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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q**

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

For the quarterly period ended April 4, 2005

Commission File Number: 0-31285

**TTM TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**WASHINGTON**  
(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 an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

Number of shares of common stock, no par value, of registrant outstanding at May 11, 2005: 41,256,643

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### **SIGNATURES**

**TTM TECHNOLOGIES, INC.**  
**Consolidated Condensed Balance Sheets**  
**As of December 31, 2004 and April 4, 2005**  
**(unaudited)**  
**(In thousands)**

	<u>December 31,</u> <u>2004</u>	<u>April 4,</u> <u>2005</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 43,188	\$ 57,308
Short-term investments	15,350	4,574
Accounts receivable, net of allowances of \$4,018 and \$3,876, respectively	35,778	36,004
Inventories, net	8,993	9,959
Prepaid expenses and other	1,048	1,260
Income taxes receivable	157	157
Deferred income taxes	1,820	1,820
Total current assets	<u>106,334</u>	<u>111,082</u>
Property, plant and equipment:		
Property, plant and equipment, at cost	92,841	95,650
Less: accumulated depreciation	(40,667)	(42,817)
Property, plant and equipment, net	<u>52,174</u>	<u>52,833</u>
Other assets:		
Debt issuance costs, net of accumulated amortization of \$402 and \$415 respectively	39	26
Deferred income taxes	1,051	—
Goodwill	63,153	63,153
Definite-lived intangibles, net of accumulated amortization of \$6,743 and \$7,073, respectively	11,636	11,306
Deposits and other	1,383	1,280
Total other assets	<u>77,262</u>	<u>75,765</u>
	<u>\$ 235,770</u>	<u>\$ 239,680</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 9,530	\$ 10,262
Accrued salaries, wages and benefits	11,629	8,629
Other accrued expenses	1,189	1,327
Income taxes payable	160	1,022
Current portion other long-term liabilities	1,181	1,385
Total current liabilities	<u>23,689</u>	<u>22,625</u>
Other long-term liabilities, less current portion	<u>455</u>	<u>—</u>
Shareholders' equity:		
Common stock, no par value; 100,000 shares authorized, 41,014 and 41,209 shares issued and outstanding, respectively	158,190	159,159
Retained earnings	53,436	57,896
Total shareholders' equity	<u>211,626</u>	<u>217,055</u>
	<u>\$ 235,770</u>	<u>\$ 239,680</u>

See accompanying notes to consolidated condensed financial statements.

**TTM TECHNOLOGIES, INC.**  
**Consolidated Condensed Statements of Operations**  
**For the Quarter Ended March 29, 2004 and April 4, 2005**  
**(unaudited)**  
**(In thousands, except per share data)**

	<u>Quarter Ended</u>	
	<u>March 29, 2004</u>	<u>April 4, 2005</u>
Net sales	\$ 57,696	\$ 58,883
Cost of goods sold	40,416	45,345
Gross profit	<u>17,280</u>	<u>13,538</u>
Operating expenses:		
Selling and marketing	3,041	3,017
General and administrative	3,508	3,404
Amortization of definite-lived intangibles	300	300
Total operating expenses	<u>6,849</u>	<u>6,721</u>
Operating income	<u>10,431</u>	<u>6,817</u>
Other income (expense):		
Interest expense	(120)	(51)
Amortization of debt issuance costs	(27)	(13)
Interest income and other, net	92	384
Total other income (expense), net	<u>(55)</u>	<u>320</u>
Income before income taxes	10,376	7,137
Income tax provision	<u>(3,850)</u>	<u>(2,677)</u>
Net income	<u>\$ 6,526</u>	<u>\$ 4,460</u>
Basic earnings per share	<u>\$ 0.16</u>	<u>\$ 0.11</u>
Diluted earnings per share	<u>\$ 0.15</u>	<u>\$ 0.11</u>

See accompanying notes to consolidated condensed financial statements.

**TTM TECHNOLOGIES, INC.**  
**Consolidated Condensed Statements of Cash Flows**  
**For the Quarter Ended March 29, 2004 and April 4, 2005**  
**(unaudited)**  
**(In thousands)**

	<u>Quarter Ended</u>	
	<u>March 29, 2004</u>	<u>April 4, 2005</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,526	\$ 4,460
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	1,960	2,153
Net gain on sale of property, plant and equipment	(2)	—
Amortization of definite-lived intangible assets	330	330
Income tax benefit from common stock options exercised	—	447
Deferred income taxes	3,699	1,051
Other	71	48
Changes in operating assets and liabilities:		
Accounts receivable, net	(6,437)	(226)
Inventories, net	(1,736)	(966)
Prepaid expenses and other	(2)	(212)
Accounts payable	1,266	732
Accrued salaries, wages and benefits and other accrued expenses	1,695	(3,134)
Income taxes payable	125	862
	<u>7,495</u>	<u>5,545</u>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment and equipment deposits	(2,876)	(2,709)
Proceeds from sale of property, plant and equipment	2	—
Purchases of available-for-sale short-term investments	(5,000)	(4,300)
Proceeds from sales of available-for-sale short-term investments	4,945	17,150
Purchases of held-to-maturity short-term investments	(4,082)	(4,588)
Proceeds from redemptions of held-to-maturity short-term investments	6,975	2,500
	<u>(36)</u>	<u>8,053</u>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of common stock options	869	522
	<u>869</u>	<u>522</u>
Net increase in cash and cash equivalents	8,328	14,120
Cash and cash equivalents at beginning of period	9,643	43,188
Cash and cash equivalents at end of period	<u>\$ 17,971</u>	<u>\$ 57,308</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 19	\$ 20
Cash paid, net for income taxes	26	329

See accompanying notes to consolidated condensed financial statements.

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

**(1) Basis of Presentation**

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, as amended. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. 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 first fiscal quarters 2004 and 2005 contained 89 and 94 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 an effective maturity to the Company of more than three months and less than one year to be short-term investments. The Company defines effective maturity as the shorter of the original maturity to the Company or the effective maturity as a result of periodic auction or optional redemption features of certain of its investments classified as available-for-sale.

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.

Short-term investments as of December 31, 2004 and April 4, 2005 were as follows:

	<u>December 31, 2004</u>	<u>April 4, 2005</u>
<b>Available-for-sale:</b>		
Auction and variable rate notes	\$ 12,850	\$ —
Money market funds	8,920	2,897
	<u>21,770</u>	<u>2,897</u>
<b>Held-to-maturity:</b>		
Corporate bonds and notes	7,694	23,100
U.S. Treasury and federal agency securities	28,779	33,681
	<u>36,473</u>	<u>56,781</u>
Total short-term investments	58,243	59,678
Amounts classified as cash equivalents	42,893	55,104
Amounts classified as short-term investments	<u>\$ 15,350</u>	<u>\$ 4,574</u>

As of April 4, 2005, debt securities totaled \$56,781, are classified as held-to-maturity and mature in less than one year.

For each of the quarters ended March 29, 2004 and April 4, 2005 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, the interval between auction periods, whether or not there have been any failed auctions, and the credit rating issued for the securities by one or more of the major credit rating agencies.

Cash equivalents of \$14,649 at March 29, 2004 have been reclassified to short-term investments to conform to the April 4, 2005 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, 2004 and April 4, 2005 consist of the following:

	<u>December 31, 2004</u>	<u>April 4, 2005</u>
Raw materials	\$ 2,791	\$ 2,858
Work-in-process	4,542	4,916
Finished goods	1,660	2,185
	<u>\$ 8,993</u>	<u>\$ 9,959</u>

#### (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 ended March 29, 2004 and April 4, 2005:

	Quarter Ended March 29, 2004			Quarter Ended April 4, 2005		
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
Basic EPS	\$ 6,526	40,605	\$ 0.16	\$ 4,460	41,078	\$ 0.11
Effect of options		1,576			706	
Diluted EPS	\$ 6,526	42,181	\$ 0.15	\$ 4,460	41,784	\$ 0.11

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 0 and 1,433 shares of common stock at March 29, 2004 and April 4, 2005, respectively, were not considered in calculating Diluted EPS because the effect would be anti-dilutive.

#### (5) Stock-based Compensation

The Company accounts for stock options issued to employees, officers and directors under Accounting Principles Board Opinion No. 25 and the related interpretations and provides pro forma disclosures as required by SFAS No. 123. Had compensation cost been determined in accordance with SFAS No. 123, the Company's net income and earnings per share for the fiscal quarters ended March 29, 2004 and April 4, 2005 would have been changed to the following pro forma amounts:

	Quarter Ended	
	March 29, 2004	April 4, 2005
Net income:		
As reported	\$ 6,526	\$ 4,460
Add: Amortization of deferred compensation	10	—
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(1,074)	(929)
Pro forma net income	\$ 5,462	\$ 3,531
Basic earnings per share:		
As reported	\$ 0.16	\$ 0.11
Pro forma	0.13	0.09
Diluted earnings per share:		
As reported	\$ 0.15	\$ 0.11
Pro forma	0.13	0.09

#### (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 April 4, 2005, two customers accounted for approximately 32% and 17% of net sales. For the fiscal quarter ended March 29, 2004, two customers accounted for approximately 27% and 14% of net sales. Sales to our ten largest customers were 66% and 68% of net sales in the fiscal quarters ended March 29, 2004



and April 4, 2005, 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 of 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, 2004 and April 4, 2005, five customers in the aggregate accounted for 66% and 61%, respectively, of total accounts receivable at each period end. If one or more of the Company's significant customers were to become insolvent or were otherwise unable to pay for the manufacturing services provided, it would have a material adverse effect on the Company's financial condition and results of operations.

## 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 the section below entitled "Risk Factors" 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, 2004, as amended, 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 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 among our plants to maximize production during periods of peak demand.

In response to increased customer demand and higher capacity utilization rates, in February 2004, our board of directors approved a plan to significantly expand production capacity at our Chippewa Falls, Wisconsin facility. Chippewa Falls is our largest facility and serves the high-end, complex technology needs of some of our largest and most sophisticated commercial customers. The plan included a two-phase expansion, enabling us to incrementally match our capital expenditures with demand and market conditions. Together, the two phases of the plan represent an 85% increase in production capacity. All capacity increases described in phases one and two, below, represent cumulative increases from capacity levels as of the first quarter of 2004.

At December 31, 2004, we substantially completed phase one, which featured the construction of a 47,000-square-foot addition and the purchase of capital equipment. The expansion increased capacity by approximately 55%, at a capital cost of approximately \$10 million. While we realized approximately half of this capacity expansion in the second half of 2004, we expect to add employees and realize the remaining capacity over the course of 2005, as necessary, based on demand.

The second phase of the expansion plan will allow us to increase production capacity at the Chippewa Falls facility by an additional 30%, or a total of 85%, over first quarter 2004 capacity levels. We expect to accomplish this second phase through additional staffing and the purchase of approximately \$4 million in capital equipment. We will proceed with phase two as warranted, based on demand and market conditions. Once we have decided to proceed, phase two can be completed within three to six months.

We believe that our ability to expand at our existing facilities allows us to efficiently grow without having to qualify customers for, and develop management infrastructure at, a new facility. We reviewed numerous alternatives to meet our customers' needs and believe that this expansion plan provides us with a significant opportunity for growth with relatively limited risk. However, if our customers' demand for our services does not increase to anticipated levels, we may decide to scale back or delay our implementation of phase two of the expansion.

We measure customers as those companies that have placed at least two orders in the preceeding 12-month period. As of April 4, 2005, we had approximately 565 customers and approximately 580 as of March 29, 2004.

Sales to our 10 largest customers accounted for 66% of our net sales in the first fiscal quarter 2004 and 68% of our net sales in the first fiscal quarter 2005. We sell to OEMs both directly and indirectly through EMS companies. Sales attributable to our five largest OEM customers accounted for approximately 54% and 58% of our net sales in the first fiscal quarter 2004 and 2005, 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)	First Fiscal Quarter	
	2004	2005
Networking/Communication	39.7%	49.3%
High-End Computing	33.7	25.9
Industrial/Medical	13.4	14.3
Computer Peripherals	7.4	5.0
Handheld/Cellular	2.4	2.4
Other	3.4	3.1
Total	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 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 increased slightly from 20% of net sales in 2004 to 21% of net sales in the first fiscal quarter 2005. We also deliver a large percentage of compressed lead-time work with lead times of 11 to 20 days. We receive a premium price for this work as well. Purchase orders may be cancelled prior to shipment. We charge customers a fee, based on percentage completed, if an order is cancelled once it has entered production.

### 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; 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, as amended, for the year ended December 31, 2004, 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 2004, 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 April 4, 2005, 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.

Deferred income tax assets are reviewed for recoverability and valuation allowances are provided, when necessary, to reduce deferred tax assets to the amounts expected to be realized. At April 4, 2005, we have deferred income tax assets of \$8.1 million, which is net of a valuation allowance of approximately \$14.5 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.

We are self-insured for group health insurance benefits provided to our employees, and 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.

In connection with our acquisition of Advanced Circuits in December 2002, we became contractually responsible for the majority of a rebate obligation to a customer. The rebate is based on a percentage of net sales to this customer. We have made estimates regarding the amount and timing of future net sales to this customer and have applied a discount factor to those estimated rebates to estimate the present value of our obligation. We have also estimated that portion of the total obligation which we believe is a current liability. Based on our future net sales experience with this customer, we may change our estimate of the portion that is a current liability.

## **Results of Operations**

### **First Fiscal Quarter 2005 Compared to the First Fiscal Quarter 2004**

There were 94 and 89 days in the first fiscal quarters 2005 and 2004, respectively.

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>March 29, 2004</b>	<b>April 4, 2005</b>
Net sales	100.0%	100.0%
Cost of goods sold	70.0	77.0
Gross profit	<u>30.0</u>	<u>23.0</u>
<b>Operating expenses:</b>		
Selling and marketing	5.3	5.1
General and administrative	6.1	5.8
Amortization of definite-lived intangibles	0.5	0.5
Total operating expenses	<u>11.9</u>	<u>11.4</u>
Operating income	18.1	11.6
<b>Other income (expense):</b>		
Interest expense	(0.2)	(0.1)
Amortization of debt issuance costs	(0.1)	—
Interest income and other, net	<u>0.2</u>	<u>0.6</u>
Income before income taxes	18.0	12.1
Income tax provision	(6.7)	(4.5)
Net income	<u>11.3%</u>	<u>7.6%</u>

#### *Net Sales*

Net sales increased 2.1% from \$57.7 million in the first fiscal quarter 2004 to \$58.9 million in the first fiscal quarter 2005 due to an increase in production volume. Volume increased primarily due to higher demand from our customers accompanied by the expansion of production capacity in our Chippewa Falls, Wisconsin, facility. This expansion began during the second fiscal quarter 2004 and included hiring additional employees, purchasing additional capital equipment and constructing a 47,000 square foot addition to our building. Prices fell due to a higher mix of more standard lead-time products as well as increased competition and seasonality in the quick-turn segment of the printed circuit board market. 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 \$4.9 million, or 12.2%, from \$40.4 million for the first fiscal quarter 2004 to \$45.3 million for the first fiscal quarter 2005. Several factors caused this increase, including price increases in raw materials; higher utilities costs, primarily natural gas; and start-up costs associated with our Chippewa Falls expansion. In addition, higher wage rates and medical costs as well as greater headcount led to increased labor costs. Cost of goods sold also rose due to an increase in the number of printed circuit boards sold. As a percentage of net sales, cost of goods sold increased from 70.0% for the first fiscal quarter 2004 to 77.0% for the first fiscal quarter 2005 due primarily to declining prices offset somewhat by greater labor efficiency and increased absorption of fixed costs.

As a result of the foregoing, gross profit decreased \$3.8 million, or 21.7%, from \$17.3 million for the first fiscal quarter 2004 to \$13.5 million for the first fiscal quarter 2005. Our gross margin declined from 30.0% in the first fiscal quarter 2004 to 23.0% in the first fiscal quarter 2005.

The decline in our gross margin was due to lower prices for our products as well as higher cost of goods sold, which increased due to the factors discussed above. This decline in gross margin was somewhat mitigated by greater labor 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 characterized by higher layer count. Our average layer count increased from 14.7 in the first fiscal quarter 2004 to 16.1 in the first fiscal quarter 2005.

#### *Operating Expenses*

Sales and marketing expenses totaled \$3.0 million, or 5.3% of net sales, for the first fiscal quarter 2004 and remained at \$3.0 million, or 5.1% of net sales, for the first fiscal quarter 2005. The decrease as a percentage of net sales resulted from improved absorption of fixed selling costs as well as a lower commission rate.

General and administrative expenses decreased \$0.1 million from \$3.5 million, or 6.1% of net sales, for the first fiscal quarter 2004 to \$3.4 million, or 5.8% of net sales, for the first fiscal quarter 2005. The decrease in expenses resulted primarily from lower incentive compensation expense and lower bad debt expense partially offset by higher accounting fees for the audit of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act. General and administrative expenses decreased as a percentage of net sales due to the relatively fixed nature of these expenses and our higher sales base.

#### *Other Income (Expense)*

Other income (expense) increased \$0.4 million from an expense of \$0.1 million in the first fiscal quarter 2004 to income of \$0.3 million in the first fiscal quarter 2005. This increase resulted from higher interest income on our higher cash and short term investment balance as well as lower interest expense due to the repayment of debt.

#### *Income Taxes*

The provision for income taxes decreased from a \$3.9 million provision for the first fiscal quarter 2004 to a \$2.7 million provision for the first fiscal quarter 2005. The decrease in the income tax provision from the first fiscal quarter 2004 to the first fiscal quarter 2005 resulted primarily from lower pretax income partially offset by a slightly higher estimated effective tax rate for 2005 than the effective tax rate used in 2004. Our effective tax rate for the first fiscal quarter 2005 was 37.5%. 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, proceeds from employee exercises of stock options and proceeds from our public offerings. 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. As of April 4, 2005, we had working capital of approximately \$88.5 million compared to \$82.6 million at December 31, 2004. The increase in working capital is primarily attributable to increases in cash and cash equivalents and inventories as well as a decrease in accrued salaries, wages and benefits.

Our 2005 capital plan is expected to total approximately \$11 million and will fund capital equipment purchases to increase capacity and expand our technological capabilities throughout our facilities. At December 31, 2004, we substantially completed the first phase of our Chippewa Falls capacity expansion, which included constructing a 47,000-square-foot addition to our building. The second phase of our Chippewa Falls capacity expansion, not currently included in the 2005 capital plan, would cost approximately \$4 million and would be made as demand and market conditions warrant. This second phase could be completed within three to six months of determining to proceed and will be revisited on a regular basis throughout 2005 and in future periods.

The following table provides information on future minimum lease payments under non-cancelable operating leases, current purchase obligations related to capital expenditures and other long-term liabilities reflected on our balance sheet under generally accepted accounting principles as of April 4, 2005 (in thousands):

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Operating Leases	\$ 405	\$ 240	\$ 165	\$ —	\$ —
Purchase obligations	1,192	1,192	—	—	—
Other long-term liabilities(1)	1,639	1,477	162	—	—
Total contractual obligations	<u>\$ 3,236</u>	<u>\$ 2,909</u>	<u>\$ 327</u>	<u>\$ —</u>	<u>\$ —</u>

(1) Our balance sheet reflects these other long-term liabilities at their net present value.

Based on our current level of operations, we believe that cash generated from operations, available cash and amounts available under our senior credit facility will be adequate to meet our currently anticipated capital expenditures and working capital 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 the proposed second phase of our Chippewa Falls expansion, if we determine to proceed with it.

Net cash provided by operating activities was \$5.5 million in the first fiscal quarter 2005, compared to \$7.5 million in the first fiscal quarter 2004. Our first fiscal quarter 2005 operating cash flow of \$5.5 million primarily reflects net income of \$4.5 million, \$2.5 million of depreciation and amortization, a \$1.0 million decrease in deferred income taxes, and a \$0.4 million income tax benefit from common stock option exercises partially offset by a net increase in working capital of \$2.9 million, excluding cash and short-term investments.

Net cash provided by investing activities was \$8.1 million in the first fiscal quarter 2005, compared to net cash used in investing activities of \$36,000 in the first fiscal quarter 2004. In the first fiscal quarter 2005, we purchased \$2.7 million of property, plant and equipment and had a net decrease in short-term investments of \$10.8 million.

Net cash provided by financing activities was \$0.5 million in the first fiscal quarter 2005 compared to \$0.9 million in the first fiscal quarter 2004. Our first fiscal quarter 2005 financing net cash flow reflects net proceeds of \$0.5 million from employee stock option exercises.

We have a committed revolving loan facility of \$25.0 million with a final maturity date of September 29, 2005. 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 1.5% to 2.5% or the Alternate Base Rate (as defined in the credit agreement) plus 0.5% to 1.0%. The amount added to the LIBOR rate or the Alternative Base Rate varies depending upon the Company's leverage ratio as defined in the agreement. Our borrowings under the revolving facility are subject to a borrowing base or formula that is based on our accounts receivable and inventory. As of April 4, 2005 we had no outstanding revolving loan balances. We pay quarterly a commitment fee ranging from 0.30% to 0.45% 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 April 4, 2005, we were in compliance with the covenants and had \$18.0 million of available borrowing capacity under our revolving loan facility.

#### **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 December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first fiscal or annual period after December 31, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R beginning January 1, 2006. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R will have a material impact on its consolidated results of operations and earnings per share. The Company has not yet determined the method of adoption or the effect of adopting SFAS 123R.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—An Amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by the Company beginning on January 1, 2006. The Company is currently evaluating the effect that the adoption of SFAS 151 will have on its consolidated results of operations and financial condition but does not expect SFAS 151 to have a material impact.

In March 2004, the Financial Accounting Standards Board ("FASB") approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The Issue's objective is to provide guidance for identifying other-than-temporarily impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued a FASB Staff Position ("FSP") EITF 03-1-1 that delays the effective date of the measurement and recognition guidance in EITF 03-1 until further notice.



## 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 shareholders, 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 suffered a significant downturn in demand in 2001 and 2002, resulting in excess manufacturing capacity, increased price competition and slower-moving inventories. This global slowdown decreased demand for our manufacturing services and lowered our sales and gross margins.**

A majority of our revenues are generated from the electronics industry, which is characterized by intense competition, relatively short product life cycles, and significant fluctuations in product demand. Furthermore, the industry is subject to economic cycles and recessionary periods and has been 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. Our net sales declined from \$129.0 million in 2001 to \$89.0 million in 2002, due to these factors. The electronics industry has seen improvements from the recent downturn, and we experienced sequential quarterly increases in our net sales from \$39.6 million in the first fiscal quarter 2003 to \$62.2 million in the third fiscal quarter 2004. Our sales in the fourth fiscal quarter 2004 declined to \$59.2 million and remained essentially flat in the first fiscal quarter 2005 with net sales of \$58.9 million. 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 expansion of our Chippewa Falls facility would exacerbate any excess capacity issues if demand for services does not increase to the levels that we anticipate.

If we conclude we have significant, long-term excess capacity, we may decide to cancel or delay the planned second phase of our Chippewa Falls facility expansion, 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 2004 and approximately 58% of our net sales in the first fiscal quarter 2005. 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 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 65% of our net sales in 2004, and approximately 68% of our net sales in the first fiscal quarter 2005. 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 “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 have expanded our operations through acquisitions, 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 currently have no commitments or agreements to acquire any business. Our existing credit facility restricts our ability to acquire the assets or business of other companies and, accordingly, will require us to obtain the consent of our lenders and could require us to pay significant fees, become subject to reduced liquidity, or become subject to additional or more restrictive covenants in order to consummate such acquisitions. Consequently, we may not be able to identify suitable acquisition candidates or finance and complete transactions that we choose to pursue.

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 shareholders' percentage ownership;
- assume liabilities;
- 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 numerous 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. For example, we experienced a laminate price increase on October 1, 2004, due to growing demand. Laminates are a critical raw material for our printed circuit boards. Higher laminate prices were responsible for an approximate one percentage

point decline in our gross margins in the fourth fiscal quarter 2004. Furthermore, if a raw material supplier fails to satisfy our product quality standards, it could harm our customer relationships. Suppliers may from time to time extend lead times, limit supplies, or increase prices, due to capacity constraints or other factors, which could harm our ability to deliver our products on a timely basis.

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

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

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

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

The printed circuit board industry is intensely competitive, highly fragmented, and rapidly changing. We expect competition to continue, which could result in price reductions, reduced gross margins, and loss of market share. Our principal 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;
- ability to add additional capacity faster or more efficiently;
- preferred vendor status with existing and potential customers;
- greater name recognition; and
- larger customer bases.

In addition, these competitors may respond more quickly to new or emerging technologies, or adapt more quickly to changes in customer requirements, and devote greater resources to the development, promotion, and sale of their products than we do. We must continually develop improved manufacturing processes to meet our customers' needs for complex products, and our manufacturing process technology is generally not subject to significant proprietary protection. During recessionary periods in the electronics industry, our strategy of providing quick-turn services, an integrated manufacturing solution, and responsive customer service may take on reduced importance to our customers. As a result, we may need to compete more on the basis of price, which could cause our

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 or write-offs, including those related to acquisitions, facility restructurings, or asset impairments; and
- expenses relating to expanding existing manufacturing facilities.

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

Our sales to EMS providers decreased from approximately 72% of our net sales in 2004 to approximately 70% of our net sales in the first fiscal quarter 2005. 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 business and 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.

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

We manufacture products to our customers' specifications, which are highly complex and may contain design or manufacturing errors or failures, despite our quality control and quality assurance efforts. Defects in the products we manufacture, whether caused by a design, manufacturing, or materials failure or error, may result in delayed shipments, customer dissatisfaction, a reduction or cancellation of purchase orders, or liability claims against us. If these defects occur either in large quantities or too frequently, our business reputation may be impaired. Our sales mix has shifted towards standard delivery time products, which have larger production runs, thereby increasing our exposure to these types of defects. Since our products are used in products that are integral to our customers' businesses, errors, defects, or other performance problems could result in financial or other damages to our customers beyond the cost of the printed circuit board, for which we may be liable. Although our invoices and sales arrangements generally contain provisions designed to limit our exposure to product liability and related claims, existing or future laws or unfavorable judicial decisions could negate these limitation of liability provisions. Product liability litigation against us, even if it were unsuccessful, would be time consuming and costly to defend.

**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 April 4, 2005, our consolidated balance sheet reflected \$74.5 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 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 did 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.

**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 and/or 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.

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

As of April 4, 2005, we had deferred tax assets of approximately \$8.1 million, which is net of a valuation allowance of \$14.5 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 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 3. Quantitative And Qualitative Disclosures About Market Risk**

*Interest Rate Risk.* Our senior credit facility bears interest at floating rates.

The revolving loan bears interest ranging from 1.5% to 2.5% per annum plus the applicable LIBOR or from 0.5% to 1.0% 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 April 4, 2005, we have 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 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 April 4, 2005. 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 April 4, 2005. There have been no significant changes in our internal control over financial reporting or in other factors that could significantly 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, as amended, for the year ended December 31, 2004. There have been no material developments in that case since the date of that report.

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

Not Applicable

### **Item 3. Defaults Upon Senior Securities**

Not Applicable

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

Not Applicable

### **Item 5. Other Information**

Not Applicable

### **Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Exhibits</b>
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.

## SIGNATURES

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

TTM Technologies, Inc.

Dated: May 16, 2005

/s/ Kenton K. Alder

Kenton K. Alder

President and Chief Executive Officer

Dated: May 16, 2005

/s/ Stacey M. Peterson

Stacey M. Peterson

Chief Financial Officer and Secretary

**CERTIFICATION**

I, Kenton K. Alder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TTM Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2005

/s/ Kenton K. Alder  
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Kenton K. Alder  
*President and Chief Executive Officer (Principal  
Executive Officer)*

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**CERTIFICATION**

I, Stacey M. Peterson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TTM Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2005

/s/ Stacey M. Peterson  
Stacey M. Peterson  
*Chief Financial Officer & Secretary (Principal  
Financial and Accounting Officer)*

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