

IEC ELECTRONICS CORP
Form 10-K
November 15, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 30, 2007 or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 0-6508

IEC ELECTRONICS CORP.

(Exact name of registrant as specified in its charter)

Delaware 13-3458955
(State or other jurisdiction (IRS Employer ID
of incorporation or No.)
organization)

105 Norton Street, Newark, New York 14513
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: 315-331-7742

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.01 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 Exchange Act). Yes No

At March 31, 2007, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by non-affiliates for the registrant was \$10,630,985 (based on the closing price of the registrant's common stock on the Over-the-Counter Bulletin Board on such date). Shares of common stock held by each executive officer and director and by each person and entity who beneficially owns more than 10% of the outstanding common stock have been excluded in that such person or entity under certain circumstances may be deemed to be an affiliate. Such exclusion should not be deemed a determination or admission by registrant that such individuals or entities are, in fact, affiliates of the registrant.

As of November 2, 2007, there were outstanding 8,699,710 shares of Common Stock.

Documents incorporated by reference:

Portions of IEC Electronics Corp.'s Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated into Part III of this Form 10-K.

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"SAFE HARBOR" CAUTIONARY STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of section-27A of the Securities Act of 1933 and section-21E of the Securities Exchange Act of 1934, and are made in reliance upon the protections provided by such Acts for forward-looking statements. These forward-looking statements (such as when we describe what we “believe”, “expect” or “anticipate” will occur, and other similar statements) include, but are not limited to, statements regarding future sales and operating results, future prospects, the capabilities and capacities of business operations, any financial or other guidance and all statements that are not based on historical fact, but rather reflect our current expectations concerning future results and events. The ultimate correctness of these forward-looking statements is dependent upon a number of known and unknown risks and events, and is subject to various uncertainties and other factors that may cause our actual results, performance or achievements to be different from any future results, performance or achievements expressed or implied by these statements. The following important factors, among others, could affect future results and events,

causing those results and events to differ materially from those expressed or implied in our forward-looking statements: business conditions and growth in our customer's industries, the electronic manufacturing services industry and the general economy, variability of operating results, our dependence on a limited number of major customers, the potential consolidation of our customer base, availability of components, dependence on certain industries, variability of customer requirements, other economic, business and competitive factors affecting our customers, our industry and business generally and other factors that we may not have currently identified or quantified. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections elsewhere in this document. All forward-looking statements included in this Report on Form-10-K are made only as of the date of this Report on Form-10-K, and we do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur or which we hereafter become aware of. You should read this document and the documents that we incorporate by reference into this Annual Report on Form-10-K completely and with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements, even if our situation changes in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

PART I

ITEM 1. BUSINESS

Overview

IEC Electronics Corp. ("IEC", "We", "Our", the "Company") is an independent electronics manufacturing services ("EMS") provider of complex printed circuit board assemblies and electronic products and systems. We provide high quality electronics manufacturing services with state-of-the-art manufacturing capabilities. Utilizing automated manufacturing and test equipment, IEC provides manufacturing services employing surface mount technology ("SMT") and pin-through-hole ("PTH") interconnection technologies. As an independent full-service EMS provider, we offer our customers a wide range of manufacturing services, on either a turnkey or consignment basis. These services include product development, prototype assembly, material procurement, volume assembly, test engineering support, statistical quality assurance, order fulfillment and repair services. Our strategy is to cultivate strong manufacturing relationships with established and emerging original equipment manufacturers ("OEMs").

IEC Electronics Corp., a Delaware corporation, is the successor by merger in 1990 to IEC Electronics Corp., a New York corporation, which was organized in 1966.

IEC is a world-class ISO:9001-2000 certified company. Our manufacturing processes encompass the best aspects of Lean Manufacturing and Six Sigma Principles. IEC is ITAR registered, NSA approved under the COMSEC standard, and we recently achieved our AS9100 certification to better serve the military and aerospace markets. Many customers consider these certifications crucial when qualifying an EMS provider.

Our New York facility is self-certified to previously recognized British Approvals Board Telecommunications standards, allowing us to provide manufacturing and test services to manufacturers producing telecommunication equipment destined for shipment to the European Common Market. Our state-of-the-art 10,000 square foot Technology Center includes pilot build, prototype assembly, design engineering services, and an Advanced Materials Technology Laboratory.

We continually evaluate emerging technology and maintain a technology road map to ensure relevant processes are available to our customers when commercial and design factors so indicate. The current generation of interconnection technologies includes chip scale packaging and ball grid array (BGA) assembly techniques. We have placed millions of plastic BGA's since 1994 and added Ceramic BGA placement for networking customers to our service offerings in fiscal 2001. Future advances will be directed by our Technology Center, which combines Prototype and Pilot Build Services with the capabilities of our Advanced Materials Technology Laboratory, and is supported by our Design Engineering Group.

Our experienced workforce has a high level of technical expertise. Our emphasis is on building the most challenging complete systems serving original equipment manufacturers with advanced electronics technology. IEC has positioned itself as a leader of lead-free solder assembly technology through early development and technical publications. Lead-free was mandated by July 2006 for many electronic products sold in Europe.

Our executive offices are located at 105 Norton Street, Newark, New York 14513. Our telephone number is (315)331-7742, and our Internet address is www.iec-electronics.com.

Electronics Manufacturing Services: The Industry

The EMS industry specializes in providing program management, technical support and manufacturing expertise required to take a product from the early design and prototype stages through volume production and distribution.

Primarily as a response to rapid technological change and increased competition in the electronics industry, OEMs have recognized that by utilizing EMS providers they can improve their competitive position, realize an improved return on investment and concentrate on their core competencies such as research, product design and development and marketing. In addition, EMS providers allow OEMs to bring new products to market rapidly and adjust more quickly to fluctuations in product demand; avoid additional investment in plant, equipment and personnel; reduce inventory and other overhead costs; and establish known unit costs over the life of a contract. Many OEMs now consider EMS providers an integral part of their business and manufacturing strategy.

OEMs increasingly require EMS providers to provide complete turnkey manufacturing and material handling services, rather than working on a consignment basis in which the OEM supplies all materials and the EMS provider supplies labor. Turnkey contracts involve design, manufacturing and engineering support, the procurement of all materials, and sophisticated in-circuit and functional testing and distribution.

IEC's Strategy

Our strategy is to cultivate strong manufacturing partnerships with established and emerging OEMs in the electronics industry. These long-term business partnerships involve the joint development of manufacturing and support strategies with OEM customers and promote customer satisfaction. In implementing this strategy, we offer our customers a full range of manufacturing solutions through flexibility in production, high quality and fast-turnaround manufacturing services and computer-aided testing.

We generally enter into formal agreements with our significant customers. These agreements generally provide for fixed prices for one year, absent any customer changes which impact cost of labor or material, and rolling forecasts of customer requirements. After establishing an OEM relationship, we offer our consultation services with respect to the manufacturability and testability of the product design. We often recommend design changes to reduce manufacturing costs and to improve the quality of the finished assemblies.

Products and Services

We manufacture a wide range of assemblies, which are incorporated into many different products. We provide electronic manufacturing services primarily for telecommunications and wireless communication systems, test diagnostic equipment, military and defense systems, transportation products, alternative energy equipment, and medical instrumentation. During the fiscal year ended September 30, 2007 we provided electronics manufacturing services to approximately 25 different customers. We provide our services to multiple divisions and product lines of many of our customers and typically manufacture for a number of each customer's successive product generations. In some cases, we are the sole contract manufacturer for the customer site or division, providing all services, prototype through box build and functional test.

Materials Management

We generally procure material only to meet specific contract requirements. In addition, our agreements with our significant customers generally provide for cancellation charges equal to the costs, which are incurred by us as a result of a customer's cancellation of contracted quantities. Our internal systems provide effective controls for all materials, whether purchased by us or provided by the customer, through all stages of the manufacturing process, from receiving to final shipment.

Availability of Components

Substantially all of our net sales are derived from turnkey manufacturing in which we provide both materials procurement and assembly services. We are well positioned with supplier relationships and material procurement expertise to acquire needed materials. However, availability of customer-consigned parts and unforeseen shortages of components on the world market are beyond our control and could adversely affect revenue levels and operating efficiencies.

Suppliers

We operate in a strategic partnership arrangement with our key distribution suppliers. These strategic partnerships and associated automated trading methodologies provide benefits such as better payment terms, consignment or bonded inventories, reduced procurement lead-time, competitive pricing, reduced quotation processing, some protection during periods of supply allocation and opens access to global resources. We also have preferred supplier partnership agreements in place for custom commodities such as printed circuit boards, metals, and cable harnesses.

Marketing and Sales

Our sales increased during 2007, primarily due to the addition of several new customers, and increased market share with existing customers. These customers, along with the customers we anticipate adding, are expected to generate further revenue growth during 2008. We utilize a direct sales force as well as a nationwide network of Manufacturers Representatives. Through this hybrid sales approach, we execute a focused sales strategy targeting only those customers with product profiles aligning with our core areas of expertise. For example, we are focusing on customers developing complex, advanced technology products for a wide array of market sectors ranging from satellite communications, medical, military and general industrial.

Typically, the demand profiles associated with these customers are in the low to moderate volume range with high variability of quantity and mix requirements and end item configurations. In fact, these products often represent emerging technologies requiring high intensity of manufacturing support to seamlessly transfer them from the early product development stage through prototyping onto volume manufacturing. As these products exit the product development phase, specialized capabilities are required to support rapid response prototyping requirements in a dynamic engineering change environment. As a result, the usual industry outsourcing models associated with these customers rarely include supply alternatives in low cost labor regions such as Asia and Mexico.

Our sales efforts are driven by focused marketing and sales activities in targeted areas supported by customer presentations. Sales leads resulting from these marketing activities are assigned to a representative covering a customer's location for qualification and further development. Referrals by existing customers continue to be one of our sources of new opportunities.

Backlog

Our backlog as of September 30, 2007 and 2006 was approximately \$22.3 million and \$21.7 million, respectively. We had additional forecasted orders as of September 30, 2007 and 2006 of \$5.3 million and \$5.1 million respectively. These are not firm orders, but our customers have made commitments to compensate us for any unused inventory that we procure in anticipation of these orders. Backlog consists of contracts or purchase orders with delivery dates scheduled within the next 12 months. Substantially the entire current backlog is expected to be shipped within our current fiscal year. Variations in the magnitude and duration of contracts received by us, and customer delivery requirements may result in fluctuations in backlog from period to period.

Governmental Regulation

Our operations are subject to certain federal, state and local regulatory requirements relating to environmental, waste management, health and safety matters. Management believes that our business is operated in compliance with applicable regulations promulgated by the Occupational Safety and Health Administration and the Environmental Protection Agency and corresponding state agencies, which respectively, pertain to health and safety in the work place and the use, discharge, and storage of chemicals employed in the manufacturing process. Current costs of compliance are not material to us. However, new or modified requirements, not presently anticipated, could be adopted creating additional expense for us.

Employees

IEC's employees numbered 229 at November 2, 2007, including 182 employees engaged in manufacturing, 31 in engineering, and 16 in administrative and marketing functions. None of our employees are covered by a collective bargaining agreement. We have not experienced any work stoppages and believe that our employee relations are good. We have access to a large work force by virtue of our northeast location midway between Rochester and Syracuse, two upstate New York industrial cities.

Patents and Trademarks

We hold patents unrelated to electronics manufacturing services and also employ various registered trademarks. We do not believe that either patent or trademark protection is material to the operation of our business.

ITEM 1A. RISK FACTORS

OUR OPERATING RESULTS MAY FLUCTUATE DUE TO A NUMBER OF FACTORS, MANY OF WHICH ARE BEYOND OUR CONTROL.

Our annual and quarterly results may vary significantly depending on factors, including:

- adverse changes in general economic conditions
- the level and timing of customer orders and the accuracy of their forecasts
- the level of capacity utilization of our manufacturing facility and associated fixed costs

- price competition
- market acceptance of our customers products
- business conditions in our customers' end markets
- our level of experience in manufacturing a particular product
- change in the sales mix of our customers
- the efficiencies achieved in managing inventories and fixed assets
- fluctuations in materials costs and availability of materials
- the timing of expenditures in anticipation of future orders
- changes in cost and availability of labor and components
- our effectiveness in managing manufacturing process.

The EMS industry is impacted by the state of the U.S. and global economies, which are both impacted by world events. An economic slowdown, in particular in the industries served by us, may result in our customers reducing their forecasts. The demand for our services could weaken, which in turn could substantially influence our sales, capacity utilization, margins and financial results. Historically, we have seen periods, such as in fiscal 2003 and 2002, when EMS industry sales were adversely affected by a slowdown in wireless/networking and wireless infrastructure sectors as a result of reduced end-market demand and reduced availability of capital to fund existing and emerging technologies.

WE DEPEND ON A RELATIVELY SMALL NUMBER OF CUSTOMERS, AND IF WE LOSE ANY OF THESE CUSTOMERS OUR SALES AND OPERATING RESULTS COULD DECLINE SIGNIFICANTLY.

A small number of customers are responsible for a significant portion of our net sales. During fiscal 2007, 2006, and 2005, our five largest customers accounted for 61%, 66% and 67% of net sales, respectively. The percentage of IEC's sales to its major customers may fluctuate from period to period. Our principal customers have varied from period to period, and our principal customers may not continue to purchase services from us at the current levels, or at all.

WE DEPEND ON THE ELECTRONICS INDUSTRY, WHICH CONTINUALLY PRODUCES TECHNOLOGICALLY ADVANCED PRODUCTS WITH SHORT LIFE CYCLES.

Factors affecting the electronics industry in general could seriously harm our customers and, as a result, us. These factors include:

- the inability of our customers to adapt to rapidly changing technology and evolving industry standards, which result in short product life cycles;
- the inability of our customers to develop and market their products, some of which are new and untested;
- the potential that our customers' products may become obsolete or the failure of our customers' products to gain widespread commercial acceptance; and
- recessionary periods in our customers' markets.

FALILURE TO MANAGE GROWTH AND CONTRACTION, IF ANY, MAY SERIOUSLY HARM OUR BUSINESS

In late 2006 and early 2007 we expanded our operations and added many new employees. These actions resulted in additional costs and start-up inefficiencies. If we are unable to effectively manage the currently anticipated growth or if the anticipated net sales are not realized, our operating results could be adversely affected.

START-UP COSTS AND INEFFICIENCIES RELATED TO NEW OR TRANSFERRED PROGRAMS CAN ADVERSELY AFFECT OUR OPERATING RESULTS AND MAY NOT BE RECOVERABLE.

Start-up costs, the management of labor and equipment resources in connection with establishing new programs and new customer relationships, and the need to estimate required resources, and the timing of those resources in advance of production, can adversely affect our gross margins and operating margins. If new programs or new customer relationships are terminated or delayed, our operating results may be harmed, particularly in the near term. We may not be able to recoup our start-up costs or quickly replace anticipated new program revenues.

MOST OF THE CUSTOMERS IN OUR INDUSTRY DO NOT COMMIT TO LONG-TERM PRODUCTION SCHEDULES, WHICH CAN MAKE IT DIFFICULT FOR US TO SCHEDULE PRODUCTION.

Customers may cancel their orders, change production quantities or delay production for a number of reasons that are beyond our control. Cancellations, reductions or delay by a significant customer or by a group of customers could negatively impact our operating results. Such cancellations, reductions or delays have occurred and may continue to occur.

The volume and timing of sales to our customers may vary due to:

- variation in demand for our customers' products in their end markets
- our customers' attempts to manage their inventory
- electronic design changes
- changes in our customers' manufacturing strategy
- recessionary conditions in customers' industries

Due in part to these factors, most of our customers do not commit to firm production schedules. We make significant decisions based on our estimates of customers' requirements, including deciding on the levels of business that we will seek, production schedules, component procurement commitments, equipment requirements, personnel needs and other resource requirements. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products reduce our ability to accurately estimate and forecast the future requirements of those customers. Since many of our costs and operating expenses are relatively fixed, a reduction in customer demand can impact our revenue and harm our gross margins and operating results.

INCREASED COMPETITION MAY RESULT IN DECREASED DEMAND OR REDUCED PRICES FOR OUR SERVICES.

We may be operating at a cost disadvantage compared to other electronic manufacturing service providers who have greater direct buying power from component suppliers, distributors and raw material suppliers or who have lower cost structures as a result of their geographic location. As a result, competitors may have a competitive advantage. Our manufacturing processes are generally not subject to significant proprietary protection, and companies with greater resources or a greater market presence may enter our market or increase their competition with us. We also expect our competitors to continue to improve the performance of their current products or services, to reduce their current products or service sales prices and to introduce new products or services that may offer greater performance and improved pricing. Any of these could cause a decline in sales, loss of market acceptance of our products or services, profit margin compression, or loss of market share.

IF WE DO NOT MANAGE OUR BUSINESS EFFECTIVELY, OUR PROFITABILITY COULD DECLINE.

Our ability to manage our business effectively will require us to continue to implement and improve our operational, financial and management information systems; continue to develop the management skills of our managers and supervisors; and continue to train, motivate and manage our employees. Our failure to effectively do so could harm our business.

WE DEPEND ON A LIMITED NUMBER OF SUPPLIERS FOR COMPONENTS THAT ARE CRITICAL TO OUR MANUFACTURING PROCESSES. A SHORTAGE OF THESE COMPONENTS OR AN INCREASE IN THEIR PRICE COULD INTERRUPT OUR OPERATIONS AND REDUCE OUR PROFITS.

Much of our net revenue is derived from turnkey manufacturing in which we provide materials procurement. While some of our customer agreements permit periodic adjustments to pricing based on decreases and increases in component prices and other factors, we typically bear the risk of component price increases that occur between any such re-pricing or, if such re-pricing is not permitted, during the balance of the term of the particular customer contract. Accordingly, certain component price increases could adversely affect our gross profit margins.

Almost all of the products we manufacture require one or more components that are available from a limited number of suppliers. Some of these components are allocated from time to time in response to supply shortages. In some cases, supply shortages could substantially curtail production of those assemblies using a particular component. At times, component shortages have been prevalent in our industry, and such shortages may be expected to recur from time to time. In some cases, supply shortages and delays in deliveries of particular components have resulted in curtailed or delayed production of assemblies, which contributed to an increase in our inventory levels. An increase in economic activity could result in shortages, if manufacturers of components do not adequately anticipate the increased orders and/or have previously excessively cut back their production capabilities in view of reduced activity in recent years. World events, armed conflict and epidemics, could also affect our supply chain. An inability to obtain sufficient components on a timely basis could harm relationships with our customers.

In addition, due to the specialized nature of some components and the needs of our customers' products, we may be required to use suppliers which are the sole provider of certain components. Such suppliers may encounter financial difficulties or may not have adequate financial resources, which could preclude them from delivering components on time or at all.

OUR TURNKEY MANUFACTURING SERVICES INVOLVE INVENTORY RISK

Most of our services are provided on a turnkey basis, where we purchase some or all of the materials required for product assembling and manufacturing. These services involve greater resource investment and inventory risk management than consignment services, where the customer provides materials. Accordingly, various component price increases and inventory obsolescence could adversely affect our selling price, gross margins and operating results.

In our turnkey operations, we must order parts and supplies based on customer forecasts, which may be for a larger quantity of product than is included in the firm orders ultimately received from those customers. Customers' cancellation or reduction of orders can result in expenses to us. While most of our customer agreements typically include provisions which require customers to reimburse us for excess inventory specifically ordered to meet their forecasts, we may not be actually reimbursed or be able to collect on these obligations. In that case, we could have excess inventory and/or cancellation or return charges from our suppliers.

In addition, we are starting to provide managed inventory programs for some of our customers under which we hold and manage finished goods inventories. These managed inventory program may result in higher finished goods inventory level, further reduce our inventory turns and increase our financial exposure with such customers. Even though they will generally have contractual obligations to purchase such inventories from us, we may remain subject to the risk of enforcing those obligations.

PRODUCTS WE MANUFACTURE MAY CONTAIN 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, at times, contain design or manufacturing errors or failures. Despite our quality control and quality assurance efforts, defects may occur. Defects in the products we manufacture, whether caused by a customer design, manufacturing or component failure or error, may result in delayed shipments to customers or reduced or cancelled customer orders and may affect our business reputation. In addition, these defects may result in liability claims against us. Even if customers or component suppliers are responsible for the defects, they may be unwilling or unable to assume responsibility for any costs or payments.

WE MAY NOT BE ABLE TO MAINTAIN OUR ENGINEERING, TECHNOLOGICAL AND MANUFACTURING PROCESS EXPERTISE.

The markets for our manufacturing and engineering services are characterized by rapidly changing technology and evolving process development. The continued success of our business will depend upon our ability to:

- hire and retain our qualified engineering and technical personnel;
- maintain and enhance our technological leadership; and
- develop and market manufacturing services that meet changing customer needs.

Although we believe that our operations provide the assembly and testing technologies, equipment and processes that are currently required by our customers, we cannot be certain that we will develop the capabilities required by our customers in the future. The emergence of new technology industry standards or customer requirements may render our equipment, inventory or processes obsolete or noncompetitive. In addition, we may have to acquire new assembly and testing technologies and equipment to remain competitive. The acquisition and implementation of new technologies and equipment may require significant expense or capital investment, which could reduce our operating margins and our operating results. Our failure to anticipate and adapt to our customers' changing technological needs and requirements could have an adverse effect on our business.

WE DO NOT HAVE EMPLOYMENT AGREEMENTS WITH ANY OF OUR KEY PERSONNEL, THE LOSS OF WHICH COULD HURT OUR OPERATIONS.

Our continued success depends largely on the efforts and skills of our key managerial and technical employees. The competition for these individuals is significant; hence the loss of the services of certain of these key employees or an inability to attract or retain qualified employees could negatively impact us. We do not have employment agreements or non-competition agreements with our key employees.