

TTM TECHNOLOGIES INC

Form 10-Q

August 14, 2006

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q**

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

**For the quarterly period ended July 3, 2006**

**Commission File Number: 0-31285**

**TTM TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**91-1033443**

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

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

(Address of principal executive offices)

**(714) 327-3000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

Accelerated filer

Non-accelerated filer

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

Yes  No

Number of shares of common stock, \$0.001 par value, of registrant outstanding at August 3, 2006: 41,783,198

**TABLE OF CONTENTS**

|   | <b>Page</b> |
|---|-------------|
| <b>PART I: FINANCIAL INFORMATION</b>  |             |
| Item 1. Financial Statements (unaudited)  |             |
| <u>Consolidated Condensed Balance Sheets As of December 31, 2005 and July 3, 2006</u>                                       | 3           |
| <u>Consolidated Condensed Statements of Operations For the quarter and two quarters ended July 4, 2005 and July 3, 2006</u> | 4           |
| <u>Consolidated Condensed Statements of Cash Flows For the two quarters ended July 4, 2005 and July 3, 2006</u>             | 5           |
| <u>Notes to Consolidated Condensed Financial Statements</u>   | 6           |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 13          |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | 21          |
| <u>Item 4. Controls and Procedures</u>  | 21          |
| <b><u>PART II: OTHER INFORMATION</u></b>  |             |
| <u>Item 1. Legal Proceedings</u>  | 22          |
| <u>Item 1A. Risk Factors</u>  | 22          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 30          |
| <u>Item 3. Defaults Upon Senior Securities</u>  | 30          |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u>  | 30          |
| <u>Item 5. Other Information</u>  | 30          |
| <u>Item 6. Exhibits</u>   | 30          |
| <b><u>SIGNATURES</u></b>  | 31          |
| <u>EX-10.1</u>  |             |
| <u>EX-31.1</u>  |             |
| <u>EX-31.2</u>  |             |
| <u>EX-32.1</u>  |             |
| <u>EX-32.2</u>  |             |

**Table of Contents**

**TTM TECHNOLOGIES, INC.**  
**Consolidated Condensed Balance Sheets**  
**As of December 31, 2005 and July 3, 2006**  
**(unaudited)**  
**(In thousands)**

|  | <b>December<br/>31,<br/>2005</b> | <b>July 3,<br/>2006</b> |
|--|----------------------------------|-------------------------|
| <b>Assets</b>  |                                  |                         |
| Current assets:  |                                  |                         |
| Cash and cash equivalents  | \$ 61,258                        | \$ 80,972               |
| Short-term investments   | 21,100                           | 20,272                  |
| Accounts receivable, net of allowances of \$4,094 and \$4,303, respectively                      | 38,631                           | 44,837                  |
| Inventories, net   | 12,564                           | 13,886                  |
| Prepaid expenses and other   | 2,261                            | 1,458                   |
| Deferred income taxes  | 4,601                            | 3,675                   |
| <br>Total current assets   | <br>140,415                      | <br>165,100             |
| <br>Property, plant and equipment:   |                                  |                         |
| Property, plant and equipment, at cost   | 98,019                           | 103,586                 |
| Less: accumulated depreciation   | (46,221)                         | (51,033)                |
| <br>Property, plant and equipment, net   | <br>51,798                       | <br>52,553              |
| <br>Other assets:  |                                  |                         |
| Debt issuance costs, net of accumulated amortization of \$33 and \$72, respectively              | 199                              | 160                     |
| Deferred income taxes  | 6,834                            | 4,890                   |
| Goodwill   | 63,153                           | 63,153                  |
| Definite-lived intangibles, net of accumulated amortization of \$8,061 and \$8,370, respectively | 10,318                           | 10,009                  |
| Deposits and other   | 426                              | 1,011                   |
| <br>Total other assets   | <br>80,930                       | <br>79,223              |
|  | \$ 273,143                       | \$ 296,876              |
| <br><b>Liabilities and Stockholders Equity</b>   |                                  |                         |
| Current liabilities:   |                                  |                         |
| Accounts payable   | \$ 11,310                        | \$ 12,112               |
| Accrued salaries, wages and benefits   | 9,921                            | 13,234                  |
| Accrued contingencies  | 3,150                            | 685                     |
| Other accrued expenses   | 1,642                            | 1,541                   |
| Income taxes payable   | 2,116                            | 547                     |

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|   |            |            |
|---|------------|------------|
| Other long-term liabilities   | 1,052      |            |
| Total current liabilities   | 29,191     | 28,119     |
| Stockholders' equity:   |            |            |
| Common stock, \$0.001 par value; 100,000 shares authorized, 41,311 and 41,783 shares issued and outstanding, respectively | 41         | 42         |
| Additional paid-in capital  | 159,634    | 165,071    |
| Retained earnings   | 84,277     | 103,644    |
| Total stockholders' equity  | 243,952    | 268,757    |
|   | \$ 273,143 | \$ 296,876 |

See accompanying notes to consolidated condensed financial statements.

**Table of Contents**

**TTM TECHNOLOGIES, INC.**  
**Consolidated Condensed Statements of Operations**  
**For the Quarter and Two Quarters Ended July 4, 2005 and July 3, 2006**  
**(unaudited)**  
**(In thousands, except per share data)**

|  | <b>Quarter Ended</b>    |                         | <b>Two Quarters Ended</b> |                         |
|--|-------------------------|-------------------------|---------------------------|-------------------------|
|  | <b>July 4,<br/>2005</b> | <b>July 3,<br/>2006</b> | <b>July 4,<br/>2005</b>   | <b>July 3,<br/>2006</b> |
| Net sales                                  | \$ 57,216               | \$ 76,683               | \$ 116,099                | \$ 149,371              |
| Cost of goods sold                         | 46,179                  | 53,714                  | 91,524                    | 106,199                 |
| Gross profit                               | 11,037                  | 22,969                  | 24,575                    | 43,172                  |
| Operating expenses:                        |                         |                         |                           |                         |
| Selling and marketing                      | 2,865                   | 3,454                   | 5,882                     | 6,813                   |
| General and administrative                 | 3,035                   | 3,663                   | 6,439                     | 7,247                   |
| Amortization of definite-lived intangibles | 301                     | 301                     | 601                       | 601                     |
| Total operating expenses                   | 6,201                   | 7,418                   | 12,922                    | 14,661                  |
| Operating income                           | 4,836                   | 15,551                  | 11,653                    | 28,511                  |
| Other income (expense):                    |                         |                         |                           |                         |
| Interest expense                           | (49)                    | (25)                    | (100)                     | (67)                    |
| Amortization of debt issuance costs        | (13)                    | (20)                    | (26)                      | (39)                    |
| Interest income and other, net             | 462                     | 1,118                   | 846                       | 2,095                   |
| Total other income (expense), net          | 400                     | 1,073                   | 720                       | 1,989                   |
| Income before income taxes                 | 5,236                   | 16,624                  | 12,373                    | 30,500                  |
| Income tax provision                       | (1,964)                 | (6,068)                 | (4,641)                   | (11,133)                |
| Net income                                 | \$ 3,272                | \$ 10,556               | \$ 7,732                  | \$ 19,367               |
| Basic earnings per share                   | \$ 0.08                 | \$ 0.25                 | \$ 0.19                   | \$ 0.47                 |
| Diluted earnings per share                 | \$ 0.08                 | \$ 0.25                 | \$ 0.19                   | \$ 0.46                 |

See accompanying notes to consolidated condensed financial statements.

**Table of Contents**

**TTM TECHNOLOGIES, INC.**  
**Consolidated Condensed Statements of Cash Flows**  
**For the Two Quarters Ended July 4, 2005 and July 3, 2006**  
**(unaudited)**  
**(In thousands)**

|   | <b>Two Quarters Ended</b> |                     |
|---|---------------------------|---------------------|
|   | <b>July 4,<br/>2005</b>   | <b>July 3, 2006</b> |
| Cash flows from operating activities:   |                           |                     |
| Net income  | \$ 7,732                  | \$ 19,367           |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                     |
| Depreciation on property, plant and equipment                                     | 4,412                     | 4,856               |
| Net gain on sale of property, plant and equipment                                 |                           | (12)                |
| Amortization of definite-lived intangible assets                                  | 659                       | 659                 |
| Excess income tax benefit from common stock options exercised                     | 601                       | (621)               |
| Stock-based compensation  |                           | 589                 |
| Deferred income taxes   | 3,584                     | 2,870               |
| Other   | 144                       | (182)               |
| Changes in operating assets and liabilities:                                      |                           |                     |
| Accounts receivable, net  | (1,848)                   | (6,206)             |
| Inventories, net  | (2,181)                   | (1,322)             |
| Prepaid expenses and other  | (271)                     | 803                 |
| Accounts payable  | (1,366)                   | 802                 |
| Accrued salaries, wages and benefits and other accrued expenses                   | (2,018)                   | 2,146               |
| Accrued contingencies   |                           | (2,465)             |
| Income taxes payable  | (160)                     | (471)               |
| <br>Net cash provided by operating activities                                     | <br>9,288                 | <br>20,813          |
| <br>Cash flows from investing activities:   |                           |                     |
| Purchase of property, plant and equipment and equipment deposits                  | (4,908)                   | (5,639)             |
| Proceeds from sale of property, plant and equipment                               |                           | 22                  |
| Purchase of intangibles   |                           | (350)               |
| Purchase of available-for-sale short-term investments                             | (4,300)                   |                     |
| Proceeds from sales of available-for-sale short-term investments                  | 17,150                    |                     |
| Purchase of held-to-maturity short-term investments                               | (22,516)                  | (27,322)            |
| Proceeds from maturities of held-to-maturity short-term investments               | 6,040                     | 28,385              |
| Direct acquisition costs  |                           | (566)               |
| <br>Net cash used in investing activities   | <br>(8,534)               | <br>(5,470)         |
| <br>Cash flows from financing activities:   |                           |                     |
| Proceeds from exercise of common stock options                                    | 749                       | 3,750               |
| Excess income tax benefit from common stock options exercised                     |                           | 621                 |

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|  |           |           |
|--|-----------|-----------|
| Net cash provided by financing activities        | 749       | 4,371     |
| Net increase in cash and cash equivalents        | 1,503     | 19,714    |
| Cash and cash equivalents at beginning of period | 43,188    | 61,258    |
| Cash and cash equivalents at end of period       | \$ 44,691 | \$ 80,972 |
| Supplemental cash flow information:              |           |           |
| Cash paid for interest                           | \$ 38     | \$ 47     |
| Cash paid, net for income taxes                  | 414       | 8,733     |

See accompanying notes to consolidated condensed financial statements.



**Table of Contents**

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

**(1) Basis of Presentation**

TTM Technologies, Inc., formerly Pacific Circuits, Inc., was incorporated under the laws of the State of Washington on March 20, 1978 and reincorporated under the laws of the State of Delaware on August 29, 2005. In July 1999, Power Circuits, Inc. was acquired, and on December 26, 2002, Honeywell Advanced Circuits, Inc., renamed to TTM Advanced Circuits, Inc., ( Advanced Circuits ) was acquired, and both became wholly owned subsidiaries of TTM Technologies, Inc. TTM Technologies International, Inc. was established as a wholly owned subsidiary of TTM Technologies, Inc. in December 2004. TTM Technologies, Inc. and its wholly owned subsidiaries are collectively referred to as the Company . The Company is a manufacturer of complex printed circuit boards used in sophisticated electronic equipment. The Company sells to a variety of customers located both within and outside of the United States of America.

The accompanying consolidated condensed financial statements have been prepared by TTM Technologies, Inc. (the Company ), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These consolidated condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments), which in the opinion of management, are necessary to present fairly the financial position, the results of operations and cash flows of the Company for the periods presented. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s most recent Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Company s Consolidated Condensed Financial Statements and accompanying notes. Actual results could differ materially from those estimates. The Company uses a 13-week fiscal quarter accounting period with the first quarter ending on the Monday closest to April 1 and the fourth quarter always ending on December 31. The second quarters ended July 4, 2005 and July 3, 2006 each contained 91 days. The two quarters ended July 4, 2005 and July 3, 2006 contained 185 and 184 days, respectively.

**(2) Cash Equivalents and Short-term Investments**

The Company considers highly liquid investments with insignificant interest rate risk and original maturities to the Company of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of interest-bearing bank accounts, money market funds and short-term debt securities.

The Company considers highly liquid investments with a maturity to the Company of more than three months and less than one year to be short-term investments.

Management determines the appropriate classification of investments at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities that the Company has the ability and intent to hold until maturity are accounted for as held-to-maturity securities and are carried at amortized cost, which approximated fair market value. Available-for-sale debt securities are carried at fair value, which approximated cost.

**Table of Contents**

Short-term investments as of December 31, 2005 and July 3, 2006 were as follows:

|  | <b>December 31,<br/>2005</b> | <b>July 3,<br/>2006</b> |
|--|------------------------------|-------------------------|
| Available-for-sale:                          |                              |                         |
| Money market funds                           | \$ 18,975                    | \$ 20,406               |
|  | 18,975                       | 20,406                  |
| Held-to-maturity:                            |                              |                         |
| Corporate bonds and notes                    | 27,705                       | 20,528                  |
| Negotiable bank certificates of deposit      | 1,200                        | 2,400                   |
| U.S. treasury and federal agency securities  | 34,516                       | 57,086                  |
|  | 63,421                       | 80,014                  |
| Total short-term investments                 | 82,396                       | 100,420                 |
| Amounts classified as cash equivalents       | 61,296                       | 80,148                  |
| Amounts classified as short-term investments | \$ 21,100                    | \$ 20,272               |

As of July 3, 2006, debt securities totaled \$80,014, are classified as held-to-maturity and mature in less than one year.

For the two quarters ended July 4, 2005 and July 3, 2006 realized gains and losses upon the sale of available-for-sale investments were insignificant. Unrealized gains and losses on available-for-sale investments are insignificant for all periods and accordingly have not been recorded as a component of other comprehensive income. The specific identification method is used to compute the realized gains and losses on debt investments.

The Company regularly monitors and evaluates the realizable value of its investments. When assessing investments for other-than-temporary declines in value, the Company considers such factors as, among other things, how significant the decline in value is as a percentage of the original cost, how long the market value of the investment has been less than its original cost, the collateral supporting the investments, insurance policies which protect the Company's investment position and the credit rating issued for the securities by one or more of the major credit rating agencies.

Certain prior year balances in this disclosure only have been reclassified to conform to the current year's presentation.

**(3) Inventories**

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market. Provision is made to reduce excess and obsolete inventories to their estimated net realizable value. Inventories as of December 31, 2005 and July 3, 2006 consist of the following:

|                 | <b>December<br/>31,<br/>2005</b> | <b>July 3,<br/>2006</b> |
|-----------------|----------------------------------|-------------------------|
| Raw materials   | \$ 3,842                         | \$ 4,356                |
| Work-in-process | 7,407                            | 7,900                   |
| Finished goods  | 1,315                            | 1,630                   |

\$ 12,564 \$ 13,886

**Table of Contents****(4) Earnings Per Share**

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

The following is a reconciliation of the numerator and denominator used to calculate Basic EPS and Diluted EPS for the quarters and two quarters ended July 4, 2005 and July 3, 2006:

|                   | Quarter Ended July 4, 2005      |        |         | Quarter Ended July 3, 2006      |        |         |
|-------------------|---------------------------------|--------|---------|---------------------------------|--------|---------|
|                   | Net                             |        | Per     | Net                             |        | Per     |
|                   | Income                          | Shares | Share   | Income                          | Shares | Share   |
| Basic EPS         | \$ 3,272                        | 41,267 | \$ 0.08 | \$ 10,556                       | 41,694 | \$ 0.25 |
| Effect of options |                                 | 505    |         |                                 | 818    |         |
| Diluted EPS       | \$ 3,272                        | 41,772 | \$ 0.08 | \$ 10,556                       | 42,512 | \$ 0.25 |
|                   | Two Quarters Ended July 4, 2005 |        |         | Two Quarters Ended July 3, 2006 |        |         |
|                   | Net                             |        | Per     | Net                             |        | Per     |
|                   | Income                          | Shares | Share   | Income                          | Shares | Share   |
| Basic EPS         | \$ 7,732                        | 41,171 | \$ 0.19 | \$ 19,367                       | 41,566 | \$ 0.47 |
| Effect of options |                                 | 607    |         |                                 | 676    |         |
| Diluted EPS       | \$ 7,732                        | 41,778 | \$ 0.19 | \$ 19,367                       | 42,242 | \$ 0.46 |

The computation of Diluted EPS does not assume exercise or conversion of securities that would have an antidilutive effect on earnings per common share. Stock options to purchase 1,810 and 725 shares of common stock for the quarter ended July 4, 2005 and July 3, 2006, respectively, were not considered in calculating Diluted EPS because the effect would be anti-dilutive. Stock options to purchase 1,618 and 1,106 shares of common stock for the two quarters ended July 4, 2005 and July 3, 2006, respectively, were not considered in calculating Diluted EPS because the effect would be anti-dilutive.

**(5) Stock-Based Compensation**

At July 3, 2006, the Company had the stock-based compensation plan described below. Prior to January 1, 2006, the Company accounted for this plan under the recognition and measurement provisions of APB No. 25. Accordingly, the Company generally recognized compensation expense only when it granted options with an exercise price below the market price. Any resulting compensation expense was recognized ratably over the associated service period, which was generally the option vesting term.

Prior to January 1, 2006, the Company provided pro forma disclosure as if the fair value method defined by SFAS No. 123 Accounting for Stock Based Compensation ( SFAS 123 ) had been applied to its stock-based compensation.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R Share-Based Payments ( SFAS 123R ), using the modified prospective transition method and therefore has not restated any prior reported results. Under this transition method, stock-based compensation expense for the two quarters ended July 3, 2006 included compensation expense for all stock-based compensation awards granted prior to, but not yet vested, as of December 31, 2005 based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123. Stock-based compensation expense for all stock-based compensation awards granted on and after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

The Company recognizes these compensation costs net of estimated forfeitures on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. The Company estimates the forfeiture rate based on its historical experience.

As a result of adopting SFAS 123R, the impact to the consolidated condensed financial statements for the quarter and two quarters ended July 3, 2006 was a reduction in income before income taxes of \$334 and \$589, respectively, and a reduction in net income of \$312 and \$559, respectively. The impact on both basic and diluted earnings per

**Table of Contents**

share for the quarter ended July 3, 2006 was a decrease of approximately \$.01 per share. The impact on both basic and diluted earnings per share for the two quarters ended July 3, 2006 was a decrease of approximately \$.01 per share. In addition, prior to the adoption of SFAS 123R, the Company presented the tax benefit from the exercise of common stock option exercises as a component of cash flows from operating activities. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as a component of cash flows from financing activities. This results in a decrease of \$621 in cash flows from operating activities and an increase of \$621 in cash flows from financing activities for the two quarters ended July 3, 2006.

The pro forma table below reflects net income and basic and diluted net earnings per share for the quarter and two quarters ended July 4, 2005 had the Company applied the fair value recognition provisions of SFAS 123, as follows:

|  | <b>Quarter<br/>Ended<br/>July 4, 2005</b> | <b>Two Quarters<br/>Ended<br/>July 4, 2005</b> |
|--|---|--|
| Net income, as reported  | \$ 3,272                                  | \$ 7,732                                       |
| Add: Stock-based compensation included in reported net income, net of related tax effects                                      |   |  |
| Less: Stock-based compensation expense determined under the fair-value-based method for all awards, net of related tax effects | (7,080)                                   | (8,009)  |
| Pro forma net income   | \$ (3,808)                                | \$ (277)                                       |
| Basic earnings per share:  |   |  |
| As reported  | \$ 0.08                                   | \$ 0.19  |
| Pro forma  | \$ (0.09)                                 | \$ (0.01)                                      |
| Diluted earnings per share:  |   |  |
| As reported  | \$ 0.08                                   | \$ 0.19  |
| Pro forma  | \$ (0.09)                                 | \$ (0.01)                                      |

**Stock-Based Compensation Plan**

In June 2006, the Company adopted the 2006 Incentive Compensation Plan ( The Plan ). The Plan provides for the grant of Incentive Stock Options, as defined by the Internal Revenue Code (the Code ), and nonqualified stock options to our key employees, non-employee directors and consultants. Awards under this Plan may constitute qualified performance-based compensation as defined in Section 162(m) of the Code. Other types of awards such as restricted stock and stock appreciation rights are also permitted under the Plan. 6,873 shares may be issued over the life of this Plan. The Plan expires on June 22, 2016. Prior to the adoption of the Plan, the Company adopted the Amended and Restated Management Stock Option Plan (the Prior Plan ) in 2000. The Prior Plan provided for the grant of Incentive Stock Options, as defined by the Code, and nonqualified stock options to our key employees, non-employee directors and consultants. Awards under the Plan and the Prior Plan may constitute qualified performance-based compensation as defined in Section 162(m) of the Code. Under both the Plan and the Prior Plan, the exercise price is determined by the compensation committee of the Board of Directors and, for options intended to qualify as Incentive Stock Options, may not be less than the fair market value as determined by the closing stock price at the date of the grant. Each option and award shall vest and expire as determined by the compensation committee, generally four years for employees and three or four years for non-employee directors. Options expire no later than ten years from the grant date. All grants provide for accelerated vesting if there is a change in control, as defined in the Plan. The Prior Plan was terminated on June 22, 2006. As of July 3, 2006, 20 options were issued under the Plan and 2,724 options were issued under the Prior Plan.

Upon the exercise of outstanding stock options, the Company's practice is to issue new registered shares which are reserved for issuance under the Plan and Prior Plan.

**Table of Contents**

The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model. The following assumptions and the resulting weighted average fair values for grants during the quarter and two quarters ended July 4, 2005 and July 3, 2006 are follows:

|   | <b>Quarter ended<br/>July 4, 2005</b>          | <b>Quarter ended<br/>July 3, 2006</b>          |
|---|--|--|
| Risk-free interest rate                         | 3.76%  | 5.02%  |
| Dividend yield                                  | %  | %  |
| Expected volatility                             | 80%  | 66%  |
| Expected term in months                         | 54   | 55   |
| Weighted-average per share fair value of grants | \$ 4.94  | \$ 9.44  |
|   | <b>Two Quarters<br/>ended<br/>July 4, 2005</b> | <b>Two Quarters<br/>ended<br/>July 3, 2006</b> |
| Risk-free interest rate                         | 3.72%  | 4.88%  |
| Dividend yield                                  | %  | %  |
| Expected volatility                             | 87%  | 66%  |
| Expected term in months                         | 54   | 55   |
| Weighted-average per share fair value of grants | \$ 5.62  | \$ 8.67  |

The fair value calculation is based on stock options granted during the period. The Company determines the expected term of its stock option awards separately for employees and directors by periodic review of its historical stock option exercise experience. This calculation excludes pre-vesting forfeitures and uses assumed future exercise patterns to account for option holders' expected exercise and post-vesting termination behavior for outstanding stock options over their remaining contractual terms. Expected volatility is calculated by weighting the Company's historical stock price to calculate expected volatility over the expected term of each grant. The risk-free interest rate for the expected term of each option granted is based on the U.S. Treasury yield curve in effect at the time of grant.

Option activity under the Plan for the two quarters ended July 3, 2006 was as follows:

|   | <b>Shares<br/>(in<br/>thousands)</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/>(in years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>(in<br/>thousands)</b> |
|---|--------------------------------------|---|--|---|
| <b>Two Quarters Ended July 3, 2006</b>      |                                      |   |  |   |
| Outstanding at December 31, 2005            | 2,910                                | \$ 9.45   | 7.1  |   |
| Granted                                     | 395                                  | 15.16   |  |   |
| Exercised                                   | (472)                                | 7.94  |  |   |
| Forfeited/cancelled/expired                 | (89)                                 | 9.86  |  |   |
| Outstanding at July 3, 2006                 | 2,744                                | \$ 10.52  | 7.1  | \$ 12,299   |
| Vested and expected to vest at July 3, 2006 | 2,598                                | \$ 10.53  | 7.0  | \$ 11,590   |
| Exercisable at July 3, 2006                 | 1,741                                | \$ 10.96  | 6.1  | \$ 6,886  |



The aggregate intrinsic values in the table above represent the total pretax intrinsic value (the difference between Company's closing stock price on the last trading day of the second fiscal quarter 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on July 3, 2006. This amount changes based on the fair market value of the Company's stock. The total intrinsic value of options exercised for the quarters ended July 4, 2005 and July 3, 2006 was \$494 and \$1,541, respectively. The total intrinsic value of options exercised for two quarters ended July 4, 2005 and July 3, 2006 was \$2,042 and \$3,013, respectively. The total fair value of the options vested for the quarters ended July 4, 2005 and July 3, 2006 was \$9,465 and \$222, respectively. The total fair value of the options vested for the two quarters ended July 4, 2005 and July 3, 2006 was \$9,941 and \$352, respectively.

As of July 3, 2006, \$4,456 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.6 years.

**Table of Contents**

In the quarter and two quarters ended July 3, 2006 the amounts recognized in the financial statements with respect to the stock-based compensation plan are as follows:

|   | <b>Quarter<br/>ended<br/>July 3, 2006</b> | <b>Two Quarters<br/>ended<br/>July 3, 2006</b> |
|---|---|--|
| Stock-based compensation expense recognized               | \$ 334                                    | \$ 589   |
| Income tax benefit recognized                             | (22)                                      | (30)   |
| Total stock-based compensation expense after income taxes | \$ 312                                    | \$ 559   |

Stock-based compensation expense recognized in the financial statements in the quarter and two quarters ended July 3, 2006 was classified as follows:

|   | <b>Quarter<br/>ended<br/>July 3, 2006</b> | <b>Two Quarters<br/>ended<br/>July 3, 2006</b> |
|---|---|--|
| Cost of goods sold                          | \$ 103                                    | \$ 193   |
| Selling and marketing                       | 29  | 49   |
| General and administrative                  | 202                                       | 347  |
| Stock-based compensation expense recognized | \$ 334                                    | \$ 589   |

Many of the Company's stock option awards are intended to qualify as incentive stock options as defined by the Code. Upon the future exercise of incentive stock options which were vested as of December 31, 2005, the Company may become entitled to a deduction in its tax returns under certain circumstances; however, the value of this deduction will be recorded as an increase to additional paid-in capital and not as an income tax benefit.

In the quarter and two quarters ended July 3, 2006, a tax benefit of \$553 and \$1,098 related to fully vested stock option awards exercised was recorded as an increase to additional paid-in capital, respectively.

**(6) Significant Customers**

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

For the fiscal quarter ended July 3, 2006, two customers accounted for approximately 26% and 13% of net sales. For the fiscal quarter ended July 4, 2005, two customers accounted for approximately 30% and 17% of net sales. Sales to our ten largest customers were 69% and 60% of net sales in the fiscal quarter ended July 4, 2005 and July 3, 2006, respectively. The loss of one or more major customers or a decline in sales to the Company's major customers would have a material adverse effect on the Company's financial condition and results of operations.

**(7) Concentration of Credit Risk**

In the normal course of business, the Company extends credit to its customers, which are concentrated in the computer and electronics instrumentation industries, and some of which are located outside the United States. The Company performs ongoing credit evaluations of customers and does not require collateral. The Company makes judgments as to its ability to collect outstanding trade receivables when collection becomes doubtful. Provisions are made based upon a specific review of significant outstanding invoices, historical collection experience and current economic trends.

For the purposes of evaluating collection risk, the Company considers the credit risk profile of the entity from which the receivable is due. As of December 31, 2005 and July 3, 2006, five customers in the aggregate accounted for 57% and 53%, respectively, of total accounts receivable at each period end. If one or more of the Company's



**Table of Contents**

significant customers were to become insolvent or were otherwise unable to pay for the manufacturing services provided, it would have a material adverse effect on the Company's financial condition and results of operations.

**(8) Subsequent Event**

On August 2, 2006, the Company, through TTM (Ozarks) Acquisition, Inc., a newly formed wholly-owned subsidiary, entered into a definitive stock and asset purchase agreement (the Purchase Agreement) to purchase certain assets, assume certain liabilities and acquire certain equity interests of the Tyco Printed Circuit Group LP from Tyco International Ltd. The assets to be purchased, liabilities to be assumed and equity interests to be acquired generally comprise six domestic printed circuit board plants, two domestic back plane and subassembly plants and one Chinese back plane and subassembly plant. The Purchase Agreement specifies a gross purchase price of \$225,600, subject to an upward adjustment for cash and cash equivalents acquired at the closing and subject to an upward adjustment to the extent that working capital (as defined in the Purchase Agreement) exceeds \$70,000 at closing and a downward adjustment to the extent working capital falls below \$60,000 at closing. The transaction is expected to close in the fall of 2006, subject to customary conditions to closing and regulatory approval.

The Company plans to pay for the transaction from its available cash, cash equivalents and short-term investments and from certain new financing. The Company has obtained a commitment for a senior secured term loan of up to \$225,000 with a six year maturity (the Term Loan) and a senior secured revolving credit facility of \$40,000 with a five year maturity (the Revolving Facility) from a financial institution to underwrite and syndicate the Term Loan and Revolving Facility (the Term Loan and Revolving Facility are collectively referred to as the New Financings). The New Financings will be secured by substantially all of the Company's domestic assets and 65% of the Company's foreign assets and are expected to close and fund concurrently with the closing of the Tyco acquisition. Upon the closing and funding of the New Financings, the Company expects to terminate its existing \$25,000 revolving facility with its current syndicate of banks.

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

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

This discussion and analysis should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in our annual report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission.

**Overview**

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

We manufacture printed circuit boards at three specialized and integrated facilities in the United States. Our facility in Santa Ana, California, specializes in quick-turn work, which has delivery times of ten days or less and is characterized by small volumes of printed circuit boards. Our Chippewa Falls, Wisconsin, facility focuses on higher-volume production runs of technologically complex multilayer printed circuit boards with targeted average lead times of two to ten weeks. Our Redmond, Washington, facility focuses on mid-volume production of standard lead-time printed circuit boards. Although our facilities are specialized, we are able to transfer work, if appropriate, among our plants to maximize production during periods of peak demand.

We measure customers as those companies that have placed at least two orders in the preceding 12-month period. As of July 3, 2006, we had approximately 585 customers and approximately 565 as of July 4, 2005. Sales to our 10 largest customers accounted for 69% of our net sales in the second fiscal quarter 2005 and 60% of our net sales in the second fiscal quarter 2006. We sell to OEMs both directly and indirectly through EMS companies. Sales attributable to our five largest OEM customers accounted for approximately 57% and 48% of our net sales in the second fiscal quarter 2005 and 2006, respectively.

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

| End Markets (1)      | Second Fiscal Quarter |        | Two Fiscal Quarters |        |
|----------------------|-----------------------|--------|---------------------|--------|
|                      | 2005                  | 2006   | 2005                | 2006   |
| Networking           | 43.5%                 | 43.9%  | 46.4%               | 44.1%  |
| High-End Computing   | 29.6                  | 27.3   | 27.7                | 25.3   |
| Industrial/Medical   | 15.3                  | 16.3   | 14.8                | 17.3   |
| Computer Peripherals | 5.1                   | 6.4    | 5.0                 | 6.2    |
| Handheld/Cellular    | 3.1                   | 2.1    | 2.8                 | 2.4    |
| Other                | 3.4                   | 4.0    | 3.3                 | 4.7    |
| Total                | 100.0%                | 100.0% | 100.0%              | 100.0% |

(1) Sales to EMS companies are classified by the end markets of

their OEM  
customers.

We measure the time sensitivity of our products by tracking the quick-turn percentage of our work. We define quick-turn orders as those with delivery times of 10 days or less, which typically captures research and development, prototype, and new product introduction work, in addition to unexpected short-term demand among our customers. Generally, we quote prices after we receive the design specifications and the time and volume requirements from our customers. Our quick-turn services command a premium price as compared to standard lead

**Table of Contents**

time products. In the first fiscal quarter 2005, we refined our process and improved the accuracy of how we measure quick-turn work at our Chippewa Falls facility. Quick-turn orders decreased slightly from 22% of net sales in 2005 to 20% of net sales in the first two fiscal quarters 2006. We also deliver a large percentage of compressed lead-time work with lead times of 11 to 20 days. Depending on market conditions, we receive a premium price for this work as well. Purchase orders may be cancelled prior to shipment. We charge customers a fee, based on percentage completed, if an order is cancelled once it has entered production.

**Critical Accounting Policies and Estimates**

Our consolidated condensed financial statements included in this Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the audit committee of our board of directors. Actual results may differ from these estimates under different assumptions or conditions.

Accounting policies where significant judgments and estimates are made include asset valuation related to bad debts and inventory obsolescence; sales returns and allowances; impairment of long-lived assets, including goodwill and intangible assets; realizability of deferred tax assets; legal contingencies; and self-insured medical reserves. A detailed description of these estimates and our policies to account for them is included in the notes to our Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission.

We provide customary credit terms to our customers and generally do not require collateral. We perform ongoing credit evaluations of the financial condition of our customers and maintain an allowance for doubtful accounts based upon historical collections experience and expected collectibility of accounts. Our actual bad debts may differ from our estimates.

In assessing the realization of inventories, we are required to make judgments as to future demand requirements and compare these with current and committed inventory levels. Our inventory requirements change based on our projected customer demand, which changes due to market conditions, technological and product life cycle changes and longer or shorter than expected usage periods. We maintain certain finished goods inventories near certain key customer locations in accordance with agreements. To the extent our actual experience varies from our judgments, revisions to our assessment of realization of inventories may be required.

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

We have significant long-lived tangible and intangible assets consisting of property, plant and equipment, goodwill and definite-lived intangibles. We review these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In addition, we perform an impairment test related to goodwill at least annually. Our goodwill and intangibles are largely attributable to our quick-turn business. During the fourth fiscal quarter 2005, we performed an impairment assessment of our goodwill, which requires the use of a fair-value based analysis and determined that no impairment existed. At July 3, 2006, we determined that there were no events or changes in circumstances which indicated that the carrying amount of long-lived tangible assets and definite-lived intangible assets may not be recoverable. We use an estimate of the future undiscounted net cash flows in measuring whether our long-lived tangible assets and definite-lived intangible assets are recoverable. If forecasts and assumptions used to support the realizability of our long-lived assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.





**Table of Contents**

Deferred income tax assets are reviewed for recoverability and valuation allowances are provided, when necessary, to reduce deferred tax assets to the amounts expected to be realized. At July 3, 2006, we have deferred income tax assets of \$8.6 million, which is net of a valuation allowance of approximately \$2.5 million. Should our expectations of taxable income change in future periods, it may be necessary to adjust our valuation allowance, which could positively or negatively affect our results of operations in the period such a determination is made. In addition, we record income tax provision or benefit during interim periods at a rate that is based on expected results for the full year. If future changes in market conditions cause actual results for the year to be more or less favorable than those expected, adjustments to the effective income tax rate could be required.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R, using the modified prospective transition method, and therefore have not restated prior periods' results. Under this method we recognize compensation expense for all share-based payments granted on and after January 1, 2006 and prior to but not yet vested as of January 1, 2006, in accordance with SFAS No. 123R. Under the fair value recognition provisions of SFAS No. 123R, we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest over the requisite service period of the award using a straight-line method. Prior to SFAS No. 123R adoption, we accounted for share-based payments under APB No. 25, and therefore we generally recognized compensation expense only when we granted options with an exercise price below the market price on the date of grant.

We estimate the value of share-based awards on the date of grant using the Black-Scholes option pricing model. Calculating the fair value of share-based payment awards requires the input of highly subjective assumptions, including the expected term of the share-based payment awards and expected stock price volatility. The expected term represents the average time that options that vest are expected to be outstanding. The expected volatility rates are estimated based on a weighted average of the historical volatilities of our common stock. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We have currently estimated our forfeiture rate to be 7 percent. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. During the quarters ended April 3, 2006 and July 3, 2006 share-based compensation expense was \$0.3 million and \$0.3 million, respectively. At July 3, 2006, total unrecognized estimated compensation expense related to non-vested stock options was \$4.5 million, which is expected to be recognized over a weighted-average period of 1.6 years.

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

**Table of Contents****Results of Operations****Second Fiscal Quarter 2006 Compared to the Second Fiscal Quarter 2005**

There were 91 days in both the second fiscal quarters 2006 and 2005.

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

|  | <b>Quarter Ended</b>    |                         |
|--|-------------------------|-------------------------|
|  | <b>July 4,<br/>2005</b> | <b>July 3,<br/>2006</b> |
| Net sales                                  | 100.0%                  | 100.0%                  |
| Cost of goods sold                         | 80.7                    | 70.0                    |
| Gross profit                               | 19.3                    | 30.0                    |
| Operating expenses:                        |                         |                         |
| Selling and marketing                      | 5.0                     | 4.5                     |
| General and administrative                 | 5.3                     | 4.8                     |
| Amortization of definite-lived intangibles | 0.5                     | 0.4                     |
| Total operating expenses                   | 10.8                    | 9.7                     |
| Operating income                           | 8.5                     | 20.3                    |
| Other income (expense):                    |                         |                         |
| Interest expense                           | (0.1)                   | (0.0)                   |
| Amortization of debt issuance costs        | (0.0)                   | (0.0)                   |
| Interest income and other, net             | 0.8                     | 1.4                     |
| Income before income taxes                 | 9.2                     | 21.7                    |
| Income tax provision                       | (3.5)                   | (7.9)                   |
| Net income                                 | 5.7%                    | 13.8%                   |

*Net Sales*

Net sales increased \$19.5 million, or 34.0%, from \$57.2 million in the second fiscal quarter 2005 to \$76.7 million in the second fiscal quarter 2006 due to increases in production volume and pricing. Volume increased approximately 14% due to higher demand from our customers for our products. Prices rose approximately 16% due to favorable price trends, especially in our quick-turn work. We generally charge higher prices for printed circuit boards with time sensitive delivery requirements, high layer counts and other high-technology features because of both the higher material content and the greater level of skill required to manufacture these boards accurately.

*Gross Profit*

Cost of goods sold increased \$7.5 million, or 16.3%, from \$46.2 million for the second fiscal quarter 2005 to \$53.7 million for the second fiscal quarter 2006. The primary factors increasing cost of goods sold were higher labor, material and variable overhead costs, which increased because of the higher number of printed circuit boards sold. In addition, higher wage rates, higher incentive compensation expense, and greater headcount contributed to increased labor costs. Labor expense also included stock-based compensation expense in 2006 compared to none in 2005. As a percentage of net sales, cost of goods sold decreased from 80.7% for the second fiscal quarter 2005 to 70.0% for the second fiscal quarter 2006 due to a combination of higher prices, greater operating efficiency and increased absorption

of fixed costs.

As a result of the foregoing, gross profit increased \$12.0 million, or 108.1%, from \$11.0 million for the second fiscal quarter 2005 to \$23.0 million for the second fiscal quarter 2006. Our gross margin increased from 19.3% in the second fiscal quarter 2005 to 30.0% in the second fiscal quarter 2006.

The improvement in our gross margin was primarily due to higher prices for our products, partially offset by higher cost of goods sold, which increased due to the factors discussed above. This improvement in gross margin

**Table of Contents**

was aided by greater operating efficiency and increased absorption of fixed costs due to increased production. Printed circuit board manufacturing is a multi-step process that requires a certain level of equipment and staffing for even minimal production volumes. As production increases, our employees are able to work more efficiently and produce more printed circuit boards without incurring significant cost increases. However, at higher capacity utilization rates, additional employees and capital may be required. These gains in efficiency partially offset the increased costs related to our shift toward more complex work. Our average layer count increased from 15.7 in the second fiscal quarter 2005 to 15.9 in the second fiscal quarter 2006.

*Operating Expenses*

Selling and marketing expenses increased \$0.6 million from \$2.9 million, or 5.0% of net sales, for the second fiscal quarter 2005 to \$3.5 million, or 4.5% of net sales, for the second fiscal quarter 2006. The increase in expenses resulted primarily from higher commission expense related to the increase in net sales. The decrease as a percentage of net sales resulted from improved absorption of fixed selling costs.

General and administrative expenses increased \$0.7 million from \$3.0 million, or 5.3% of net sales, for the second fiscal quarter 2005 to \$3.7 million, or 4.8% of net sales, for the second fiscal quarter 2006. The increase in expenses resulted primarily from higher incentive compensation expense and stock-based compensation expense, which was not included in our financial statements in 2005, partially offset by a reduction in expense for accrued contingencies in 2006. General and administrative expenses decreased as a percentage of net sales due to the significant growth of net sales and the relatively fixed nature of our general and administrative expenses.

*Other Income*

Other income increased \$0.7 million from \$0.4 million in the second fiscal quarter 2005 to \$1.1 million in the second fiscal quarter 2006. This increase resulted from higher interest income from our higher cash and cash equivalents and short-term investment balances as well as higher interest rates.

*Income Taxes*

The provision for income taxes increased from \$2.0 million for the second fiscal quarter 2005 to \$6.1 million for the second fiscal quarter 2006. The increase in the income tax provision resulted primarily from higher pre-tax income partially offset by a lower estimated effective tax rate for 2006 than for 2005. Our effective tax rate for the second fiscal quarter 2006 was 36.5% compared to 37.5% for the second fiscal quarter 2005. Our effective tax rate is primarily impacted by the federal income tax rate, state income taxes and utilization of other credits and deductions available to us. We record income tax expense or benefit at a rate that is based on expected results for the year. If future changes in market conditions cause actual results for the year to be more or less favorable than those expected, adjustments to the effective income tax rate could be required.

**Table of Contents****First Two Fiscal Quarters 2006 Compared to the First Two Fiscal Quarters 2005**

There were 185 and 184 days in the first two fiscal quarters 2005 and 2006, respectively.

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

|                                     | <b>Two Quarters Ended</b> |                         |
|-------------------------------------|---------------------------|-------------------------|
|                                     | <b>July 4,<br/>2005</b>   | <b>July 3,<br/>2006</b> |
| Net sales                           | 100.0%                    | 100.0%                  |
| Cost of goods sold                  | 78.8                      | 71.1                    |
| Gross profit                        | 21.2                      | 28.9                    |
| Operating expenses:                 |                           |                         |
| Selling and marketing               | 5.1                       | 4.6                     |
| General and administrative          | 5.6                       | 4.8                     |
| Amortization of intangibles         | 0.5                       | 0.4                     |
| Total operating expenses            | 11.2                      | 9.8                     |
| Operating income                    | 10.0                      | 19.1                    |
| Other income (expense):             |                           |                         |
| Interest expense                    | (0.1)                     | (0.1)                   |
| Amortization of debt issuance costs | (0.0)                     | (0.0)                   |
| Interest income and other, net      | 0.7                       | 1.4                     |
| Income before income taxes          | 10.6                      | 20.4                    |
| Income tax provision                | (4.0)                     | (7.4)                   |
| Net income                          | 6.6%                      | 13.0%                   |

*Net Sales*

Net sales increased \$33.3 million, or 28.7%, from \$116.1 million in the first two fiscal quarters 2005 to \$149.4 million in the first two fiscal quarters 2006 due to increases in production volume and pricing. Volume increased approximately 15% primarily due to higher demand from our customers. Prices rose approximately 12% due to favorable price trends, especially in our quick-turn work.

*Gross Profit*

Cost of goods sold increased \$14.7 million, or 16.0%, from \$91.5 million for the first two fiscal quarters 2005 to \$106.2 million for the first two fiscal quarters 2006. The primary factors increasing cost of goods sold were higher labor, material and variable overhead costs, which increased because of the higher number of printed circuit boards sold. In addition, higher wage rates, higher incentive compensation expense, and greater headcount contributed to increased labor costs. Labor expense also included stock-based compensation expense in 2006 compared to none in 2005. As a percentage of net sales, cost of goods sold decreased from 78.8% for the first two fiscal quarters 2005 to 71.1% for the first two fiscal quarters 2006 due to a combination of higher prices, greater operating efficiency and increased absorption of fixed costs.

As a result of the foregoing, gross profit increased \$18.6 million, or 75.7%, from \$24.6 million for the first two fiscal quarters 2005 to \$43.2 million for the first two fiscal quarters 2006. Our gross margin increased from 21.2% in the first two fiscal quarters 2005 to 28.9% in the first two fiscal quarters 2006.

The improvement in our gross margin was primarily due to higher prices for our products partially offset by higher cost of goods sold, which increased due to the factors discussed above. This improvement in gross margin was aided by greater operating efficiency and increased absorption of fixed costs due to increased production. Printed circuit board manufacturing is a multi-step process that requires a certain level of equipment and staffing for

**Table of Contents**

even minimal production volumes. As production increases, our employees are able to work more efficiently and produce more printed circuit boards without incurring significant cost increases. However, at higher capacity utilization rates, additional employees and capital may be required. These gains in efficiency partially offset the increased costs related to our shift toward more complex work. Our average layer count decreased from 15.9 in the first two fiscal quarters 2005 to 15.7 in the first two fiscal quarters 2006.

*Operating Expenses*

Selling and marketing expenses increased \$0.9 million from \$5.9 million, or 5.1% of net sales, for the first two fiscal quarters 2005 to \$6.8 million, or 4.6% of net sales, for the first two fiscal quarters 2006. The increase in expenses resulted primarily from higher commission expense related to the increase in net sales. The decrease as a percentage of net sales resulted from improved absorption of fixed selling costs.

General and administrative expenses increased \$0.8 million from \$6.4 million, or 5.6% of net sales, for the first two fiscal quarters 2005 to \$7.2 million, or 4.8% of net sales, for the first two fiscal quarters 2006. The increase in expenses resulted primarily from higher incentive compensation expense and stock-based compensation expense, which was not included in our financial statements in 2005, partially offset by a reduction in expense for accrued contingencies and lower accounting and consulting expense in 2006. General and administrative expenses decreased as a percentage of net sales due to the significant growth of net sales and the relatively fixed nature of our general and administrative expenses.

*Other Income*

Other income increased \$1.3 million from \$0.7 million in the first two fiscal quarters 2005 to \$2.0 million in the first two fiscal quarters 2006. This increase resulted from higher interest income from our higher cash and cash equivalents and short-term investment balances as well as higher interest rates.

*Income Taxes*

The provision for income taxes increased from a \$4.6 million provision for the first two fiscal quarters 2005 to an \$11.1 million provision for the first two fiscal quarters 2006. The increase in the income tax provision resulted primarily from higher pretax income partially offset by a lower estimated effective tax rate for 2006 than for 2005. Our effective tax rate for the first two fiscal quarters 2006 was 36.5% compared to 37.5% for the first two fiscal quarters 2005. Our effective tax rate is primarily impacted by the federal income tax rate, state income taxes and utilization of other credits and deductions available to us. We record income tax expense or benefit at a rate that is based on expected results for the year. If future changes in market conditions cause actual results for the year to be more or less favorable than those expected, adjustments to the effective income tax rate could be required.

**Liquidity and Capital Resources**

Our principal sources of liquidity have been cash provided by operations and proceeds from employee exercises of stock options. Our principal uses of cash have been to meet debt service requirements, finance capital expenditures and fund working capital requirements. We anticipate that financing capital expenditures, funding working capital requirements and financing possible acquisitions, will continue to be the principal demands on our cash in the future. On August 2, 2006, we entered into a definitive agreement to acquire the Tyco Printed Circuit Group business unit from Tyco International Ltd. for \$225.6 million in cash. We expect to pay the purchase price using our available cash, cash equivalents, short-term investments and proceeds from a new fully committed term loan and revolving credit facility.

As of July 3, 2006, we had net working capital of approximately \$137.0 million compared to \$111.2 million at December 31, 2005. The increase in net working capital is primarily attributable to cash provided by operations that has been invested in cash and cash equivalents as well as accounts receivable. As our short-term investments mature during the third fiscal quarter 2006, we expect to begin transferring some of these balances to cash equivalents in anticipation of closing our acquisition of the Tyco Printed Circuit Group.

Our 2006 capital plan is expected to total approximately \$12 million and will fund capital equipment purchases to increase capacity and expand our technological capabilities throughout our facilities.

**Table of Contents**

The following table provides information on future minimum lease payments under non-cancelable operating leases and current purchase obligations related to capital expenditures reflected on our balance sheet under generally accepted accounting principles as of July 3, 2006 (in thousands):

| <b>Contractual Obligations</b>       | <b>Total</b>    | <b>Less than</b> |                  |                  |                      |
|--------------------------------------|-----------------|------------------|------------------|------------------|----------------------|
|                                      |                 | <b>1 year</b>    | <b>1-3 years</b> | <b>4-5 years</b> | <b>After 5 years</b> |
| Operating leases                     | \$ 185          | \$ 106           | \$ 79            | \$               | \$                   |
| Purchase obligations                 | 183             | 183              |                  |                  |                      |
| Accrued contingencies                | 685             | 685              |                  |                  |                      |
| <b>Total contractual obligations</b> | <b>\$ 1,053</b> | <b>\$ 974</b>    | <b>\$ 79</b>     | <b>\$</b>        | <b>\$</b>            |

Based on our current level of operations, we believe that cash generated from operations, available cash and amounts available under a newly committed six-year senior secured term loan facility of up to \$225 million and five-year senior secured revolving credit facility of \$40 million will be adequate to meet our currently anticipated capital expenditures, working capital, and acquisition purchase price and transaction cost needs for the next 12 months and beyond. Our principal liquidity needs for periods beyond the next 12 months are for contractual obligations as indicated in our contractual obligations table above and for capital purchases under our annual capital plan. Upon closing of the acquisition of Tyco Printed Circuits Group, which is expected in fall 2006, we expect that our contractual obligations will increase significantly, especially for operating leases.

Net cash provided by operating activities was \$20.8 million in the first two fiscal quarters 2006, compared to \$9.3 million in the first two fiscal quarters 2005. Our operating cash flow of \$20.8 million in the first two fiscal quarters 2006 primarily reflects net income of \$19.4 million, \$5.3 million of depreciation and amortization, a \$2.9 million decrease in deferred income taxes and \$0.6 million of stock-based compensation partially offset by a net increase in working capital of \$6.7 million, excluding cash and cash equivalents and short-term investments, and \$0.7 million of other items.

Net cash used in investing activities was \$5.5 million in the first two fiscal quarters 2006, compared to net cash used in investing activities of \$8.5 million in the first two fiscal quarters 2005. In the first two fiscal quarters 2006, we purchased \$5.6 million of property, plant and equipment and approximately \$0.3 million of finite-lived intangibles and incurred \$0.6 million of direct acquisition costs. These were offset by a net decrease in short-term investments of \$1.0 million at cost.

Net cash provided by financing activities was \$4.4 million in the first two fiscal quarters 2006 compared to \$0.7 million in the first two fiscal quarters 2005. Our first two fiscal quarters 2006 financing net cash flow reflects net proceeds of \$3.8 million from employee stock option exercises and approximately \$0.6 million of excess tax benefit from the exercise of common stock options beyond that included as a tax benefit within cash flows from operating activities. Beginning with our adoption of SFAS No. 123R on January 1, 2006, the excess of tax benefits upon exercise of common stock options is reported as a cash flow from financing activities.

We have a committed revolving credit facility of \$25 million with a final maturity date of July 15, 2008. We have a one-time option to increase the size of our revolving credit facility to \$50 million provided that no default or event of default exists, as defined in the credit agreement. Our revolving loan facility contains a \$5 million letter of credit sub-facility. We may borrow, repay and reborrow under the revolving loan facility at any time. The revolving loan bears interest at rates ranging from LIBOR plus 1.0% to 1.75% or the Alternate Base Rate, as defined in the credit agreement, plus 0.0% to 0.5%. The amount added to the LIBOR rate or the Alternate Base Rate varies depending upon our leverage ratio, as defined in the agreement. As of July 3, 2006, we had no outstanding revolving loan balances. We pay quarterly a commitment fee ranging from 0.20% to 0.35% on the unused revolving commitment amount. The credit facility is secured by substantially all of our assets and contains financial covenants customary for this type of financing. As of July 3, 2006, we were in compliance with the covenants of our revolving



credit facility.

We have obtained a commitment for a senior secured term loan of up to \$225 million with a six-year maturity (the Term Loan ) and a senior secured revolving credit facility of \$40 million with a five-year maturity (the Revolving Facility ) from a financial institution to underwrite and syndicate the Term Loan and Revolving Facility (the Term Loan and Revolving Facility are collectively referred to as the New Financings ). The New Financings are expected to be secured by substantially all of our domestic assets and 65% of our foreign assets and are expected to close and fund concurrently with the closing of our acquisition of the Tyco Printed Circuit Group

## **Table of Contents**

from Tyco International, Ltd. Upon the closing and funding of the New Financings, we expect to terminate our existing \$25 million revolving credit facility with our current syndicate of banks.

### **Foreign Currency Exchange Risk**

All of our sales are denominated in U.S. dollars, and as a result, we have relatively little exposure to foreign currency exchange risk with respect to sales made.

### **Impact of Inflation**

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

### **Seasonality**

We have historically experienced some seasonality in our first fiscal quarter associated with our quick-turn business and in our second and third fiscal quarters in our computer peripherals and consumer electronics products.

### **Recently Issued Accounting Standards**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which defines the threshold for recognizing the benefits of tax return positions in the financial statements as *more-likely-than-not* to be sustained by the taxing authority. A tax position that meets the *more-likely-than-not* criterion shall be measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. Interpretation No. 48 applies to all tax positions accounted for under SFAS No. 109, *Accounting for Income Taxes*. Interpretation No. 48 is effective for fiscal years beginning after December 15, 2006. Upon adoption, we will adjust our financial statements to reflect only those tax positions that are *more-likely-than-not* to be sustained as of the adoption date. Any adjustment will be recorded directly to our beginning retained earnings balance in the period of adoption and reported as a change in accounting principle. We are currently analyzing the effects of adopting Interpretation No. 48 on our financial statements.

In June 2006, the EITF reached a consensus on EITF Issue No. 06-03, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* ( EITF 06-03 ). EITF 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The provisions of EITF 06-03 become effective as of January 1, 2007. We are currently evaluating the effects of adopting EITF 06-03 on our financial statements.

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

*Interest Rate Risk.* Our revolving loan bears interest at rates ranging from 1.0% to 1.75% per annum plus the applicable LIBOR or from 0.0% to 0.5% per annum plus the Alternate Base Rate, as defined in the agreement governing the amended and restated credit facility. A 10% change in interest rates is not expected to materially affect the interest expense to be incurred on this facility during such period. As of July 3, 2006, we had no outstanding revolving loans.

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

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of

**Table of Contents**

achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of July 3, 2006. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of July 3, 2006. There have been no significant changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended July 3, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting subsequent to the date we carried out our evaluation.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

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

Reference is made to the disclosure regarding our pending patent infringement lawsuit filed by Lemelson Medical, Education and Research Foundation, L.P. in our annual report on Form 10-K for the year ended December 31, 2005. There have been no material developments in that case since the date of that report.

**Item 1A. RISK FACTORS**

*An investment in our common stock involves a high degree of risk. You should carefully consider the factors described below, in addition to those discussed elsewhere in this report, in analyzing an investment in our common stock. If any of the events described below occurs, our business, financial condition and results of operations would likely suffer, the trading price of our common stock could fall, and you could lose all or part of the money you paid for our common stock.*

*In addition, the following factors could cause our actual results to differ materially from those projected in our forward-looking statements, whether made in this 10-Q, our annual or quarterly reports to stockholders, future press releases, SEC filings or orally, whether in presentations, responses to questions or otherwise.*

**Risks Related to Our Company**

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

A majority of our revenues is generated from the electronics industry, which is characterized by intense competition, relatively short product life cycles, and significant fluctuations in product demand. Furthermore, the industry is subject to economic cycles and recessionary periods and would be negatively affected by a contraction in the U.S. economy and worldwide electronics market. Moreover, due to the uncertainty in the end markets served by most of our customers, we have a low level of visibility with respect to future financial results. A lasting economic recession, excess manufacturing capacity, or a decline in the electronics industry could negatively affect our business, results of operations, and financial condition. For example, our net sales declined from \$129.0 million in 2001 to \$89.0 million in 2002, due to a significant downturn in demand in the electronics industry during 2001 and 2002. A decline in our net sales could harm our profitability and results of operations and could require us to record an additional valuation allowance against our deferred tax assets or recognize an impairment of our long-lived assets, including goodwill and other intangible assets.

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

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



**Table of Contents**

expansion of our Chippewa Falls facility would exacerbate any excess capacity issues if demand for services were to decrease significantly.

If we conclude we have significant, long-term excess capacity, we may decide to permanently close one or more of our facilities, and lay off some of our employees. Closures or lay-offs could result in our recording restructuring charges such as severance, other exit costs, and asset impairments, as we did due to the closure of our Burlington, Washington, facility in 2002 and the subsequent sale of the facility in 2004 and the lay off of employees at our Redmond, Washington, facility in 2003.

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

A small number of customers are responsible for a significant portion of our net sales. Our five largest OEM customers accounted for approximately 54% of our net sales in 2005 and approximately 48% of our net sales in the second fiscal quarter 2006. Sales attributed to OEMs include both direct sales as well as sales that the OEMs place through EMS providers. If our customers fail to place orders with us at past levels, it would harm our business, results of operations, and financial condition. We expect a significant portion of our net sales will continue to be generated by a small number of customers.

Our customer concentration could fluctuate, depending on future customer requirements, which will depend in large part on market conditions in the electronics industry segments in which our customers participate. The loss of one or more major customers or a decline in sales to our major customers could significantly harm our business, results of operations, and financial condition and lead to declines in the trading price of our common stock. In addition, we generate significant accounts receivable in connection with providing manufacturing services to our customers. If one or more of our significant customers were to become insolvent or were otherwise unable to pay for the manufacturing services provided by us, our results of operations would be harmed.

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

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

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

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

Our 10 largest customers accounted for approximately 66% of our net sales in 2005 and approximately 60% of our net sales in the second fiscal quarter 2006. Our OEM customers often direct a significant portion of their purchases through a relatively limited number of EMS companies. Our contractual relationship is typically with the EMS companies, who are obligated to pay us for our products. Because we expect our OEM customers to continue to direct our sales to EMS companies, we expect to continue to be subject to the credit risk of a limited number of customers. This concentration of customers exposes us to increased credit risks. If one or more of our significant customers were to become insolvent or were otherwise unable to pay us, our results of operations would be harmed.

Some of our customers are EMS companies located abroad. Our exposure has increased as these foreign customers continue to expand. Our foreign sales are denominated in U.S. dollars, and are typically on the same



**Table of Contents**

open credit basis and terms described above. Our foreign receivables are expected to continue to grow as a percentage of our total receivables. We do not utilize credit insurance as a risk management tool.

**We expect to continue to pursue acquisitions to expand our operations, and we may have trouble integrating acquisitions. Acquisitions involve numerous risks.**

As part of our business strategy, we expect that we will continue to grow by pursuing acquisitions of businesses, technologies, assets, or product lines that complement or expand our existing business. We signed a definitive stock and asset purchase agreement (the Purchase Agreement) to purchase certain assets, assume certain liabilities and acquire certain equity interests of the Tyco Printed Circuit Group LP from Tyco International Ltd. through several of its subsidiaries. The assets to be purchased, liabilities to be assumed and equity interests to be acquired generally comprise six domestic printed circuit board plants, two domestic back plane and subassembly plants and one Chinese back plane and subassembly plant. The Purchase Agreement specifies a gross purchase price of \$225.6 million subject, to an upward adjustment for cash and cash equivalents acquired at the closing and subject to an upward adjustment to the extent that working capital (as defined in the Purchase Agreement) exceeds \$70 million at closing and a downward adjustment to the extent that working capital falls below \$60 million at closing. The transaction is expected to close in the fall of 2006, subject to customary conditions to closing and regulatory approval.

We plan to pay for the transaction from our available cash, cash equivalents and short-term investments and from certain new financing. We have obtained a commitment for a senior secured term loan of up to \$225 million with a six year maturity (the Term Loan) and a senior secured revolving credit facility of \$40 million with a five year maturity (the Revolving Facility) from a financial institution to underwrite and syndicate the Term Loan and Revolving Facility (the Term Loan and Revolving Facility are collectively referred to as the New Financings). The New Financings are expected to be secured by substantially all of our domestic assets and 65% of our foreign assets and are expected to close and fund concurrently with the closing of the Tyco acquisition. Upon the closing and funding of the New Financings, we expect to terminate our existing \$25million revolving facility with our current syndicate of banks.

Our acquisition of companies and businesses and expansion of operations involve risks, including the following:  
the potential inability to identify assets best suited to our business plan;

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

diversion of management's attention from normal daily operations of the business;

difficulties in managing production and coordinating operations at new sites;

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

insufficient revenues to offset increased expenses associated with acquisitions;

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

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

the potential loss of key employees of acquired operations.

Acquisitions may cause us to:

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

issue debt;

assume liabilities;





**Table of Contents**

acquire leased facilities with relatively short lease expirations or with no options to renew;

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

enter markets in which we have limited or no prior experience;

incur amortization expenses related to certain intangible assets;

incur large and immediate write-offs;

incur costs, whether or not a proposed acquisition is consummated;

incur unanticipated costs; or

become subject to litigation and environmental issues.

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

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

To manufacture printed circuit boards, we use raw materials such as laminated layers of fiberglass, copper foil, chemical solutions, and other commodity products, which we order from our suppliers. Although we have preferred suppliers for most of these raw materials, the materials we use are generally readily available in the open market, and other potential suppliers exist. However, from time to time, we may experience increases in raw material prices, based on demand trends, which can negatively affect our gross margins. In addition, consolidations and restructuring in our supplier base may result in adverse materials pricing due to reduction in competition among our suppliers. Furthermore, if a raw material supplier fails to satisfy our product quality standards, it could harm our customer relationships. Suppliers may from time to time extend lead times, limit supplies, or increase prices, due to capacity constraints or other factors, which could harm our ability to deliver our products on a timely basis.

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

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

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

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

**Table of Contents**

The printed circuit board industry is intensely competitive, highly fragmented, and rapidly changing. We expect competition to continue, which could result in price reductions, reduced gross margins, and loss of market share. Our principal domestic competitors include DDi, Endicott Interconnect Technologies, Merix, Sanmina-SCI, and Tyco. In addition, we increasingly compete on an international basis, and new and emerging technologies may result in new competitors entering our markets.

Many of our competitors and potential competitors have a number of significant advantages over us, including:  
greater financial and manufacturing resources that can be devoted to the development, production, and sale of their products;

more established and broader sales and marketing channels;

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

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

lower capacity utilization in peak market conditions that can result in shorter lead times to customers;

ability to add additional capacity faster or more efficiently;

preferred vendor status with existing and potential customers;

greater name recognition;

manufacturing facilities with U.S. military clearances; and

larger customer bases.

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

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

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

timing of orders from and shipments to major customers;

the levels at which we utilize our manufacturing capacity;

price competition;

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

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

**Table of Contents**

expenses relating to expanding existing manufacturing facilities.

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

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

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

customer attempts to manage inventory;

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

variation in demand for our customers' products; and

changes in new product introductions.

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

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

Sales to EMS providers represented approximately 69% of our net sales in 2005 and approximately 68% of our net sales in the second fiscal quarter 2006. Sales to EMS providers include sales directed by OEMs as well as orders placed with us at the EMS providers' discretion. EMS providers source on a global basis to a greater extent than OEMs. The growth of EMS providers increases the purchasing power of such providers and could result in increased price competition or the loss of existing OEM customers. In addition, some EMS providers, including some of our customers, have the ability to directly manufacture printed circuit boards. If a significant number of our other EMS customers were to acquire the ability to directly manufacture printed circuit boards, our customer base might shrink, and our sales might decline substantially. Moreover, if any of our OEM customers outsource the production of printed circuit boards to these EMS providers, our business, results of operations, and financial condition may be harmed.

**If we were to increase our amortization of definite-lived intangible assets as a result of additional acquisitions, our earnings could be negatively affected. Similarly, if we were to revalue our existing intangible assets downward, our operating results would be harmed.**

As of July 3, 2006, our consolidated balance sheet reflected \$73.2 million of goodwill and intangible assets. We evaluate whether events and circumstances have occurred that indicate the remaining balance of goodwill and intangible assets may not be recoverable. When factors indicate that assets should be evaluated for possible impairment, we may be required to reduce the carrying value of our goodwill and intangible assets, which could harm our results during the periods in which such a reduction is recognized. Our goodwill and intangible assets may

**Table of Contents**

increase in future periods if we consummate other acquisitions. Amortization or impairment of these additional intangibles would, in turn, harm our earnings.

**Damage to our manufacturing facilities could increase our costs of doing business and adversely affect our ability to deliver our manufacturing services on a timely basis.**

We have three manufacturing facilities, which are located in Chippewa Falls, Wisconsin; Redmond, Washington; and Santa Ana, California. The destruction or closure of any of our manufacturing facilities for a significant period of time as a result of fire; explosion; blizzard; act of war or terrorism; or flood, tornado, earthquake, lightning, or other natural disaster could increase our costs of doing business and harm our ability to deliver our manufacturing services on a timely basis and, consequently, our operating results.

**Our manufacturing processes depend on the collective industry experience of our employees. If these employees were to leave us, our manufacturing processes might suffer and we might not be able to compete effectively.**

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

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

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

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

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

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

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

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

**Table of Contents**

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

**Our failure to comply with the requirements of environmental laws could result in fines and revocation of permits necessary to our manufacturing processes.**

Our operations are regulated under a number of federal, state, and foreign environmental and safety laws and regulations that govern, among other things, the discharge of hazardous materials into the air and water, as well as the handling, storage, and disposal of such materials. These laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act, as well as analogous state and foreign laws. Compliance with these environmental laws is a major consideration for us because our manufacturing processes use and generate materials classified as hazardous, such as ammoniacal etching solutions, copper, and nickel. Because we use hazardous materials and generate hazardous wastes in our manufacturing processes, we may be subject to potential financial liability for costs associated with the investigation and remediation of our own sites, or sites at which we have arranged for the disposal of hazardous wastes, if such sites become contaminated. Even if we fully comply with applicable environmental laws and are not directly at fault for the contamination, we may still be liable. The wastes we generate include spent ammoniacal etching solutions, metal stripping solutions, and hydrochloric acid solution containing palladium; waste water, which contains heavy metals, acids, cleaners, and conditioners; and filter cake from equipment used for on-site waste treatment. We believe that our operations substantially comply with all applicable environmental laws. However, any material violations of environmental laws by us could subject us to revocation of our effluent discharge permits. Any such revocations could require us to cease or limit production at one or more of our facilities, and harm our business, results of operations, and financial condition. Even if we ultimately prevail, environmental lawsuits against us would be time consuming and costly to defend.

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

In addition, we are increasingly required to certify compliance with the European Union Restriction of Hazardous Substances ( RoHS ) directive for some of the products that we manufacture. As with other types of product certifications that we routinely provide, we may incur liability and pay damages if our products do not conform to our certification.

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

As of July 3, 2006, we had net deferred tax assets of approximately \$8.6 million, which is net of a valuation allowance of \$2.5 million. If we should determine that it is more likely than not that we will not generate taxable

income in sufficient amounts to be able to use our net deferred tax assets, we would be required to increase our current valuation allowance against these deferred tax assets. This would result in an additional income tax provision and a deterioration of our results of operations. Based on our forecast for future earnings, we believe we will utilize



**Table of Contents**

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

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

Not Applicable

**Item 3. Defaults Upon Senior Securities**

Not Applicable

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

We held our 2006 annual meeting of stockholders on June 22, 2006. At the meeting, our stockholders approved (1) the re-election of John G. Mayer to the Company's Board of Directors to serve as a director until his successor is elected and qualified and (2) our 2006 Incentive Compensation Plan.

The tabulation of votes on such matter is as follows:

Re-election of Directors

| Name          | For        | Withheld  |
|---------------|------------|-----------|
| John G. Mayer | 36,230,832 | 2,980,231 |

The terms of the following four directors are also continuing: Kenton K. Alder, James K Bass, Thomas T. Edman, and Robert E. Klatell.

Approval of 2006 Incentive Compensation Plan.

| For        | Against   | Abstain | Broker-Non-Votes |
|------------|-----------|---------|------------------|
| 24,942,913 | 7,829,061 | 32,567  | 6,406,522        |

**Item 5. Other Information**

Not Applicable

**Item 6. Exhibits****Exhibit  
Number****Exhibits**

- |      |  |
|------|--|
| 10.1 | STOCK AND ASSET PURCHASE AGREEMENT by and among TYCO PRINTED CIRCUIT GROUP LP, TYCO ELECTRONICS CORPORATION, RAYCHEM INTERNATIONAL, TYCO KAPPA LIMITED, TYCO ELECTRONICS LOGISTICS AG, and TTM (OZARKS) ACQUISITION, INC. DATED AS OF AUGUST 2, 2006 |
| 31.1 | CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.   |
| 31.2 | CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.   |
| 32.1 | CEO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.   |
| 32.2 | CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.   |

**Table of Contents**

SIGNATURES

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

TTM Technologies, Inc.

Dated: August 11, 2006

/s/ Kenton K. Alder

Kenton K. Alder  
President and Chief Executive  
Officer

Dated: August 11, 2006

/s/ Steven W. Richards

Steven W. Richards  
Chief Financial Officer and  
Secretary

31