscal 2005 for the impairment of excess fixed assets at the vacated facilities, all of which were utilized as of October 1, 2005. We reversed approximately $2.5 million of accrued employee termination benefits. The reversal of accrual was a result of the changes in estimates and economic circumstances in one of our European entities.

Costs associated with restructuring activities initiated prior to January 1, 2003, other than those activities related to purchase business combinations, are accounted for in accordance with EITF 94-3 and SFAS 112 where applicable. Accordingly, costs associated with such plans are recorded as restructuring costs in the consolidated statements of operations generally at the commitment date. The accrued restructuring costs are included in accrued liabilities in the consolidated balance sheet. Below is a summary of the activity related to restructuring costs recorded pursuant to EITF 94-3 and SFAS No. 112 through the first quarter of fiscal year 2007:

	Employee Severance and Related Expenses	**Leases and Facilities Shutdown and Consolidation Costs**	**Write-off Impaired or Redundant Fixed Assets**	
		(In thousands)		
	Cash	**Cash**	**Non-Cash**	**Total**
Balance at October 2, 2004	$ 1,227	$ 14,925	$	$ 16,152
Charges to operations	2,285	2,522	4,107	8,914
Charges utilized	(3,010)	(7,890)	(4,107)	(15,007)
Balance at October 1, 2005	502	9,557		10,059
Charges to operations	1,549	2,577	(136)	3,990
Charges utilized	(545)	(4,424)	136	(4,833)
Reversal of accrual	(51)	(420)		(471)
Balance at September 30, 2006	1,455	7,290		8,745
Charges to operations		191	237	428
Charges utilized	(23)	(981)	(237)	(1,241)
Reversal of accrual	(266)			(266)
Balance at December 30, 2006	$ 1,166	$ 6,500	$	$ 7,666

The following sections separately present the charges to the restructuring liability and charges utilized that are set forth in the above table on an aggregate basis. We expect to pay the balance of the employee termination benefits in the near term and the accrued lease costs will be paid over the next four years.

Fiscal 2002 Plans

September 2002 Restructuring. During the three month period ended December 30, 2006, we recorded charges to operations of approximately $114,000 and utilized approximately $827,000 of accrued costs related to the shutdown of facilities. Approximately $34,000 gain was incurred to operations due to disposal of fixed assets. There were no employees terminated during the three month period ended December 30, 2006 pursuant to this restructuring plan.

In fiscal 2006, we recorded charges to operations of approximately $112,000 and utilized approximately $1.7 million related to the shutdown of facilities. In addition, $603,000 was charged to operations and utilized due to the impairment of fixed assets to be disposed of.

In fiscal 2005, we recorded charges to operations of approximately $203,000 and utilized $216,000 for employee severance expenses. There was no reduction of work force during fiscal 2005 pursuant to this restructuring plan. During fiscal 2005, we also recorded charges to operations of approximately $544,000 and utilized approximately $2.7 million for non-cancelable lease payments, lease termination costs and related costs for the shutdown of facilities. In addition, $800,000 was charged to operations and utilized due to the impairment of fixed assets to be disposed of. The closing of the plants discussed above as well as employee terminations and other related activities have been completed, however, the leases of the related facilities expire in 2009; therefore, the remaining accrual will be reduced over time as the lease payments, net of sublease income, are made.

October 2001 Restructuring. During the three month period ended December 30, 2006, we incurred and utilized approximately $52,000 charges related to the shutdown of facilities. Approximately $22,000 employee termination benefits were utilized. We also reversed approximately $266,000 of accrued employee termination benefits due to the changes in estimates and economic circumstances.

In fiscal 2005, we recorded charges to operations of approximately $2.0 million for employee severance costs, of which $1.9 million was related to the settlement of pension plan at a Canadian site. We also recorded approximately $82,000 for non-cancelable lease payments and other costs related to the shutdown of facilities. We utilized accrued severance charges of approximately $2.7 million and accrued facilities shutdown related charges of $811,000 during fiscal 2005. In addition, we incurred and utilized charges of $633,000 in fiscal 2005 related to write-offs of fixed assets consisting of excess equipment and leasehold improvements to facilities that were permanently vacated. Manufacturing activities at the facilities affected by this plan ceased in fiscal year 2003 or prior; however, final payments of accrued costs may not occur until later periods.

Fiscal 2001 Plans

Segerström Restructuring. In fiscal 2005, we completed the restructuring activities at a cost of $835,000 which was related to accrued facility charges.

July 2001 Restructuring. During the three month period ended December 30, 2006, we recorded approximately $31,000 and utilized approximately $102,000 of accrued costs related to the shutdown of facilities. We also recorded charges to operations and fully utilized $271,000 for write-off of impaired fixed assets.

In fiscal 2006, we recorded approximately $1.5 million of accrued severance for our Mexican facilities. In addition, we recorded approximately $2.3 million and utilized $2.6 million of accrued costs related to the shutdown of facilities. We also incurred and utilized $234,000 for the impairment of fixed assets to be disposed of. Manufacturing activities at the plants affected by this plan had ceased by the fourth quarter of fiscal 2002; however, the leases of the related facilities expire between 2005 and 2010, therefore, the remaining accrual will be reduced over time as the lease payments, net of sublease income, are made.

In fiscal 2005, we recorded approximately $43,000 and utilized approximately $100,000 of accrued severance. In addition, we recorded approximately $1.9 million and utilized approximately $3.5 million of accrued costs related to the shutdown of facilities. We also incurred and utilized $2.7 million for the impairment of fixed assets to be disposed of. Manufacturing activities at the plants affected by this plan had ceased by the fourth quarter of fiscal 2002; however, the leases of the related facilities expire between 2005 and 2010, therefore, the remaining accrual will be reduced over time as the lease payments, net of sublease income, as made.

The sublease income in relation to all restructured facilities is approximately $347,000.

Cost associated with restructuring activities related to purchase business combinations are accounted for in accordance with EITF 95-3. Below is a summary of the activity related to restructuring costs recorded pursuant to EITF 95-3 through the first quarter of fiscal year 2007:

	Employee Severance and Related Expenses	**Facilities Shutdown and Consolidation Costs (In thousands)**	**Write-off Impaired or Redundant Fixed Assets**	
	Cash	**Cash**	**Non-Cash**	**Total**
Balance at October 2, 2004	$ 2,084	$ 2,178	$	$ 4,262
Accrued utilized	(773)	(393)		(1,166)
Balance at October 1, 2005	1,311	1,785		3,096
Charges to operations	114	125		239
Charges utilized	(40)	(1,804)		(1,844)
Reversal of accrual	(687)			(687)
Balance at September 30, 2006	698	106		804
Charges to operations			(3,198)	(3,198)
Charges utilized			3,198	3,198
Balance at December 30, 2006	$ 698	$ 106	$	$ 804

During the quarter, we sold one of our North American facilities previously classified as assets held for sale for a net gain of approximately $3.2 million.

The following sections separately present the charges to the restructuring liability and charges utilized that are set forth in the above table on an aggregate basis.

SCI Acquisition Restructuring. During the three month period ended December 30, 2006, we recognized approximately $3.2 million recovery from the sale of one of our domestic facilities previously classified as assets held for sale.

In fiscal 2006, we utilized a total of $1.8 million of facilities-related accruals and reversed $687,000 of accrued severance due to a change in estimate.

In fiscal 2005, we utilized $731,000 related to employee severance and utilized $393,000 due to facilities shutdown.

Segments. The following table summarizes the total restructuring costs incurred with respect to our reportable segments through the first quarter of fiscal year 2007 (in thousands):

	December 30, 2006	**December 31, 2005**
Personal Computing	$ (1,997)	$ 20,701
Standard Electronic Manufacturing Services	5,212	14,927
Total	$ 3,215	$ 35,628
Cash	$ 6,089	$ 20,042
Non-cash	(2,874)	15,586
Total	$ 3,215	$ 35,628

The cumulative restructuring costs per segment have not been disclosed as it is impractical to do so. The recognition of restructuring charges requires our management to make judgments and estimates regarding the nature, timing, and amount of costs associated with the planned exit activity, including estimating sublease income and the fair value, less selling costs, of property, plant and equipment to be disposed of. Management s estimates of future liabilities may change, requiring us to record additional restructuring charges or reduce the amount of liabilities already recorded.

23

Note 12. Income Taxes

The Company s effective tax rate for the three months ended December 30, 2006 and December 31, 2005 was approximately 23.8% and 1,030.0%, respectively. The effective rate for the three months ended December 30, 2006 differs from the same period in fiscal year 2006 due primarily to the recognition of a $27.9 million tax benefit in the first quarter of fiscal 2006 resulting from a favorable settlement with the U.S. Internal Revenue Service in relation to certain U.S. tax audits.

Note 13. Business Segment, Geographic and Customer Information

SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information , establishes standards for reporting information about operating segments, products and services, geographic areas of operations and major customers. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker or decision making group in deciding how to allocate resources and in assessing performance.

The following table presents information about reportable segments for the following fiscal periods:

	Three Months Ended December 30, 2006	December 31, 2005 (Restated)
	(In thousands)	
Net sales:		
Standard Electronic Manufacturing Services	$ 1,941,733	$ 1,911,389
Personal Computing	837,057	950,408
Total net sales	$ 2,778,790	$ 2,861,797
Gross profit:		
Standard Electronic Manufacturing Services	$ 153,256	$ 149,252
Personal Computing	15,422	19,235
Total gross profit	$ 168,678	$ 168,487

For the three months ended December 30, 2006, three customers in Personal Computing accounted for 12.8%, 10.6% and 10.2%, respectively, of total consolidated revenues. For the three months ended December 31, 2005 two customers in Personal Computing accounted for 14.9% and 12.1%, respectively, of consolidated revenue. For the three month periods ended December 30, 2006 and December 31, 2005, there were no inter-segment sales between Standard Electronic Manufacturing Services and Personal Computing.

The following summarizes financial information by geographic segment:

	Three Months Ended December 30, 2006	December 31, 2005 (Restated)
	(In thousands)	
Net sales:		
Domestic	$ 705,742	$ 723,301
International	2,073,048	2,138,496
Total net sales	$ 2,778,790	$ 2,861,797
Operating Income:		
Domestic	$ 9,550	$ (16,535)
International	48,983	48,011
Total operating income	$ 58,533	$ 31,476

Note 14. Warranty Reserve

The following tables summarize the warranty reserve balance:

Balance as of September 30, 2006	Additions to Accrual	Accrual Utilized	Balance as of December 30, 2006
(in thousands)			
$ 16,442	$ 5,137	$ (4,347)	$ 17,232

Balance as of October 1, 2005	Additions to Accrual	Accrual Utilized	Balance as of December 31, 2005
(in thousands)			
$ 20,867	$ 2,938	$ (401)	$ 23,404

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to our expectations for future events and time periods. All statements other than statements of historical fact are statements that could be deemed to be forward-looking statements, including any statements regarding trends in future revenues or results of operations, gross margin or operating margin, expenses, earnings or losses from operations, synergies or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning developments, performance or industry ranking; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Generally, the words anticipate, believe, plan, expect, future, intend, may, will, should, estimate, predict, potential, continue and similar expressions identify forward-looking statements. Our forward-looking statements are based on current expectations, forecasts and assumptions and are subject to risks, uncertainties and changes in condition, significance, value and effect. We undertake no obligation to publicly disclose any revisions to these forward-looking statements to reflect events or circumstances occurring subsequent to filing this report with the Securities and Exchange Commission.

Overview

We are a leading independent global provider of customized, integrated electronics manufacturing services, or EMS. Our revenue is generated from sales of our services primarily to original equipment manufacturers, or OEMs, in the communications, personal and business computing, enterprise computing and storage, multimedia, industrial and semiconductor capital equipment, defense and aerospace, medical and automotive industries. Additionally, we are reviewing strategic alternatives in regards to the separation of our personal and business computing business.

A relatively small number of customers historically have been responsible for a significant portion of our net sales. Sales to our ten largest customers accounted for 61.1% and 64.3% of our net sales for the three months ended December 30, 2006 and December 31, 2005, respectively. Three customers accounted for 10% or more of our net sales during the three month period ended December 30, 2006, and two of our customers accounted for 10% or more of our net sales during the three months ended December 31, 2005.

In recent periods, we have generated a significant portion of our net sales from international operations. During the three month periods ended December 30, 2006 and December 31, 2005, 74.6% and 74.7%, respectively, of our consolidated net sales were derived from non-U.S. operations. The concentration of international operations has resulted from overseas acquisitions and a desire on the part of many of our customers to move production to lower cost locations in regions such as Asia, Latin America and Eastern Europe. We expect this trend to continue.

Historically, we have had substantial recurring sales from existing customers. We have also expanded our customer base through acquisitions. We typically enter into supply agreements with our major OEM customers. These agreements generally have terms ranging from three to five years and cover the manufacture of a range of products. Under these agreements, a customer typically agrees to purchase its requirements for particular products in particular geographic areas from us. These agreements generally do not obligate the customer to purchase minimum quantities of products. In some circumstances our supply agreements with customers provide for cost reduction objectives during the term of the agreement.

We have experienced fluctuations in gross margins in the past and may continue to in the future. Fluctuations in our gross margins may be caused by a number of factors, including pricing, changes in product mix, competitive pressures and transition of manufacturing to lower cost locations.

Critical Accounting Policies and Estimates

Management s discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net sales and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate the process used to develop estimates for certain reserves and contingent liabilities, including those related to product returns, accounts receivable, inventories, investments, intangible assets, income taxes, warranty obligations, restructuring, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates.

For a complete description of our key critical accounting policies and estimates, refer to our 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission on January 3, 2007.

Recent Accounting Pronouncements

On September 13, 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements . SAB No. 108, addresses quantifying the financial statement effects of misstatements; specifically, how the effects of prior year uncorrected misstatements must be considered in quantifying misstatements in the current year financial statements. In addition, SAB No. 108 provides guidance on the correction of misstatements, including the correction of prior period financial statements for immaterial misstatements. Importantly, SAB No. 108 offers a one-time special transition provision for correcting certain prior year misstatements that were uncorrected as of the beginning of the fiscal year of adoption. SAB No. 108 is effective for fiscal years ended after November 15, 2006. We expect to adopt this standard at year end September 29, 2007. We are currently reviewing this pronouncement to determine the potential impact to our financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an Amendment of FASB Statements No. 87, 88, 106 and 132(R). The statement requires an employer to recognize in its statement of financial position an asset for a plan s over-funded status or a liability for a plan s under-funded status. The measurement date of the plans assets and obligations that determine the funded status will be as of the end of the employer s fiscal year. The statement will be effective as of the end of fiscal 2007. We are currently reviewing this statement to determine the potential impact to our financial position, results of operations, and related cash flows.

Summary Results of Operations

The following table sets forth, for the three months ended December 30, 2006 and December 31, 2005, certain items in the Condensed Consolidated Statement of Operations expressed as a percentage of net sales. The table and the discussion below should be read in conjunction with the condensed consolidated financial statements and the notes thereto, which appear elsewhere in this report.

	Three Months Ended December 30, 2006		**December 31, 2005 (Restated)**	
Net sales	100.0	%	100.0	%
Cost of sales	93.9		94.1	
Gross margin	6.1		5.9	
Operating expenses:				
Selling, general and administrative	3.5		3.1	
Research and development	0.3		0.3	
Amortization of intangible assets	0.1		0.1	
Restructuring costs	0.1		1.3	
Total operating expenses	4.0		4.8	
Operating income	2.1		1.1	
Interest income	0.4		0.2	
Interest expense	(1.6	)	(1.1	)
Other income (expense), net	0.4		(0.2	)
Interest and other expense, net	(0.8	)	(1.1	)
Income before income taxes and cumulative effect of accounting changes	1.3			
Provision for (benefit from) income taxes	0.3		(0.4	)
Income before cumulative effect of accounting change	1.0		0.4	
Cumulative effect of accounting change, net of tax			(0.2	)
Net income	1.0	%	0.6	%

The following table sets forth, for the periods indicated, key operating results (in thousands):

	Three Months Ended	
	December 30, 2006	December 31, 2005
		(Restated)
	(In thousands)	
Net sales	$ 2,778,790	$ 2,861,797
Gross profit	$ 168,678	$ 168,487
Operating income	$ 58,533	$ 31,476
Net income	$ 28,249	$ 17,394

Key performance measures

The following table sets forth, for the periods indicated, certain key performance measures that management utilizes to assess operating results:

	Three Months Ended		
	December 30, 2006	September 30, 2006	December 31, 2005
Days sales outstanding(1)	50	51	51
Inventory turns(2)	7.9	7.9	9.6
Accounts payable days(3)	52	53	55
Cash cycle days(4)	45	44	33

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(1) Days sales outstanding is calculated as the ratio of ending accounts receivable, net, for the quarter divided by average daily net sales for the quarter.

(2) Inventory turns are calculated as the ratio of four times our cost of sales for the quarter divided by inventory at period end.

(3) Accounts payable days is calculated as the ratio of 365 days divided by accounts payable turns, in which accounts payable turns is calculated as the ratio of four times our cost of sales for the quarter divided by accounts payable at period end.

(4) Cash cycle days is calculated as the ratio of 365 days divided by inventory turns plus days sales outstanding minus accounts payable days.

Results of Operations

Net Sales

Net sales for the first quarter of fiscal 2007 decreased by 2.9% to $2.8 billion from $2.9 billion in the first quarter of fiscal 2006. The decrease in sales was primarily due to decreased demand of approximately $113 million from our existing customers in the personal computing end market of the electronics industry, $54 million from our high-end computing end market, $42 million from our communications end market, offset by an increase of $40 million and $42 million from our industrial instruments and consumer product businesses.

Gross Margin

Gross margin increased from 5.9% in the first quarter of fiscal 2006 to 6.1% in the first quarter of fiscal 2007. The increase in gross margin for the three months ended December 30, 2006 as compared to the three months ended December 31, 2005 were primarily attributable to favorable product mix, increased margins in our enclosure and industrial instrumentation businesses and lower stock-based compensation expense. This increase is offset by decreased margin in our PCB Fabrication business and a net decrease in margin for the remaining businesses. We expect gross margins to continue to fluctuate based on overall production and shipment volumes as well as changes in the mix of products demanded by our major customers.

Fluctuations in our gross margins may be caused by a number of factors, including:

- Greater competition in the EMS and pricing pressures from OEMs due to the greater cost reduction focus of global OEMs;

- Changes in the mix of high and low margin products demanded by our customers;

- Changes in customer demand and sales volumes, including demand for our vertically integrated key system components and subassemblies;

- Charges or write offs of excess and obsolete inventory that we are not able to charge back to a customer or sales of inventories previously written down;

- Pricing pressure on electronic components resulting from economic conditions in the electronics industry, with EMS companies competing more aggressively on cost to obtain new or maintain existing business; and

- Our ability to transition manufacturing and assembly operations to lower cost regions in an efficient manner.

We have experienced fluctuations in gross margin in the past and may continue to do so in the future.

Operating Expenses

Selling, general and administrative expenses

Selling, general and administrative expenses increased $6.2 million to $96.3 million in the first quarter of fiscal 2007 from $90.1 million in the first quarter of fiscal 2006. Selling, general and administrative expenses increased as a percentage of net sales, to 3.5% in the first quarter of fiscal 2007 from 3.1% in the first quarter of fiscal 2006. The dollar increase in selling, general, and administrative expenses in the first quarter of fiscal 2007 as compared to the first quarter of fiscal 2006 was primarily attributable to additional expenses we incurred in connection with our investigation of stock option administration policies and procedures dating back to 1997, increased selling and marketing expenses, partially offset by decreased stock based compensation expense. The increase in selling, general, and administrative expenses in the first quarter of fiscal 2007 as compared to the first quarter of fiscal 2006 in terms of percentage of sales was primarily attributable to increased expenses as noted above and a decrease in net sales in the first quarter of fiscal 2007.

Research and Development

Research and development expenses remained relatively flat at $9.0 million for both the first quarter of fiscal 2006 and the first quarter of fiscal 2007. Research and development as a percentage of net sales remained flat at 0.3% for both first quarters of fiscal 2007 and fiscal 2006. We expect research and development expenses to decline in future periods.

Restructuring costs

In recent periods, we have initiated restructuring plans as a result of the slowdown in the global electronics industry and the worldwide economy. These plans were designed to reduce excess capacity and affected facilities across all services offered in our vertically integrated manufacturing organization. The majority of the restructuring charges recorded as a result of these plans related to facilities located in North America and Europe, and in general, manufacturing activities at these plants were transferred to other facilities.

Costs associated with restructuring activities initiated on or after January 1, 2003, other than those activities related to purchase business combinations, are accounted for in accordance with SFAS No. 146 and SFAS No. 112 where applicable. Pursuant to SFAS No. 112, restructuring costs related to employee severance are recorded when probable and estimable. For all other restructuring costs a liability is recognized in accordance with SFAS No. 146 only when incurred. Accrued restructuring costs are included in accrued liabilities in the Condensed Consolidated Balance Sheets. Below is a summary of the activity related to restructuring costs recorded pursuant to SFAS No. 146 and SFAS No. 112 through the first quarter of fiscal year 2007:

	Employee Termination Benefits (In thousands) Cash	Lease and Contract Termination Costs Cash	Other Restructuring Costs Cash	Impairment of Fixed Assets Non-Cash	Total
Balance at October 2, 2004	$ 15,496	$ 1,587	$ 42	$	$ 17,125
Charges to operations	84,451	14,070	6,404	6,932	111,857
Charges utilized	(64,823)	(12,533)	(6,446)	(6,932)	(90,734)
Reversal of accrual	(2,508)				(2,508)
Balance at October 1, 2005	32,616	3,124			35,740
Charges to operations	95,563	1,306	12,956	24,165	133,990
Charges utilized	(96,738)	(1,732)	(13,206)	(24,165)	(135,841)
Reversal of accrual	(4,790)		(40)		(4,830)
Balance at September 30, 2006	26,651	2,698	(290)		29,059
Charges to operations	2,871		3,292	87	6,250
Charges utilized	(17,427)	(334)	(3,002)	(87)	(20,850)
Balance at December 30, 2006	$ 12,095	$ 2,364	$	$	$ 14,459

During the three month period ended December 30, 2006, we recorded restructuring charges of approximately $6.3 million related to restructuring activities pursuant to SFAS No. 146 and SFAS No. 112. These charges included employee termination benefits of approximately $2.9 million, other restructuring costs of approximately $3.3 million, incurred primarily to prepare facilities for closure, and impairment of fixed assets of approximately $87,000 pursuant to SFAS No. 144, Impairment of Long-Lived Assets , mainly consisting of a building complex in one of our European facilities. These facilities have been reclassified as assets held for sale and included in prepaid expenses and other current assets in our Condensed Consolidated Balance Sheets. During the quarter, we sold one of our European facilities previously classified as assets held for sale to a group of our former employees for a net gain of approximately $6.0 million which is recorded in other income (expense), net, on the Condensed Consolidated Statement of Operations. As part of this transaction, we entered into a supply agreement in regards to receiving manufacturing services from the buyer. The employee termination benefits were related to involuntary termination of employees, the majority of which were involved in manufacturing activities. Approximately $17.4 million of employee termination benefits were utilized and 2,739 employees were terminated during the three months ended December 30, 2006 pursuant to the restructuring plan. We also utilized $334,000 of lease and contract termination costs and $3.0 million of the other restructuring costs during the three month period ended December 30, 2006. We expect to pay the balance of the employee termination benefits in the near term and the accrued lease costs will be paid over the next four years.

In fiscal 2006, we recorded charges of approximately $129.1 million (net of $4.8 million reversal of accrual) related to restructuring activities pursuant to SFAS No. 146 and SFAS No. 112, all of which related to our restructuring plan. These charges included employee termination benefits of approximately $95.6 million, lease and contract termination costs of approximately $1.3 million, other restructuring costs of approximately $13.0 million, incurred primarily to prepare facilities for closure, and impairment of fixed assets of approximately $24.2 million consisting of excess facilities and equipment to be disposed of. The employee termination benefits were related to the involuntary termination of employees, the majority of which were involved in manufacturing activities. Approximately $97.0 million of employee termination benefits were utilized and a total of approximately 15,042 employees were terminated during fiscal 2006. We also utilized $1.7 million of lease and contract termination costs and $13.2 million of the other restructuring costs (other facilities charges) during fiscal 2006. We incurred charges to operations of $24.1 million during fiscal 2006 for the impairment of excess fixed assets at the vacated facilities, all of which were utilized as of September 30, 2006. We reversed approximately $4.8 million of accrued employee termination benefits. The reversal of accrual was primarily a result of the changes in estimates and economic circumstances.

In fiscal 2005, we recorded charges of approximately $109.3 million (net of $2.5 million reversal of accrual) related to restructuring activities pursuant to SFAS No. 146 and SFAS No. 112, of which $106.3 million related to our phase three restructuring plan and $3.0 million related to our phase two restructuring plan. These charges included employee termination benefits of approximately $84.5 million, lease and contract termination costs of approximately $14.1 million, other restructuring costs of approximately $6.4 million, incurred primarily to prepare facilities for closure, and impairment of fixed assets of approximately $6.9 million consisting of excess facilities and equipment to be disposed of. The employee termination benefits were related to the involuntary termination of employees, the majority of which were involved in manufacturing activities. Approximately $64.8 million of employee termination benefits were utilized and a total of

approximately 11,800 employees were terminated during fiscal 2005. We also utilized $12.5 million of lease and contract termination costs and $6.4 million of the other restructuring costs (other facilities charges) during fiscal 2005. We incurred charges to operations of $6.9 million during fiscal 2005 for the impairment of excess fixed assets at the vacated facilities, all of which were utilized as of October 1, 2005. We reversed approximately $2.5 million of accrued employee termination benefits. The reversal of accrual was a result of the changes in estimates and economic circumstances in one of our European entities.

Costs associated with restructuring activities initiated prior to January 1, 2003, other than those activities related to purchase business combinations, are accounted for in accordance with EITF 94-3 and SFAS 112 where applicable. Accordingly, costs associated with such plans are recorded as restructuring costs in the consolidated statements of operations generally at the commitment date. The accrued restructuring costs are included in accrued liabilities in the consolidated balance sheet. Below is a summary of the activity related to restructuring costs recorded pursuant to EITF 94-3 and SFAS No. 112 through the first quarter of fiscal year 2007:

	Employee Severance and Related Expenses (In thousands)	**Leases and Facilities Shutdown and Consolidation Costs**	**Write-off Impaired or Redundant Fixed Assets**	
	Cash	**Cash**	**Non-Cash**	**Total**
Balance at October 2, 2004	$ 1,227	$ 14,925	$	$ 16,152
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The following sections separately present the charges to the restructuring liability and charges utilized that are set forth in the above table on an aggregate basis. We expect to pay the balance of the employee termination benefits in the near term and the accrued lease costs will be paid over the next four years.

Fiscal 2002 Plans

September 2002 Restructuring. During the three month period ended December 30, 2006, we recorded charges to operations of approximately $114,000 and utilized approximately $827,000 of accrued costs related to the shutdown of facilities. Approximately $34,000 gain was incurred to operations due to disposal of fixed assets. There were no employees terminated during the three month period ended December 30, 2006 pursuant to this restructuring plan.

In fiscal 2006, we recorded charges to operations of approximately $112,000 and utilized approximately $1.7 million related to the shutdown of facilities. In addition, $603,000 was charged to operations and utilized due to the impairment of fixed assets to be disposed of.

In fiscal 2005, we recorded charges to operations of approximately $203,000 and utilized $216,000 for employee severance expenses. There was no reduction of work force during fiscal 2005 pursuant to this restructuring plan. During fiscal 2005, we also recorded charges to operations of approximately $544,000 and utilized approximately $2.7 million for non-cancelable lease payments, lease termination costs and related costs for the shutdown of facilities. In addition, $800,000 was charged to operations and utilized due to the impairment of fixed assets to be disposed of. The closing of the plants discussed above as well as employee terminations and other related activities have been completed, however, the leases of the related facilities expire in 2009; therefore, the remaining accrual will be reduced over time as the lease payments, net of sublease income, are made.

October 2001 Restructuring. During the three month period ended December 30, 2006, we incurred and utilized approximately $52,000 charges related to the shutdown of facilities. Approximately $22,000 employee termination benefits were utilized. We also reversed approximately $266,000 of accrued employee termination benefits due to the changes in estimates and economic circumstances.

In fiscal 2005, we recorded charges to operations of approximately $2.0 million for employee severance costs, of which $1.9 million was related to the settlement of pension plan at a Canadian site. We also recorded approximately $82,000 for non-cancelable lease payments and other costs related to the shutdown of facilities. We utilized accrued severance charges of approximately $2.7 million and accrued facilities shutdown related charges of $811,000 during fiscal 2005. In addition, we incurred and utilized charges of $633,000 in fiscal 2005 related to write-offs of fixed assets consisting of excess equipment and leasehold improvements to facilities that were permanently vacated. Manufacturing activities at the facilities affected by this plan ceased in fiscal year 2003 or prior; however, final payments of accrued costs may not occur until later periods.

Fiscal 2001 Plans

Segerström Restructuring. In fiscal 2005, we completed the restructuring activities at a cost of $835,000 which was related to accrued facility charges.

July 2001 Restructuring. During the three month period ended December 30, 2006, we recorded approximately $31,000 and utilized approximately $102,000 of accrued costs related to the shutdown of facilities. We also recorded charges to operations and fully utilized $271,000 for write-off of impaired fixed assets.

In fiscal 2006, we recorded approximately $1.5 million of accrued severance for our Mexican facilities. In addition, we recorded approximately $2.3 million and utilized $2.6 million of accrued costs related to the shutdown of facilities. We also incurred and utilized $234,000 for the impairment of fixed assets to be disposed of. Manufacturing activities at the plants affected by this plan had ceased by the fourth quarter of fiscal 2002; however, the leases of the related facilities expire between 2005 and 2010, therefore, the remaining accrual will be reduced over time as the lease payments, net of sublease income, are made.

In fiscal 2005, we recorded approximately $43,000 and utilized approximately $100,000 of accrued severance. In addition, we recorded approximately $1.9 million and utilized approximately $3.5 million of accrued costs related to the shutdown of facilities. We also incurred and utilized $2.7 million for the impairment of fixed assets to be disposed of. Manufacturing activities at the plants affected by this plan had ceased by the fourth quarter of fiscal 2002; however, the leases of the related facilities expire between 2005 and 2010, therefore, the remaining accrual will be reduced over time as the lease payments, net of sublease income, are made.

The sublease income in relation to all restructured facilities is approximately $347,000.

Cost associated with restructuring activities related to purchase business combinations are accounted for in accordance with EITF 95-3. Below is a summary of the activity related to restructuring costs recorded pursuant to EITF 95-3 through the first quarter of fiscal year 2007:

	Employee Severance and Related Expenses (In thousands) Cash	**Facilities Shutdown and Consolidation Costs Cash**	**Write-off Impaired or Redundant Fixed Assets Non-Cash**	**Total**
Balance at October 2, 2004	$ 2,084	$ 2,178	$	$ 4,262
Accrued utilized	(773)	(393)		(1,166)
Balance at October 1, 2005	1,311	1,785		3,096
Charges to operations	114	125		239
Charges utilized	(40)	(1,804)		(1,844)
Reversal of accrual	(687)			(687)
Balance at September 30, 2006	698	106		804
Charges to operations			(3,198)	(3,198)
Charges utilized			3,198	3,198
Balance at December 30, 2006	$ 698	$ 106	$	$ 804

During the quarter, we sold one of our North American facilities previously classified as assets held for sale for a net gain of approximately $3.2 million.

The following sections separately present the charges to the restructuring liability and charges utilized that are set forth in the above table on an aggregate basis.

SCI Acquisition Restructuring. . During the three month period ended December 30, 2006, we recognized approximately $3.2 million recovery from the sale of one of our domestic facilities previously classified as assets held for sale.

In fiscal 2006, we utilized a total of $1.8 million of facilities-related accruals and reversed $687,000 of accrued severance due to a change in estimate.

In fiscal 2005, we utilized $731,000 related to employee severance and utilized $393,000 due to facilities shutdown.

Ongoing Restructuring Activities. We continue to rationalize manufacturing facilities and headcount to more efficiently scale capacity to current market and operating conditions. These future restructuring costs are not currently estimable.

Segments. The following table summarizes the total restructuring costs incurred with respect to our reported segments through the first quarter of fiscal year 2007 (in thousands):

	December 30, 2006	December 31, 2005
Personal Computing	$ (1,997)	$ 20,701
Standard Electronic Manufacturing Services	5,212	14,927
Total	$ 3,215	$ 35,628
Cash	$ 6,089	$ 20,042
Non-cash	(2,874)	15,586
Total	$ 3,215	$ 35,628

The cumulative restructuring costs per segment have not been disclosed as it is impractical to do so. The recognition of restructuring charges requires our management to make judgments and estimates regarding the nature, timing, and amount of costs associated with the planned exit activity, including estimating sublease income and the fair value, less selling costs, of property, plant and equipment to be disposed of. Management s estimates of future liabilities may change, requiring us to record additional restructuring charges or reduce the amount of liabilities already recorded.

On November 16, 2006, we announced two strategic decisions: to realign our ODM activities to focus on joint development manufacturing and to create a more separable personal and business computing business unit. We also announced that we may further consolidate operations in higher-cost geographies to further enhance profitability. We expect to record additional charges that are currently not estimable related to these anticipated actions in fiscal year 2007.

We plan to fund cash restructuring costs with cash flows generated by operating activities.

Interest Expense

Interest expense increased $10.3 million to $43.3 million in the first quarter of fiscal 2007 from $33.0 million in the first quarter of fiscal 2006. The increase in interest expense is primarily attributable to the interest expense related to the $600 million unsecured term loan we entered into and simultaneously drew down on October 13, 2006, higher interest rate from our interest rate swap on our 6.75% Notes, interest expense from increased borrowing against our revolving credit facility during the first quarter of fiscal 2007, offset by a decrease in interest expense from the refinancing of the 10.375% Notes with the 8.125% Notes during the second quarter of fiscal 2006.

Other Income (Expense), net

Other income, net was $11.0 million for the three month period ended December 30, 2006 and expense of $5.7 million for the three month period ended December 31, 2005. The following table summarizes the major components of other income (expense), net:

	Three Months Ended	
	December 30, 2006	**December 31, 2005**
		(Restated)
	(In Thousands)	
Foreign exchange gains (losses)	$ 2,852	$ (389)
Interest rate swap		(5,465)
Other, net	8,109	147
Total other income (expense), net	$ 10,961	$ (5,707)

For the three months ended December 30, 2006, other, net, primarily consists of a $6.0 million gain from the sale of manufacturing facility previously classified as assets held for sale and a $1.8 million gain related to the collection of previously fully reserved notes receivable. Additionally, for the three months ended December 30, 2006, foreign exchange gains included a $1.4 million gain related to the realization of currency translation adjustments related to the substantial liquidation of one of our foreign subsidiaries.

Provision for Income Taxes

The Company s effective tax rate for the three months ended December 30, 2006 and December 31, 2005 was approximately 23.8% and 1,030.0%, respectively. The effective rate for the three months ended December 30, 2006 differs from the same period in fiscal year 2006 due primarily to the recognition of a $27.9 million tax benefit resulting from a favorable settlement with the U.S. Internal Revenue Service in relation to certain U.S. tax audits.

Liquidity and Capital Resources

	Three Months Ended	
	December 30, 2006	**December 31, 2005**
		(Restated)
	(Unaudited)	
	(In thousands)	
Net cash provided by (used in):		
Continuing operations		
Operating activities	$ (10,226)	$ (66,247)
Investing activities	1,446	10,349
Financing activities	60,495	5,345
Effect of exchange rate changes	(4,716)	(6,402)
Increase (decrease) in cash and cash equivalents	$ 46,999	$ (56,955)

Cash and cash equivalents were $1.1 billion at December 30, 2006 and $505.6 million at September 30, 2006, including restricted cash of $545.9 million and $13.8 million at December 30, 2006 and September 30, 2006, respectively.

Net cash used in operating activities was $10.2 million and $66.2 million for the three months ended December 30, 2006 and December 31, 2005, respectively. Net cash used in operating activities in the first quarter of 2007 was primarily due to an increase in accounts receivables net of proceeds from the sale of accounts receivable and a decrease in accounts payable and accrued liabilities due to payments made to vendors. Working capital was $1.6 billion and $1.5 billion as of December 30, 2006 and September 30, 2006, respectively.

Net cash provided by investing activities was $1.4 million and $10.3 million for the three months ended December 30, 2006 and December 31, 2005, respectively. Net cash provided by investing activities in the first quarter of 2007 was primarily due to $24.9 million in proceeds from sale of property, plant and equipment offset by $19.1 million in purchase of additional property, plant and equipment and payments of $4.1 million for business acquired during the period.

34

Net cash provided by financing activities was $60.5 million and $5.3 million for the three months ended December 30, 2006 and December 31, 2005, respectively. Net cash provided by financing activities for the first quarter of fiscal 2007 primarily related to the issuance of the $600 million Senior Unsecured Term Loan offset by $525 million of restricted cash deposited into an irrevocable trust account for the satisfaction and discharge of the 3% Notes (see below) due on March 15, 2007.

Senior Unsecured Term Loan. On October 13, 2006, we entered into a Credit and Guaranty Agreement (the Credit Agreement) providing for a $600.0 million senior unsecured term loan which matures on January 31, 2008. We drew down the $600.0 million term loan simultaneously with the closing of the transaction. A portion of the proceeds were used to effect the satisfaction and discharge of the 3% Notes. We intend to use the remaining proceeds for working capital and general corporate purposes.

The loans will bear interest at our election at either the prime rate plus 1.5% or at an adjusted LIBOR rate plus 2.5%. On the 181st day after closing, the margins with respect to all loans will increase by 0.5% for the remaining life of the loans. Interest is payable quarterly in arrears with respect to prime rate loans. Interest is payable at the end of each interest period in the case of LIBOR rate loans depending on our election of the length of borrowing period (i.e. one month, three months or six months). Principal, together with accrued and unpaid interest, is due at maturity. In addition, we are required to make mandatory prepayments of principal with the net cash proceeds from the sale of certain assets and the incurrence of certain debt.

All of our existing and future domestic subsidiaries will guaranty the obligations under the Credit Agreement, subject to some limited exceptions.

The Credit Agreement contains affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the Credit Agreement contains negative covenants limiting our ability and our subsidiaries, among other things, to incur debt, grant liens and make certain restricted payments. The events of default under the Credit Agreement include payment defaults, cross defaults with certain other indebtedness, breaches of covenants and bankruptcy events.

As of December 30, 2006 and September 30, 2006, we had no other term loans.

8.125% Senior Subordinated Notes. On February 15, 2006, we issued $600 million aggregate principal amount of 8.125% Senior Subordinated Notes due 2016 (the 8.125% Notes). Interest is payable on the 8.125% Notes on March 1 and September 1 of each year, beginning on September 1, 2006. The maturity date of the 8.125% Notes is March 1, 2016. Debt issuance costs of $12.9 million are included in prepaid expenses and other current assets and other non-current assets and amortized on a straight-line basis over the life of the debt as interest expense. The difference between the amortization calculated using the straight-line method as compared to the effective interest method was immaterial. The 8.125% Notes are unsecured and subordinated in right of payment to all of our existing and future senior debt, as defined in the indenture under which the 8.125% Notes were issued.

We may redeem the 8.125% Notes, in whole or in part, at any time prior to March 1, 2011, at a redemption price that is equal to the sum of (1) the principal amount of the 8.125% Notes to be redeemed, (2) accrued and unpaid interest on those 8.125% Notes to, but excluding, the redemption date and (3) a make-whole premium calculated in the manner specified in the Indenture for the 8.125% Notes. We may redeem the 8.125% Notes, in whole or in part, beginning on March 1, 2011, at declining redemption prices ranging from 104.063% to 100% of the principal amount of the 8.125% Notes, plus accrued and unpaid interest to, but excluding, the redemption date, with the actual redemption price to be determined based on the date of redemption. At any time prior to March 1, 2009, we may redeem up to 35% of the 8.125% Notes with the proceeds of certain equity offerings at a redemption price equal to 108.125% of the principal amount of the 8.125% Notes, plus accrued and unpaid interest to, but excluding, the redemption date, so long as after giving effect to any such redemption, at least 65% of the aggregate principal amount of the 8.125% Notes remains outstanding.

Following a change of control, as defined in the Indenture, we will be required to make an offer to repurchase all or any portion of the 8.125% Notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest to, but excluding, the date of repurchase.

The 8.125% Notes Indenture includes covenants that limit our ability and our restricted subsidiaries to, among other things: incur additional debt, make investments and other restricted payments, pay dividends on capital stock, or redeem or repurchase capital stock or subordinated obligations; create specified liens; sell assets; create or permit restrictions on the

35

ability of our restricted subsidiaries to pay dividends or make other distributions to us; engage in transactions with affiliates; incur layered debt; and consolidate or merge with or into other companies or sell all or substantially all of our assets. The restrictive covenants are subject to a number of important exceptions and qualifications set forth in the Indenture for the 8.125% Notes.

The 8.125% Notes Indenture provides for customary events of default, including:

- payment defaults;
- breaches of covenants;
- certain payment defaults at final maturity or acceleration of certain other indebtedness;
- failure to pay certain judgments;
- certain events of bankruptcy, insolvency and reorganization; and
- certain instances in which a guarantee ceases to be in full force and effect.

If any event of default occurs and is continuing, subject to certain exceptions, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding 8.125% Notes may declare all the 8.125% Notes to be due and payable immediately, together with any accrued and unpaid interest, if any, to the acceleration date. In the case of an event of default resulting from certain events of bankruptcy, insolvency or reorganization, such amounts with respect to the 8.125% Notes will be due and payable immediately without any declaration or other act on the part of the trustee or the holders of the 8.125% Notes.

On January 3, 2007, the Company and U.S. Bank National Association, as trustee, entered into a supplemental indenture to the indenture under which the Company s 8.125% Senior Subordinated Notes due 2016 were issued. As permitted by the indenture, the supplemental indenture released each of the notes guarantors from its respective obligations under its notes guarantee and the indenture.

6.75% Senior Subordinated Notes. On February 24, 2005, we issued $400 million aggregate principal amount of our 6.75% Senior Subordinated Notes due 2013 (the 6.75% Notes). Interest is payable on the 6.75% Notes on March 1 and September 1 of each year, beginning on September 1, 2005. The maturity date of the 6.75% Notes is March 1, 2013. In June 2005, we completed an exchange offer pursuant to which substantially all of the 6.75% Notes were exchanged for notes registered under the Securities Act of 1933. These notes evidence the same debt as the original 6.75% Notes and are issued and entitled to the benefits of the same indenture that governs the original the 6.75% Notes except that they are not subject to transfer restrictions.

The 6.75% Notes are unsecured and subordinated in right of payment to all of our existing and future senior debt as defined in the 6.75% Notes Indenture. We may redeem the 6.75% Notes, in whole or in part, at any time prior to March 1, 2009, at a redemption price that is equal to the sum of (1) the principal amount of the 6.75% Notes to be redeemed, (2) accrued and unpaid interest to, but excluding, the redemption date on those 6.75% Notes and (3) a make-whole premium calculated in the manner specified in the 6.75% Notes Indenture. We may redeem the 6.75% Notes, in whole or in part, beginning on March 1, 2009, at declining redemption prices ranging from 103.375% to 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, with the actual redemption price to be determined based on the date of redemption. At any time prior to March 1, 2008, we may redeem up to 35% of the 6.75% Notes with the proceeds of certain equity offerings at a redemption price equal to 106.75% of the principal amount of the 6.75% Notes, plus accrued and unpaid interest to, but excluding, the redemption date, so long as after giving effect to any such redemption, at least 65% of the aggregate principal amount of the 6.75% Notes remains outstanding.

Following a change of control, as defined in the 6.75% Notes Indenture, we will be required to make an offer to repurchase all or any portion of the 6.75% Notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest to, but excluding, the date of repurchase.

The 6.75% Notes Indenture includes covenants that limit our ability and the ability of our restricted subsidiaries to, among other things: incur additional debt, make investments and other restricted payments, pay dividends on capital stock, or redeem or repurchase capital stock or subordinated obligations; create specified liens; sell assets; create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us; engage in transactions with affiliates; incur layered debt; and consolidate or merge with or into other companies or sell all or substantially all of our assets. The restricted covenants are subject to a number of important exceptions and qualifications set forth in the 6.75% Notes Indenture.

The 6.75% Notes Indenture provides for customary events of default, including payment defaults, breaches of covenants, certain payment defaults at final maturity or acceleration of certain other indebtedness, failure to pay certain judgments, certain events of bankruptcy, insolvency and reorganization and certain instances in which a guarantee ceases to be in full force and effect. If any event of default occurs and is continuing, subject to certain exceptions, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding 6.75% Notes may declare all the 6.75% Notes to be due and payable immediately, together with any accrued and unpaid interest, if any, to the acceleration date. In the case of an event of default resulting from certain events of bankruptcy, insolvency or reorganization, such amounts with respect to the 6.75% Notes will be due and payable immediately without any declaration or other act on the part of the trustee or the holders of the 6.75% Notes.

On January 3, 2007, the Company and U.S. Bank National Association, as trustee, entered into a supplemental indenture to the indenture under which the Company s 6.75% Senior Subordinated Notes due 2013 were issued. As permitted by the indenture, the supplemental indenture released each of the notes guarantors from its respective obligations under its notes guarantee and the indenture.

8.125% and 6.75% Senior Subordinated Notes. On September 6, 2006, we completed our consent solicitation from the holders of our 6.75% Notes and from the holders of our 8.125% Notes. Holders of a majority of the outstanding aggregate principal amount of our 6.75% Notes and 8.125% Notes submitted, and did not revoke, letters of consent prior to expiration of the consent solicitation period. Pursuant to the consent, we received a waiver, until December 14, 2006, of any default or event of default under the terms of the indentures governing such notes that may arise by virtue of the our failure to file with the Securities and Exchange Commission and furnish to the trustee and holders of such notes certain reports required to be filed under the Securities Exchange Act of 1934. We incurred $12.5 million in aggregate consent fees. These fees have been capitalized and are being amortized over the remaining life of the 6.75% Notes and 8.125% Notes, respectively. The waiver for each series of notes became effective following the payment of the consent fee to each consenting holder of such series of notes, which we paid on September 11, 2006. We filed Form 10-Q for the quarter ended July 1, 2006 with the Securities and Exchange Commission on December 13, 2006. As a result of filing the Form 10-Q for the quarter ended July 1, 2006 before December 14, 2006, we were not in default under the terms of the indentures governing such notes as of December 14, 2006. The Company was also delayed in its filing of the Form 10-K for 2006. This non-compliance matter was cured on January 3, 2007 when the Company filed its 2006 Form 10-K.

10.375% Senior Secured Notes due 2010. On December 23, 2002, we issued $750.0 million of 10.375% Senior Secured Notes due January 15, 2010 (the 10.375% Notes) in a private placement to qualified investors as part of a refinancing transaction pursuant to which we also entered into a $275.0 million senior secured credit facility. On February 28, 2006, the Offer to Purchase and Consent Solicitation (the Offer to Purchase) for any or all of our $750 million 10.375% Notes expired. The total consideration was $1,103.17, which represented the present value of the remaining scheduled payments of principal and interest on the 10.375% Notes due on January 15, 2007 (which is the earliest redemption date for the 10.375% Notes) determined using a discount factor equal to the yield on the Price Determination Date of February 13, 2006 of the 3% U.S. Treasury Notes due December 31, 2006 plus 50 basis points and included a consent fee and accrued and unpaid interest. In conjunction with the offer, we solicited consents to proposed amendments to the indenture governing the 10.375% Notes, which eliminated substantially all of the restrictive covenants and certain events of default in the indenture. We offered a consent payment (which is included in the total consideration described above) of $30.00 per $1,000 principal amount of 10.375% Notes to holders who validly tendered their 10.375% Notes and delivered their consents prior to the Consent Payment Deadline of February 13, 2006. Holders who tendered their 10.375% Notes after the Consent Payment Deadline but prior to the expiration date received total consideration referred to above, less the consent payment, plus accrued and unpaid interest to the payment date.

As a result of our offer to purchase the 10.375% Notes on January 31, 2006, we purchased approximately $721.7 million in aggregate principal. All of the net proceeds of $587 million from the issuance of the 8.125% Notes, together with approximately $239.2 million cash on hand were used to repurchase the 10.375% Notes. Additionally, in connection with the termination of the interest rate swap related to the 10.375% Notes, we released $22.5 million in restricted cash.

On February 16, 2006, we called for redemption on March 20, 2006 (the Redemption Date) of all the remaining outstanding 10.375% Notes. The aggregate principal amount to be redeemed was approximately $28.3 million. The total consideration amount of $1,108.56 for each $1,000 principal amount was calculated based on the principal amount of the Notes, plus accrued and unpaid interest up to but excluding the redemption date, plus the make-whole premium, totaling approximately $31.3 million. In the aggregate, the 10.375% Notes were redeemed in full on March 20, 2006, and no further interest was accrued.

We recorded a loss of approximately $84.6 million from the early extinguishment of the $750 million 10.375% Notes which is comprised of approximately $70.8 million of redemption premium, $2.2 million related to interest rate swap termination, $13.9 million unamortized finance fees relating to the 10.375% Notes and $0.9 million of tender expenses offset by $3.2 million unamortized gain from previously terminated swaps. The loss on debt extinguishment was included in other income (expense), net.

3% Convertible Subordinated Notes due 2007. In March 2000, SCI issued $575.0 million aggregate principal amount of 3% Convertible Subordinated Notes due March 15, 2007, or 3% Notes. Interest on the 3% Notes is payable semi-annually on each March 15 and September 15. In connection with the merger with SCI, we entered into a supplemental indenture with respect to the 3% Notes providing a guaranty for the 3% Notes and allowing for the conversion of the 3% Notes into shares of our common stock, at a conversion price of $41.35 per share, subject to adjustment in certain events. The 3% Notes were subordinated in right of payment to all existing and future senior debt, as defined, of the Company. The 3% Notes were redeemable at SCI s option at any time on or after March 20, 2003, although there was no mandatory redemption prior to final maturity. During fiscal 2003, we repurchased approximately $50.0 million aggregate principal amount of our 3% Convertible Subordinated Notes due 2007 through unsolicited privately negotiated transactions.

On October 13, 2006, SCI Systems, Inc., one of the Company s wholly owned subsidiaries (SCI Systems), initiated, in accordance with the terms thereof, the satisfaction and discharge of the Indenture, dated as of March 15, 2000, by and between SCI Systems and The Bank of New York Trust Company, National Association, as trustee (as supplemented, the Indenture), pursuant to which SCI Systems issued its 3% Notes due 2007. As a result, $532.9 million in cash was deposited with the trustee, which is equal to the principal and interest due on the 3% Notes at maturity on March 15, 2007. The net proceeds obtained from the Senior Unsecured Term Loan (see below) which is due in January 2008 were used to initiate the satisfaction and discharge of the 3% Notes. Although the Company has satisfied its obligation in accordance with the Indenture, it has not legally been discharged from this obligation. As a result the $532.9 million was classified as restricted cash and classified in the Condensed Consolidated Financial Statements at a current asset as the loan will be paid on March 15, 2007.

Senior Credit Facility. On October 26, 2004, we entered into a Credit and Guaranty Agreement (the Original Credit Agreement) providing for a $500 million senior secured revolving credit facility with a $150 million letter of credit sub-limit. The senior secured credit facility provided for a maturity date of October 26, 2007. We entered into an Amended and Restated Credit and Guaranty Agreement, dated as of December 16, 2005, among us, certain of our subsidiaries, as guarantors, and the lenders that are parties thereto from time to time (the Restated Credit Agreement). The Restated Credit Agreement amended and restated the Original Credit Agreement among other things, to:

- Extend the maturity date from October 26, 2007 to December 16, 2008;
- Amend the leverage ratio;
- Permit us and the guarantors to sell domestic receivables pursuant to factoring or similar arrangements if certain conditions are met; and
- Revise the collateral release provisions.

All of our existing and future domestic subsidiaries guaranty the obligations under the Restated Credit Agreement, subject to some limited exceptions. Our obligations and the obligations of our subsidiaries under the credit facility are secured by: substantially all of our assets; substantially all of the assets of substantially all of our United States subsidiaries located in the United States; a pledge of all capital stock of substantially all of our United States subsidiaries; a pledge of 65% of the capital stock of certain of our and our United States subsidiaries first-tier foreign subsidiaries; and mortgages on certain domestic real estate.

The Restated Credit Agreement provides for the collateral to be released at such time as our 10.375% Notes have been substantially paid in full, we have satisfied our obligations with respect to the Zero Coupon Subordinated Debentures described above, our long-term unsecured noncredit enhanced debt is rated not less than BB by Standard & Poor s and Ba2 by Moody s and we are in pro forma compliance with the financial covenants contained in the credit facility.

The Restated Credit Agreement requires us to comply with a fixed charge coverage ratio and a ratio of total debt to earnings before income tax, depreciation and amortization (EBITDA). Additionally, the credit facility contains numerous affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the credit facility contains negative covenants limiting the ability of us and our subsidiaries, among other things, to incur debt, grant liens, make acquisitions, make certain restricted payments, sell assets and enter into sale and lease back transactions. The events of default under the credit facility include payment defaults, cross defaults with certain other indebtedness, breaches of covenants and bankruptcy events.

At any time the aggregate face amount of receivables sold by us and the guarantors together with any outstanding amounts exceeds the thresholds set forth in the Restated Credit Agreement, the revolving credit commitments for purposes of making loans and issuing letters of credit will be zero. The Restated Credit Agreement provides for the release of the security interests in our and the guarantors accounts receivable at such time as specified conditions are met, including that we have paid at least 85% of the original principal amount of our 10.375% Senior Subordinated Notes, the liens granted there under have been released and our credit ratings meet specified thresholds. The Restated Credit Agreement provides for the collateral (other than stock pledges and other collateral we request not to be released) to be released at such time as specified conditions are met, including that we have paid at least 85% of the principal amount of the SCI Systems 3% Convertible Subordinated Notes due 2007 and our credit ratings meet specified thresholds. If following the release of any portion of the collateral pursuant to the provisions of the credit agreement described above, our credit ratings fall below specified thresholds, then we are required to take such actions as are necessary to grant and perfect a security interest in the assets and properties that would at that time comprise the collateral if the relevant collateral documents were still in effect.

On June 30, 2006, we entered into an amendment to the Restated Credit Agreement related to accounts receivable which made some modifications to certain definitions and one of the negative covenants on liens.

On August 10, 2006, we entered into a Letter Waiver (Credit Agreement Waiver Letter) with the lenders under its Restated Credit Agreement which waiver was extended multiple times pursuant to a Letter Waiver Extension entered into most recently on December 7, 2006 (the December Waiver). Pursuant to the December Waiver, the lenders under the Restated Credit Agreement waived our compliance with the requirements of the Restated Credit Agreement to deliver financial statements and the compliance certificate for the quarter ended July 1, 2006 and any cross defaults with other indebtedness that may arise from such failure through December 14, 2006. The December Waiver provided the waiver termination date for the Credit Agreement Waiver Letter to December 14, 2006, provided, that if the required date of delivery of the financial statements for the fiscal quarter ended July 1, 2006 under our 8.125% Notes and 6.75% Notes has been extended (by waiver or otherwise) beyond December 14, 2006, the waiver terminates on the earlier of (i) March 31, 2007 and (ii) the third business day preceding the required date of delivery beyond December 14, 2006 for such financial statements as provided in the initial extension thereof by the respective requisite holders of such Notes. We filed Form 10-Q for the quarter ended July 1, 2006 with the Securities and Exchange Commission on December 13, 2006. As a result of filing the Form 10-Q for the quarter ended July 1, 2006 before December 14, 2006, we were not in default under the terms of the indentures governing such notes as of December 14, 2006. The Company was also delayed in its filing of the Form 10-K for 2006. This non-compliance matter was cured on January 3, 2007 when the Company filed its 2006 Form 10-K.

In addition, the December Waiver waived our compliance with the requirements of the Restated Credit Agreement to deliver financial statements, related reports, statements and a compliance certificate for the fiscal year ended September 30, 2006 and any cross defaults with other indebtedness that may arise from such failure through January 10, 2007, provided, that if the required date of delivery of the financial statements for the 2006 fiscal year under our 8.125% Notes and the 6.75% Notes has been extended (by waiver or otherwise) beyond January 10, 2007, the earlier of (i) March 31, 2007 or (ii) the third business day preceding the required date of delivery beyond January 10, 2007 for such financial statements as provided in the initial extension thereof by the respective holders of such Notes. During the same period, the lenders waived compliance with certain conditions to extensions of credit under the Restated Credit Agreement.

On October 13, 2006, the Company and the required lenders entered into an amendment for its Restated Credit Agreement. Pursuant to the amendment, certain amendments were made to the Restated Credit Agreement to permit the transactions contemplated by the Credit and Guaranty Agreement described below. The amendment also revised the collateral release provision under the Restated Credit Agreement such that collateral (other than stock pledges and other collateral we request not to be released) to be released at such time as specified conditions are met, including that we have repaid in full the outstanding amount under the Credit and Guaranty Agreement and our credit ratings meets specified thresholds.

On December 29, 2006, we entered into an amendment and waiver to the Restated Credit Agreement. Among other things, this amendment amended the minimum required levels for both financial covenants and certain related definitions.

There was approximately $100 million of loans outstanding under the Restated Credit Agreement at an average interest rate of 8.75% as of December 30, 2006. Additionally, we pay a commitment fee of 0.35% on the unused portion of the credit facility.

The Company is in compliance with its covenants for the above debt instruments.

Sale of Accounts Receivable. Certain of our subsidiaries have entered into agreements that permit them to sell specified accounts receivable. The purchase price for receivables sold under these Agreements range from 95% to 100% of its face amount less a discount charge (based on LIBOR plus a percentage ranging from 0.4% to 1.5%) for the period from the date the receivable is sold to its collection date. Accounts receivable sales under these Agreements were $478.4 million during the quarter ended December 30, 2006. The sold receivables are subject to certain limited recourse provisions. In accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liability, accounts receivable sold will be removed from the Condensed Consolidated Balance Sheet and will be reflected as cash provided by operating activities in the Condensed Consolidated Statement of Cash Flows. As of December 30, 2006, $249.1 million of sold accounts receivable remain subject to certain recourse provisions. We have not experienced any credit losses under these recourse provisions. The discount charge recorded during the period was not material to the financial statements. The discount charge is recorded in selling, general and administrative expenses on the Condensed Consolidated Statement of Operations.

Our future needs for financial resources include increases in working capital to support anticipated sales growth, investments in manufacturing inventory, facilities and equipment, and repayments of outstanding indebtedness. We have evaluated and will continue to evaluate possible business acquisitions within the parameters of the restrictions set forth in the agreements governing certain of our debt obligations. These possible business acquisitions could require substantial cash payments. Additionally, we anticipate incurring additional expenditures in connection with the integration of our recently acquired businesses and our restructuring activities. We expect to incur additional restructuring charges in fiscal 2007 which are currently not estimable.

We believe that our existing cash resources and other sources of liquidity, together with cash generated from operations, will be sufficient to meet our working capital requirements through at least the next 12 months. Should demand for our products decrease over the next 12 months, the available cash provided by operations could be negatively impacted. Other sources of liquidity include our available line of credit and sale of accounts receivable. We may also seek to raise additional capital through the issuance of either debt or equity securities. Our senior secured credit facility, the indentures governing our 8.125% Notes and our 6.75% Notes and our senior unsecured term loan include covenants that, among other things, limit in certain respects us and our restricted subsidiaries from incurring debt, making investments and other restricted payments, paying dividends on capital stock, redeeming capital stock or subordinated obligations and creating liens. In addition to existing collateral and covenant requirements, future debt financing may require us to pledge assets as collateral and comply with financial ratios and covenants. Equity financing may result in dilution to stockholders.

Risk Factors Affecting Operating Results

We are exposed to general market conditions in the electronics industry which could have a material adverse impact on our business, operating results and financial condition.

Many of our customers have experienced from time to time significant decreases in demand for their products and services. This volatility has resulted, and will continue from time to time to result, in our customers delaying purchases of the products we manufacture for them, and placing purchase orders for lower volumes of products than previously anticipated. In particular, beginning in fiscal 2001, we experienced a decrease in demand for our manufacturing services due to reduced capital spending by communications service providers and customers in other markets we serve. Consequently, our operating results were adversely affected as a result of the deterioration in these markets. Although we have seen evidence of a recovery in several markets that we serve in more recent fiscal years, if capital spending in these markets does not continue to improve, or improves at a slower pace than we anticipate, our revenue and profitability will be adversely affected.

As many of these markets have recovered, OEMs have continued to be highly sensitive to costs and have continued to place pressure on EMS companies to minimize costs. In addition, the EMS industry has been experiencing an increase in excess manufacturing capacity as well as increased competition from Asian competitors. These factors will likely result in continued significant price competition among EMS companies, and this competition will likely continue to affect our results of operations. In addition, OEM customers are increasingly requiring us and other EMS companies to move production of their products to lower-cost locations and away from high cost locations such as the United States and Western Europe. As a result, we have had to close facilities in the United States and Europe and incur costs for facility closure, employee severance and related items. We may need to close additional facilities and incur related closure costs in future fiscal periods.

We cannot accurately predict future levels of demand for our customers electronics products. Consequently, our past operating results, earnings and cash flows may not be indicative of our future operating results, earnings and cash flows. In particular, if the economic recovery in the electronics industry does not demonstrate sustained momentum, and if price competition for EMS services continues to be intense, our operating results may be adversely affected.

If demand for our higher-end, higher margin manufacturing services does not improve, our future gross margins and operating results may be lower than expected.

Before the economic downturn in the communications sector and before our merger with SCI Systems, Inc., sales of our services to OEMs in the communications sector accounted for a substantially greater portion of our net sales and earnings than in recent periods. As a result of reduced sales to OEMs in the communications sector, our gross margins have declined because the services that we provided to these OEMs often were more complex, thereby generating higher margins, than those that we provided to OEMs in other sectors of the electronics industry. For example, a substantial portion of our net sales are currently derived from sales of personal computers. Margins on personal computers are typically lower than margins that we have historically realized on communication products. OEMs are continuing to seek price decreases from us and other EMS companies, and competition for this business remains intense. Pricing pressure is typically more intense for less complex, lower margin EMS services. Pricing pressure on EMS companies continues to be strong and there continues to be intense price competition for EMS services. This price competition has affected, and could continue to adversely affect, our gross margins. If demand for our higher-end, higher margin manufacturing services do not improve in the future, our gross margins and operating results in future periods may be adversely affected.

Our operating results are subject to significant uncertainties.

Our operating results are subject to significant uncertainties, including the following:

- economic conditions in the electronics industry;

- the timing of orders from major customers and the accuracy of their forecasts;

- the timing of expenditures in anticipation of increased sales, customer product delivery requirements and shortages of components or labor;

- the mix of products ordered by and shipped to major customers, as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services;

- the degree to which we are able to utilize our available manufacturing capacity;

- our ability to effectively plan production and manage our inventory and fixed assets;

- customer insolvencies resulting in bad debt exposures that are in excess of our accounts receivable reserves;

- our ability to efficiently move manufacturing activities to lower cost regions without adversely affecting customer relationships and while controlling facilities closure and employee severance costs;

- pricing and other competitive pressures;

- seasonality in customers   product requirements;

- fluctuations in component prices;

- political and economic developments in countries in which we have operations;

- component shortages, which could cause us to be unable to meet customer delivery schedules; and

- new product development by our customers.

A portion of our operating expenses is relatively fixed in nature, and planned expenditures are based in part on anticipated orders, which are difficult to estimate. If we do not receive anticipated orders as expected, our operating results will be adversely impacted. Moreover, our ability to reduce our costs as a result of current or future restructuring efforts may be limited because consolidation of operations can be costly and a lengthy process to complete.

Errors related to stock option accounting have had, and will continue to have, an adverse effect on us.

In May 2006, we were contacted by the SEC with respect to our stock option practices. As a result, our Board of Directors created a special committee of independent disinterested directors to conduct a comprehensive review of grants of stock options and restricted stock. The special committee determined that the measurement date used by us for accounting purposes (the Record Date) for most of the options and restricted stock issued by us from fiscal January 1997 to June 2006 did not correspond to the closing price of our common stock on the appropriate measurement date. In nearly all such cases, the Record Date preceded the appropriate measurement date and the stock price on the Record Date was lower than the price on the appropriate measurement date. Because our stock price on the Record Dates was lower than the price on the appropriate measurement date, we determined that we should have recognized material amounts of stock-based compensation expense that was not accounted for in our previously issued financial statements. Therefore, on September 11, 2006, our Board of Directors concluded that our financial statements that were filed for any years or periods affected by these errors and all earnings and press releases and similar communications issued by us related to those periods should no longer be relied upon. On January 3, 2007, we filed a comprehensive Form 10-K for the fiscal year ended September 30, 2006 in which we restated our consolidated financial statements and related disclosure for the fiscal years ended October 1, 2005 and October 2, 2004 and restated other disclosures for stock-based compensation, Selected Consolidated Financial Data for the fiscal years ended 2005, 2004, 2003, and 2002 and restated financial information for each affected quarter during fiscal 2005 and 2006.

In assessing how the errors relating to stock option accounting occurred, the special committee s investigation report identified concerns with respect to the actions of two former executives who were each involved in the authorization, recording and reporting of stock option grants, restricted stock and stock option modifications related to employee terminations. In addition, the investigation report also identified deficiencies in internal controls, including the process of preparing and retaining accurate documentation relating to our stock option plan administration activities.

As a result of the events described above, we have become subject to the following significant risks. Each of these risks could have an adverse effect on our business, financial condition and results of operations:

- we are subject to significant pending civil litigation, including shareholder class action lawsuits and derivative claims made on behalf of us, the defense of which will require us to devote significant management attention and to incur significant legal expense and which litigation, if decided against us, could require us to pay substantial judgments, settlements or other penalties;

- we are subject to an ongoing informal investigation by the SEC which could require significant management time and attention and cause us to incur significant accounting and legal expense and which could require us to pay substantial fines or other penalties;

- we are subject to the risk of additional litigation and regulatory proceedings or actions;

- many members of our senior management team and our Board of Directors have been and will be required to devote a significant amount of time on matters relating to the continuing informal SEC investigation, remedial efforts and related litigation.

We have identified a material weakness in our internal controls over financial reporting that could cause investors to lose confidence in the reliability of our financial statements and result in a decrease in the value of our securities.

Due to the errors relating to our stock option administration practices and stock option accounting, management has identified a material weakness in our system of internal controls in connection with our accounting for stock-based compensation. In addition, due to the identification of a material weakness in internal control over financial reporting related to our accounting for stock-based compensation as described above, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2006, our disclosure controls and procedures were not effective.

We will need to continue to evaluate, upgrade and enhance our internal controls. Because of inherent limitations, our internal control over financial reporting may not prevent or detect misstatements, errors or omissions, and any projections of any evaluation of effectiveness of internal controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with our policies or procedures may deteriorate. We cannot be certain in future periods that other control deficiencies that may constitute one or more significant deficiencies (as defined by the relevant auditing standards) or material weaknesses in our internal control over financial reporting, will not be identified.If we fail to maintain the adequacy of our internal controls, including any failure to implement or difficulty in implementing required new or improved controls, our business and results of operations could be harmed, the results of operations we report could be subject to adjustments, we could fail to be able to provide reasonable assurance as to our financial results or the effectiveness of our internal controls or meet our reporting obligations and there could be a material adverse effect on the price of our securities.

Through the three month period ended December 31, 2006, we expended significant resources in connection with the Section 404 process. In future periods, we will likely continue to expend substantial amounts in connection with the Section 404 process and with ongoing evaluation of, and improvements and enhancements to, our internal control over financial reporting. These expenditures may make it difficult for us to control or reduce the growth of our selling, general and administrative expenses, which could adversely affect our results of operations and the price of our securities.

Adverse changes in the key end markets we target could harm our business.

We provide EMS services for companies that sell products in the communications, computing and storage, multimedia, industrial and semiconductor systems, defense and aerospace, medical and automotive sectors of the electronics industry. Adverse changes in these markets can reduce demand for our customers products and make these customers more price sensitive, either of which could adversely affect our business and results of operations. For example, in calendar year 2001, the communications equipment industry was afflicted by a significant downturn, which caused a substantial reduction in demand for our services from these customers. In addition, the declining financial performance of these customers made them more price sensitive which resulted in increased competition and pricing pressures on us. Future developments of this nature in end markets we serve, particularly in those markets which account for more significant portions of our revenues, could harm our business and our results of operations.

An adverse change in the interest rates for our borrowings could adversely affect our financial condition.

Interest to be paid by us on any borrowings under any of our credit facilities and other long-term debt obligations may be at interest rates that fluctuate based upon changes in various base interest rates. Recently, interest rates have trended upwards in major global financial markets. These interest rate trends have resulted in increases in the base rates upon which our interest rates are determined. Continued increases in interest rates could have a material adverse effect on our financial position, results of operations and cash flows, particularly if such increases are substantial. In addition, interest rate trends could affect global economic conditions.

We generally do not obtain long-term volume purchase commitments from customers and, therefore, cancellations, reductions in production quantities and delays in production by our customers could adversely affect our operating results.

We generally do not obtain firm, long-term purchase commitments from our customers. Customers may cancel their orders, reduce production quantities or delay production for a number of reasons. In the event our customers experience significant decreases in demand for their products and services, our customers may cancel orders, delay the delivery of some of the products that we manufacture or place purchase orders for fewer products than we previously anticipated. Even when our customers are contractually obligated to purchase products from us, we may be unable or, for other business reasons, choose not to enforce our contractual rights. Cancellations, reductions or delays of orders by customers would:

- adversely affect our operating results by reducing the volumes of products that we manufacture for our customers;
- delay or eliminate recoupment of our expenditures for inventory purchased in preparation for customer orders; and
- lower our asset utilization, which would result in lower gross margins.

In addition, customers may require that we transfer the manufacture of their products from one facility to another to achieve cost reductions and other objectives. These transfers may result in increased costs to us due to resulting facility downtime or less than optimal utilization of our manufacturing capacity. These transfers may also require us to close or reduce operations at certain facilities, particularly those in high cost locations, and as a result we could incur increased costs for facilities closure, employee severance and related matters.

We rely on a small number of customers for a substantial portion of our net sales, and declines in sales to these customers could adversely affect our operating results.

Sales to our ten largest customers accounted for 61.1% of our net sales during the first quarter of fiscal 2007 and sales to three customers each accounted for more than 10% of our net sales for that period. We depend on the continued growth, viability and financial stability of our customers, substantially all of which operate in an environment characterized by rapid technological change, short product life cycles, consolidation, and pricing and margin pressures. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenue. Consolidation among our customers may further concentrate our business in a limited number of customers and expose us to increased risks relating to dependence on a small number of customers. In addition, a significant reduction in sales to any of our large customers or significant pricing and margin pressures exerted by a key customer would adversely affect our operating results. In the past, some of our large customers have significantly reduced or delayed the volume of manufacturing services ordered from us as a result of changes in their business, consolidations or divestitures or for other reasons. In particular, certain of our customers have from time to time entered into manufacturing divestiture transactions with other EMS companies, and such transactions could adversely affect our revenues with these customers. We cannot assure you that present or future large customers will not terminate their manufacturing arrangements with us or significantly change, reduce or delay the amount of manufacturing services ordered from us, any of which would adversely affect our operating results.

If our business declines or improves at a slower pace than we anticipate, we may further restructure our operations, which may adversely affect our financial condition and operating results.

We anticipate incurring additional restructuring charges in fiscal 2007 under our phase 3 restructuring plan. We cannot be certain as to the actual amount of these restructuring charges or the timing of their recognition for financial reporting purposes. Additionally, on November 16, 2006, we announced two strategic decisions: to realign our original design manufacturing activities to focus on joint development manufacturing and to create a more separable personal and business computing business unit. We also announced that we may further consolidate operations in higher-cost locations to further enhance profitability. We expect to record additional charges that are currently not estimable related to these anticipated actions during fiscal 2007. We may need to take additional restructuring charges in the future if our business declines or improves at a slower pace than we anticipate or if the expected benefits of recently completed and currently planned restructuring activities do not materialize. These benefits may not materialize if we incur unanticipated costs in closing facilities or transitioning operations from closed facilities to other facilities or if customers cancel orders as a result of facility closures. If we are unsuccessful in implementing our restructuring plans, we may experience disruptions in our operations and higher ongoing costs, which may adversely affect our operating results.

If our backlog decreases in the future, our operating results may be adversely affected.

Our backlog decreased from $1.8 billion in fiscal 2005 to $1.5 billion in fiscal 2006 to $1.4 billion as of December 30, 2006. We cannot predict how our backlog will fluctuate or to what extent business conditions that affect our backlog will change in the future. Due to our relatively fixed cost structure, a significant decline in customer orders could adversely affect our margins. If our backlog declines, or business conditions change for the worse in the future, these events could adversely affect our results of operations and financial condition.

We are subject to intense competition in the EMS industry, and our business may be adversely affected by these competitive pressures.

The EMS industry is highly competitive. We compete on a worldwide basis to provide electronics manufacturing services to OEMs in the communications, personal and business computing, enterprise computing and storage, multimedia, industrial and semiconductor capital equipment, defense and aerospace, medical and automotive industries. Our competitors include major global EMS providers such as Celestica, Inc., Flextronics International Ltd., Hon Hai (FoxConn), Jabil Circuit, Inc., and Solectron Corporation, as well as other EMS companies that have a regional or product, service or industry specific focus. Some of these companies have greater manufacturing and financial resources than we do. We also face competition from current and potential OEM customers, who may elect to manufacture their own products internally rather than outsource the manufacturing to EMS providers.

Consolidation in the electronics industry may adversely affect our business.

In the current economic climate, consolidation in the electronics industry may increase as companies combine to achieve further economies of scale and other synergies. Consolidation in the electronics industry could result in an increase in excess manufacturing capacity as companies seek to divest manufacturing operations or eliminate duplicative product lines. Excess manufacturing capacity has increased, and may continue to increase, pricing and competitive pressures for the EMS industry as a whole and for us in particular. Consolidation could also result in an increasing number of very large electronics companies offering products in multiple sectors of the electronics industry. The significant purchasing power and market power of these large companies could increase pricing and competitive pressures for us. If one of our customers is acquired by another company that does not rely on us to provide services and has its own production facilities or relies on another provider of similar services, we may lose that customer s business. Any of the foregoing results of industry consolidation could adversely affect our business.

Our failure to comply with applicable environmental laws could adversely affect our business.

We are subject to various federal, state, local and foreign environmental laws and regulations, including those governing the use, storage, discharge and disposal of hazardous substances and wastes in the ordinary course of our manufacturing operations. We also are subject to laws and regulations governing the recyclability of products, the materials that may be included in products, and the obligations of a manufacturer to dispose of these products after end users have finished using them. If we violate environmental laws, we may be held liable for damages and the costs of remedial actions and may be subject to revocation of permits necessary to conduct our businesses. We cannot assure you that we will not violate environmental laws and regulations in the future as a result of our inability to obtain permits, human error, equipment failure or other causes. Any permit revocations could require us to cease or limit production at one or more of our facilities, which could adversely affect our business, financial condition and operating results. Although we estimate our potential liability with respect to violations or alleged violations and reserve for such liability, we cannot assure you that any accruals will be sufficient to cover the actual costs that we incur as a result of these violations or alleged violations. Our failure to comply with applicable environmental laws and regulations could limit our ability to expand facilities or could require us to acquire costly equipment or to incur other significant expenses to comply with these laws and regulations.

Over the years, environmental laws have become, and in the future may become, more stringent, imposing greater compliance costs and increasing risks and penalties associated with violations. We operate in several environmentally sensitive locations and are subject to potentially conflicting and changing regulatory agendas of political, business and environmental groups. Changes in or restrictions on discharge limits, emissions levels, permitting requirements and material storage or handling could require a higher than anticipated level of operating expenses and capital investment or, depending on the severity of the impact of the foregoing factors, costly plant relocation.

In addition, the electronics industry became subject to the European Union s Restrictions of Hazardous Substances, or RoHS, and Waste Electrical and Electronic Equipment, or WEEE, directives which took effect beginning in 2005 and continuing in 2006. Parallel initiatives are being proposed in other jurisdictions, including several states in the United States and the Peoples Republic of China. RoHS prohibits the use of lead, mercury and certain other specified substances in electronics products and WEEE requires industry OEMs to assume responsibility for the collection, recycling and management of waste electronic products and components. We are in the process of making our manufacturing process RoHs compliant. In the case of WEEE, the compliance responsibility rests primarily with OEMs rather than with EMS companies. However, OEMs may turn to EMS companies for assistance in meeting their WEEE obligations. In the event we are not able to make our manufacturing obligations fully RoHS compliant, we could be unable to certify compliance to our customers and could incur substantial costs, including fines and penalties, as well as liability to our customers. In addition, we may incur costs related to inventories containing restricted substances that are not consumed by the RoHS effective dates.

We are potentially liable for contamination of our current and former facilities, including those of the companies we have acquired, which could adversely affect our business and operating results in the future.

We are potentially liable for contamination at our current and former facilities, including those of the companies we have acquired. These liabilities include ongoing investigation and remediation activities at a number of sites. Currently, we are unable to anticipate whether any third-party claims will be brought against us for this contamination. We cannot assure you that third-party claims will not arise and will not result in material liability to us. In addition, there are several sites that are known to have groundwater contamination caused by a third party, and that third party has provided an indemnity to us for the liability. Although we do not currently expect to incur liability for clean-up costs or expenses at any of these sites, we cannot assure you that we will not incur such liability or that any such liability would not be material to our business and operating results in the future.

Our key personnel are critical to our business, and we cannot assure you that they will remain with us.

Our success depends upon the continued service of our executive officers and other key personnel. Generally, these employees are not bound by employment or non-competition agreements. We cannot assure you that we will retain our officers and key employees, particularly our highly skilled design, process and test engineers involved in the manufacture of existing products and development of new products and processes. The competition for these employees is intense. In addition, if Jure Sola, our chairman and chief executive officer, or one or more of our other executive officers or key employees, were to join a competitor or otherwise compete directly or indirectly with us or otherwise be unavailable to us, our business, operating results and financial condition could be adversely affected.

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 worldwide provision for income taxes and, in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries 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.

During the second quarter of fiscal 2005 and the fourth quarter of fiscal 2006, we recorded goodwill impairment loss of $600.0 million and $3.7 million, respectively, and there can be no assurance that it will not be necessary to record additional goodwill impairment or long-lived asset impairment charges in the future.

During the quarters ended April 2, 2005 and September 30, 2006, we recorded goodwill impairment loss of $600.0 million and $3.7 million, respectively. The factors that led us to record a write-off of our deferred tax assets, which primarily related to U.S. operations, coupled with the recent decline in the market price of our common stock, led us to record the $600.0 million goodwill impairment loss. In particular, the shift of operations from U.S. facilities and other facilities in high cost locations to facilities in lower-cost locations has resulted in restructuring charges and a decline in sales with respect to our U.S. operations. In the event that the results of operations do not stabilize or improve, or the market price of our common stock declines further or does not rise, we could be required to record additional goodwill impairment or other long-lived asset impairment charges during fiscal 2007 or in future fiscal periods. Although these goodwill impairment charges are of a non-cash nature, they do adversely affect our results of operations in the periods in which such charges are recorded.

We are subject to risks arising from our international operations.

We conduct our international operations primarily in Asia, Latin America, Canada and Europe, and we continue to consider additional opportunities to make foreign acquisitions and construct new foreign facilities. We generated 74.6% of our net sales from non-U.S. operations during first quarter of fiscal 2007, and a significant portion of our manufacturing material was provided by international suppliers during this period. During fiscal 2006, we generated 75.1% of our net sales from non-U.S. operations. As a result of our international operations, we are affected by economic and political conditions in foreign countries, including:

- the imposition of government controls;
- export license requirements;
- political and economic instability, including armed conflicts;
- trade restrictions;
- changes in tariffs;
- labor unrest and difficulties in staffing;
- coordinating communications among and managing international operations;
- fluctuations in currency exchange rates;
- increases in duty and/or income tax rates;
- earnings repatriation restrictions;
- difficulties in obtaining export licenses;
- misappropriation of intellectual property; and
- constraints on our ability to maintain or increase prices.

To respond to competitive pressures and customer requirements, we may further expand internationally in lower cost locations, particularly in Asia, Eastern Europe and Latin America. As we pursue continued expansion in these locations, we may incur additional capital expenditures. In addition, the cost structure in certain countries that are now viewed as low-cost may increase as economies develop or as such countries join multinational economic communities or organizations. For example, Hungary, in which we have operations, is in the process of joining the European Union, and it is possible that costs in Hungary could therefore increase. As a result, we may need to continue to seek out new locations with lower costs and the employee and infrastructure base to support electronics manufacturing. We cannot assure you that we will realize the anticipated strategic benefits of our international operations or that our international operations will contribute positively to, and not adversely affect, our business and operating results.

During fiscal 2005 and fiscal 2006, the decline in the value of the U.S. dollar as compared to the Euro and many other currencies has resulted in foreign exchange losses. To date, these losses have not been material to our results of operations. However, continued fluctuations in the value of the U.S. dollar as compared to the Euro and other currencies in which we transact business could adversely affect our operating results.

We are subject to risks of currency fluctuations and related hedging operations.

A portion of our business is conducted in currencies other than the U.S. dollar. Changes in exchange rates among other currencies and the U.S. dollar will affect our cost of sales, operating margins and revenues. We cannot predict the impact of future exchange rate fluctuations. In addition, certain of our subsidiaries that have non-U.S. dollar functional currencies transact business in U.S. dollars. We use financial instruments, primarily short-term foreign currency forward contracts, to hedge U.S. dollar and other currency commitments arising from trade accounts receivable, trade accounts payable and fixed purchase obligations. If these hedging activities are not successful or we change or reduce these hedging activities in the future, we may experience significant unexpected expenses from fluctuations in exchange rates.

We may not be successful in implementing strategic transactions, including business acquisition and divestitures, and we may encounter difficulties in completing these transactions and integrating acquired businesses or in realizing anticipated benefits of strategic transactions, which could adversely affect our operating results.

We seek to undertake strategic transactions that give us the opportunity to access new customers and new end-customer markets, to obtain new manufacturing and service capabilities and technologies, to enter new geographic manufacturing locations, to lower our manufacturing costs and improve the margins on our product mix, and to further develop existing customer relationships. For example, we recently announced our intention to create a more separable personal and business computing business unit comprised of our personal computing and low-end servers and storage businesses, their related BTO/CTO operations and their associated logistics activities. We believe that the creation of a more separable personal and business computing business unit will enhance our capability and flexibility in pursuing strategic alliances that can accelerate the pursuit of component vertical integration, product design and growth opportunities. We also believe it will allow us to consider potential strategic opportunities to maximize the value of our personal and business computing business. Strategic transactions may involve difficulties, including the following:

- integrating acquired operations and businesses;
- allocating management resources;
- scaling up production and coordinating management of operations at new sites;
- separating operations or support infrastructure for entities divested;
- managing and integrating operations in geographically dispersed locations;
- maintaining customer, supplier or other favorable business relationships of acquired operations and terminating unfavorable relationships;
- integrating the acquired company s systems into our management information systems;
- separating management information systems for entities to be divested;
- addressing unforeseen liabilities of acquired businesses;
- lack of experience operating in the geographic market or industry sector of the business acquired;
- improving and expanding our management information systems to accommodate expanded operations; and
- losing key employees of acquired operations.

Any of these factors could prevent us from realizing the anticipated benefits of a strategic transaction, and our failure to realize these benefits could adversely affect our business and operating results. We may not be successful in identifying future strategic opportunities or in consummating any strategic transactions that we pursue on favorable terms, if at all. Although our goal is to improve our business and maximize stockholder value, any transactions that we complete may impair stockholder or debtholder value or otherwise adversely affect our business and the market price of our stock. Moreover, any such transaction may require us to incur related charges, and may pose significant integration challenges and/or management and business disruptions, any of which could harm our operating results and business.

If we are unable to protect our intellectual property or infringe, or are alleged to infringe, upon intellectual property of others, our operating results may be adversely affected.

We rely on a combination of copyright, patent, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We cannot be certain that the steps we have taken will prevent unauthorized use of our technology. Our inability to protect our intellectual property rights could diminish or eliminate the competitive advantages that we derive from our proprietary technology.

We may become involved in litigation in the future to protect our intellectual property or because others may allege that we infringe on their intellectual property. These claims and any resulting lawsuits could subject us to significant liability for damages and invalidate our proprietary rights. In addition, these lawsuits, regardless of their merits, likely would be time consuming and expensive to resolve and would divert management s time and attention. Any potential intellectual property litigation alleging our infringement of a third-party s intellectual property also could force us or our customers to:

- stop producing products that use the challenged intellectual property;

- obtain from the owner of the infringed intellectual property a license to sell the relevant technology at an additional cost, which license may not be available on reasonable terms, or at all; and

- redesign those products or services that use the infringed technology.

Any costs we incur from having to take any of these actions could be substantial.

We and the customers we serve are vulnerable to technological changes in the electronics industry.

Our customers are primarily OEMs in the communications, high-end computing, personal computing, aerospace and defense, medical, industrial controls and multimedia sectors. These industry sectors, and the electronics industry as a whole, are subject to rapid technological change and product obsolescence. If our customers are unable to develop products that keep pace with the changing technological environment, our customers products could become obsolete, and the demand for our services could decline significantly. In addition, our customers may discontinue or modify products containing components that we manufacture, or develop products requiring new manufacturing processes. If we are unable to offer technologically advanced, easily adaptable and cost effective manufacturing services in response to changing customer requirements, demand for our services will decline. If our customers terminate their purchase orders with us or do not select us to manufacture their new products, our operating results could be adversely affected.

We may experience component shortages, which could cause us to delay shipments to customers and reduce our revenue and operating results.

In the past from time to time, a number of components purchased by us and incorporated into assemblies and subassemblies produced by us have been subject to shortages. These components include application-specific integrated circuits, capacitors and connectors. As our business begins to improve following the economic downturn, we may experience component shortages from time to time. Unanticipated component shortages have prevented us from making scheduled shipments to customers in the past and may do so in the future. Our inability to make scheduled shipments could cause us to experience a shortfall in revenue, increase our costs and adversely affect our relationship with the affected customer and our reputation generally as a reliable service provider. Component shortages may also increase our cost of goods sold because we may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components. In addition, we may purchase components in advance of our requirements for those components as a result of a threatened or anticipated shortage. In this event, we will incur additional inventory carrying costs, for which we may not be compensated, and have a heightened risk of exposure to inventory obsolescence. As a result, component shortages could adversely affect our operating results for a particular period due to the resulting revenue shortfall and increased manufacturing or component costs.

If we manufacture or design defective products, or if our manufacturing processes do not comply with applicable statutory and regulatory requirements, demand for our services may decline and we may be subject to liability claims.

We manufacture products to our customers specifications, and in some cases our manufacturing processes and facilities may need to comply with applicable statutory and regulatory requirements. For example, medical devices that we manufacture, as well as the facilities and manufacturing processes that we use to produce them, are regulated by the Food and Drug Administration. In addition, our customers products and the manufacturing processes that we use to produce them often are highly complex. As a result, products that we manufacture or design may at times contain design or manufacturing defects, and our manufacturing processes may be subject to errors or not be in compliance with applicable statutory and regulatory requirements. Defects in the products we manufacture or design may result in delayed shipments to customers or reduced or cancelled customer orders. If these defects or deficiencies are significant, our business reputation may also be damaged. The failure of the products that we manufacture or design or of our manufacturing processes and facilities to comply with applicable statutory and regulatory requirements may subject us to legal fines or penalties and, in some cases, require us to shut down or incur considerable expense to correct a manufacturing program or facility. In addition, these defects may result in liability claims against us. The magnitude of such claims may increase as we expand our medical, automotive, and aerospace and defense manufacturing services because defects in medical devices, automotive components, and aerospace and defense systems could seriously harm users of these products. Even if our customers are responsible for the defects, they may not, or may not have the resources to, assume responsibility for any costs or liabilities arising from these defects.

If our products are subject to warranty or liability claims, we may incur significant costs.

Our customers may experience defects in our designs or deficiencies with respect to our manufacturing services. We may be exposed to warranty or manufacturers liability claims as a result of these defects or deficiencies, and some claims may relate to customer product recalls. A claim for damages arising as a result of such defects or deficiencies could have a material adverse effect on our business, results of operations and financial condition. A claim for such damages, or a product recall conducted by one of our customers, also could have an adverse effect on our business reputation.

We may not have sufficient insurance coverage for certain of the risks and liabilities we assume in connection with the products and services we provide to our customers.

We carry various forms of business and liability insurance that we believe are typical for companies in our industry. However, we may not have sufficient insurance coverage for certain risks and liabilities we assume in connection with the products and services we provide to our customers, such as potential warranty, product liability and product recall claims. Such liability claims may only be partially covered under our insurance policies. We continue to monitor the insurance marketplace to evaluate the need to obtain additional insurance coverage in the future. Costs associated with potential claims and liabilities for which we do not have sufficient insurance coverage could have a material adverse effect on our results of operations, financial condition and liquidity.

Recently enacted changes in the securities laws and regulations have increased, and are likely to continue to increase, our costs.

The Sarbanes-Oxley Act of 2002 that became law in July 2002 has required changes in some of our corporate governance, securities disclosure and compliance practices. In response to the requirements of that Act, the Securities and Exchange Commission and the NASDAQ National Market have promulgated new rules on a variety of subjects. Compliance with these new rules, particularly Section 404 of The Sarbanes-Oxley Act of 2002 regarding management s assessment of our internal control over financial reporting, has increased our legal and financial and accounting costs, and we expect these increased costs to continue indefinitely. We also expect these developments to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be forced to accept reduced coverage or incur substantially higher costs to obtain coverage. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our board of directors or qualified executive officers.

We are subject to risks associated with natural disasters and global events.

We conduct a significant portion of our activities including manufacturing, administration and data processing at facilities located in the State of California and other seismically active areas that have experienced major earthquakes in the past, as well as other natural disasters. Our insurance coverage with respect to natural disasters is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate or continue to be available at commercially reasonable rates and terms. In the event of a major earthquake or other disaster affecting one or more of our facilities, it could significantly disrupt our operations, delay or prevent product manufacture and shipment for the time required to transfer production, repair, rebuild or replace the affected manufacturing facilities. This time frame could be lengthy, and result in significant expenses for repair and related costs. In addition, concerns about terrorism or an outbreak of epidemic diseases could have a negative effect on travel and our business operations, and result in adverse consequences on our business and results of operations.

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

Interest Rate Risk

Our exposures to market risk for changes in interest rates relate primarily to our investment portfolio and certain debt obligations. Currently, we do not use derivative financial instruments in our investment portfolio. We invest in high quality credit issuers and, by policy, limit the amount of principal exposure to any one issuer. As stated in our policy, we seek to ensure the safety and preservation of our invested principal funds by limiting default and market risk.

We seek to mitigate default risk by investing in high quality credit securities and by positioning our investment portfolio to respond to a significant reduction in credit rating of any investment issuer, guarantor or depository. We seek to mitigate market risk by limiting the principal and investment term of funds held with any one issuer and by investing funds in marketable securities with active secondary or resale markets. As of December 30, 2006, we had no short-term investments.

We have issued the 6.75% Notes with a principal balance of $400.0 million due in 2013. We entered into interest rate swap transactions with independent third parties to effectively convert the fixed interest rate obligation to a variable rate obligation. The swap agreements, which expire in 2013, are accounted for as fair value hedges under SFAS No. 133. The aggregate notional amount of the combined swap transactions is $400.0 million. Under the terms of the swap agreements, we pay the independent third parties an interest rate equal to the six-month LIBOR rate plus a spread ranging from 2.214% to 2.250%. In exchange, we receive a fixed rate of 6.75%. At December 30, 2006 and September 30, 2006, $17.5 million and $17.1 million, respectively, has been recorded in other long-term liabilities to record the fair value of the interest rate swap transactions, with a corresponding decrease to the carrying value of the 6.75% Notes on the Condensed Consolidated Balance Sheets.

We entered into a Credit and Guaranty Agreement (the Credit Agreement) providing for a $600.0 million senior unsecured term loan which matures on January 31, 2008. The loans will bear interest at our election at either the prime rate plus a margin or at an adjusted LIBOR rate plus 2.5%. On the 181st day after closing, the margins with respect to all loans will increase by 0.5% for the remaining life of the loans.

Since certain of the Company s debt as of December 30, 2006 are floating rate debt instruments, a 10% increase in interest rate at December 30, 2006 would result in an increase in gross interest expense of approximately $9.3 million. Similarly, a 10% reduction in interest rate would result in a reduction in interest expense of approximately $9.3 million.

Foreign Currency Exchange Risk

We transact business in foreign countries. Our primary foreign currency cash flows are in certain Asian and European countries, Australia, Brazil, Canada, and Mexico. We enter into short-term foreign currency forward contracts to hedge currency exposures associated with certain assets and liabilities denominated in foreign currencies. These contracts typically have maturities of three months or less. At December 30, 2006 and September 30, 2006, we had forward contracts to exchange various foreign currencies for U.S. dollars in the aggregate notional amount of $380.8 million and $403.4 million, respectively. The net unrealized loss on the contracts at December 30, 2006 was not material and was recorded in accrued liabilities on the Condensed Consolidated Balance Sheet. Realized gains and losses on forward exchange contracts are recognized in the Condensed Consolidated Statement of Operations as offsets to the exchange gains and losses on the hedged transactions. The impact of these foreign exchange contracts was not material to the results of operations for the three months ended December 30, 2006 and December 31, 2005.

We also utilize foreign currency forward and option contracts to hedge certain forecasted foreign currency sales and cost of sales (cash flow hedges) and these contracts typically expire within 12 months. Gains and losses on these contracts related to the effective portion of the hedges are recorded in other comprehensive income until the forecasted transactions impact earnings. Gains and losses related to the ineffective portion of the hedges are immediately recognized in the Condensed Consolidated Statements of Operations. At December 30, 2006 and September 30, 2006, we had forward and option contracts related to cash flow hedges in various foreign currencies in the aggregate notional amount of $70.5 million and $10.1 million, respectively. The net unrealized gain on the contracts at December 30, 2006 was not material and was recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets. The impact of these foreign exchange forward and option contracts was not material to the results of operations for the three months ended December 30, 2006 and December 31, 2005.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered in this report, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) and determined that, as a result of the material weakness in internal control over financial reporting described below, as of December 30, 2006,our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities Exchange Commission rules and forms.

In November 2006, we identified a material weakness in our internal control over financial reporting. The Public Company Accounting Oversight Board s Auditing Standard No. 2 defines a material weakness as a significant deficiency, or a combination of significant deficiencies, that results in there being a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of December 30, 2006, we identified a material weakness comprised of the following internal control deficiencies:

- inadequate segregation of responsibilities and oversight between the compensation administration function and stock administration function, each of which were administered outside of the oversight of the finance organization;
- inadequate supervision and training for personnel involved in the stock option granting process;
- inadequate policies and procedures regarding maintenance of records supporting the granting activities, grant date, and authorization of equity based transactions; and

- inadequate documentation of stock option granting procedures and practices, inadequate policies and procedures to address the determination of the measurement date and exercise price of equity awards, and inadequate policies to identify the individuals who have authority to grant equity awards.

As a result of financial statement errors attributable to the material weakness described above, on January 3, 2007, we filed a comprehensive Form 10-K for the fiscal year ended September 30, 2006 in which we restated our consolidated financial statements and related disclosure for the fiscal years ended October 1, 2005 and October 2, 2004 and restated other disclosures for stock-based compensation, Selected Consolidated Financial Data for the fiscal years ended 2005, 2004, 2003, and 2002 and restated financial information for each affected quarter during fiscal 2005 and 2006.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during our first quarter of fiscal 2007 identified in connection with the aforementioned evaluation that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

During the first quarter of fiscal 2007, our Board of Directors approved additional control procedures to remediate the material weakness, and we have since commenced the remediation efforts. The actions approved by our Board of Directors include:

- Establishing fixed dates for the granting of all equity-based awards.

- Segregating and reassigning responsibilities relating to compensation administration and stock administration, each of which were previously administered outside of the oversight of the finance organization. The stock administration program will be administered and managed by the Finance department.

- Creation and implementation of formal, documented stock option grant procedures and practices such as establishing and documenting the authority to grant stock options, protocols in regards to establishing the effective date and exercise price of options.

- Establishment of additional education and training for personnel and directors in areas associated with the stock option granting processes and other compensation practices to increase competency levels of the personnel involved.

- Ensuring that the actions taken by the Compensation Committee are accurately documented and reported to the Board of Directors in a timely manner.

- Requiring documented, verifiable evidence of the date of approval for routine new hire, promotion and certain discretionary grants and mandating approval of the Compensation Committee prior to issuance of all other grants.

Inherent Limitations of Disclosure Controls and Internal Control Over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

We are a so-called   nominal defendant   party to multiple shareholder derivative lawsuits that were filed following our June 9, 2006 announcement that we had initiated an internal inquiry into our historical stock option administration practices. In particular, five separate shareholder derivative actions have been filed and consolidated into a single proceeding pending in the United States District Court for the Northern District of California, captioned *In re Sanmina-SCI Corporation Derivative Litigation*, Master File No. C-06-3783-JF. The first of these consolidated actions was filed June 15, 2006. A consolidated complaint was filed on October 30, 2006. In addition, three related shareholder derivative actions have been filed in Superior Court for the State of California, County of Santa Clara. These three actions, captioned *Salehinasab v. Sola, et al.,* Case No. 1-06-CV-071786 (filed September 25, 2006); *Bahnmiller v. Sola, et al.,* Case No. 1-06-CV-074989 (filed November 17, 2006); and *Judd v. Sola, et al.,* Case No. 1-06-CV-075019 (filed November 17, 2006), have not yet been consolidated although we expect that they will be.

In all of these actions, the derivative plaintiffs allege that they are our shareholders and purport to bring the actions on our behalf and for our benefit. This is why we are a   nominal defendant   party to each of these actions; however, no relief is sought against us in these lawsuits. While the list of defendants varies from action to action, 27 different current and former directors and officers have been named as defendants in one or more of the actions. The defendants include Rick Ackel, Samuel Altschuler, John Bolger, Neil R. Bonke,Stephen F. Bruton, Michael J. Clarke, Alain A. Couder, Randy W. Furr, Steven H. Jackman, Elizabeth J. Jordan, Michael Landy, Christopher D. Mitchell, Eric Naroian, Hari Pillai, Carmine Renzulli, Mario M. Rosati, A. Eugene Sapp, Jr., Joseph Schell, Wayne Shortridge, Peter J. Simone, Jure Sola, Michael Sparacino, Michael Sullivan, Jacquelyn M. Ward, David White, Bernard Whitney and Dennis Young. The derivative plaintiffs allege generally that the individual defendants manipulated the grant dates of our stock options between 1995 and 2006, allegedly in breach of duties owed to us and our shareholders, causing us to report our financial results inaccurately and resulting in harm to us. Plaintiffs seek money damages against the individual defendants, an accounting for damages allegedly caused by the individual defendants, disgorgement of profits allegedly improperly obtained by the defendants, and various other types of equitable and injunctive relief. In August 2006, our Board of Directors created a Special Litigation Committee comprised of directors Alain A. Couder and Peter J. Simone, and vested that committee with the full authority on our behalf to investigate the claims asserted by the derivative plaintiffs, and to determine what action should be taken with respect to the shareholder derivative actions including without limitation whether we should pursue claims against the named defendants or other persons. The Special Litigation Committee   s investigation is ongoing. We have filed motions asking both the federal court and state courts to stay the derivative plaintiffs   prosecution of the shareholder derivative lawsuits to permit the Special Litigation Committee reasonable time to consider the matters alleged by the derivative plaintiffs and to determine appropriate action in response to the lawsuit. Although we believe the stay motion to be well founded, there can be no assurance that the courts will grant our motions. While the shareholder derivative lawsuits do not seek remedies against us, we do owe certain indemnification obligations to our current and former directors, officers and employees involved with the stock option-related proceedings, particularly to the extent that individuals are found not to have engaged in any wrongdoing. We cannot currently predict whether the shareholder derivative lawsuits will result in any material net recovery for us.

Additionally, we are aware that both the Securities and Exchange Commission and United States Attorney for the Northern District of California are conducting inquiries into our historical stock option administration practices. We have received an informal request for documents and other information from the Securities and Exchange Commission and a grand jury subpoena from the United States Attorney. We are cooperating fully with both investigations.

In addition, we are a party to certain legal proceedings that have arisen in the ordinary course of our business. We believe that the resolution of these proceedings will not have a material adverse effect on our business, financial condition or results of operations.

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

None.

Item 6. ***Exhibits***

(a) *Exhibits*

Refer to item (c) below.

53

(c) *Exhibits*

Exhibit Number	Description
3.1(1)	Restated Certificate of Incorporation of the Registrant, dated January 31, 1996.
3.1.1(2)	Certificate of Amendment of the Restated Certificate of Incorporation of the Registrant, dated March 9, 2001.
3.1.2(3)	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of the Registrant, dated May 31, 2001.
3.1.3(4)	Certificate of Amendment of the Restated Certificate of Incorporation of the Registrant, dated December 7, 2001.
3.2(5)	Amended and Restated Bylaws of the Registrant, dated December 4, 2006.
4.13.2(6)	Second Supplemental Indenture, dated as of January 3, 2007, among the Registrant and U.S. Bank National Association, as trustee.
4.14.1(6)	First Supplemental Indenture, dated as of January 3, 2007, among the Registrant and U.S. Bank National Association, as trustee.
4.15.1(6)	Amendment No.3 and Waiver to Amended and Restated Credit and Guaranty Agreement, dated as of December 29, 2006, among the Registrant, the guarantors party thereto, the lenders party thereto, Citibank, N.A., as Collateral Agent, and Bank of America, N.A., as Administrative Agent.
31.1	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

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(1) Incorporated by reference to Exhibit 3.2 to the Registrant s Report on Form 10-K for the fiscal year ended September 30, 1996, SEC File No. 000-21272, filed with the Securities and Exchange Commission (SEC) on December 24, 1996.

(2) Incorporated by reference to Exhibit 3.1(a) to the Registrant s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001, filed with the SEC on May 11, 2001.

(3) Incorporated by reference to Exhibit 3.1.3 to the Registrant s Report on Form 10-K for the fiscal year ended September 30, 2001, filed with the SEC on December 21, 2001.

(4) Incorporated by reference to Exhibit 3.1.2 to the Registrant s Registration Statement on Form S-4 filed with the SEC on August 10, 2001.

(5) Incorporated by reference to Exhibit 3.2 to the Registrant s Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2006, filed December 13, 2006.

(6) Incorporated by reference to Exhibit 4.15.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended September 30, 2006, filed January 3, 2007.

SANMINA-SCI CORPORATION

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.

SANMINA-SCI CORPORATION
(Registrant)

By: /s/ JURE SOLA
Jure Sola
Chief Executive Officer

Date: February 2, 2007

By: /s/ DAVID L. WHITE
David L. White
Executive Vice President and
Chief Financial Officer

Date: February 2, 2007

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