

# Manufacturing Market™ INSIDER

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## A Revival in Russia?

Amid the struggles of the global economy, Russia's bid to gain critical mass for an EMS industry there seemed to be stalled. A case could even be made that rather than standing still during the hard times, Russia actually took a step backward. That's because in January **Elcoteq** announced that it would close its plant in St. Petersburg, Russia, as part of a restructuring plan (Jan., p. 7). However, a closer look reveals that although the EMS market overall has not yet recovered, the prospects for EMS in Russia have already brightened.

Ostensibly, the shutdown of Elcoteq's operation in Russia left the country with one major EMS provider, **Hon Hai**, which started construction of a St. Petersburg facility in May 2008. Tied to a joint venture agreement with **HP**, that facility was intended to produce HP PCs for the Russian market and was expected to add other customers. Note that *MMI* was unable to confirm with HP whether or not the Hon Hai plant has actually started PC production. Yet Hon Hai is not the only top-tier provider to pull the trigger on a Russian operation. In fact, if the information that *MMI* has gathered is accurate, all three of the largest EMS providers have decided to invest in Russia.

**Flextronics** has had its eye on Russia for some time. Last year, the company withdrew from a deal by which it

would have acquired Elcoteq's now shuttered plant in St. Petersburg (June 2008, p. 6). According to Russia's *St. Petersburg Times*, Flextronics intended to use the plant to manufacture LCD TVs for the Russian market. Since that deal fell through, Flextronics has been mum on the subject of Russia. The company's website does not list Russia among the countries where it operates (excluding some logistics facilities, design and engineering and NPI centers). But Flextronics' more definitive SEC Form 10-K for fiscal 2009 includes Russia in a list of countries where it has regional manufacturing operations. This means Flextronics set up a Russian operation some time before the 10-K was filed on May 20. If the company adhered to its original plan, the new operation could be in the St. Petersburg area. But *MMI* has yet to pinpoint the location of this operation.

In the past, **Jabil Circuit** talked about Russia as a place where the company would likely locate a future

site (Jan. 2008, p. 5). Last month at an international investment forum held in Sochi, Russia, the government of Russia's Tver region signed an agreement with Jabil in connection with the establishment of a new plant in the region's Kalinin district, according to a translation of a report posted on the government's website. The plant will produce TVs for **Sony**, the report noted, as well as mobile phones and set-top boxes. This report also quoted a Jabil executive, Philippe Costemale, as saying that Jabil's Russian operation will initially employ as many as 600 workers. Otherwise, neither Jabil nor Sony has said anything about production in Russia.

The Tver region is closer to Moscow than to St. Petersburg. Again, if the Tver government report is valid, then Jabil's location will not contribute to the development of an EMS cluster in St. Petersburg, Russia, the location of Hon Hai and possibly Flextronics.

In the past, Russia's customs practices, including import duties, have

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impeded the development of an EMS industry in Russia. Last year, Elcoteq said demand for home communications and related EMS in the Russian market was promising, provided that customs practices change (June 2008, p. 6). Note that Elcoteq defined home communications as flat-screen TVs, set-top boxes and other home connectivity products. About a year ago, Russia eliminated import duties on parts used in the manufacture of flat-screen TVs, *EE Times* reported, citing information published by local media. Expectations were that dispensing with these duties would draw EMS providers to Russia, according to the *EE Times* report.

Based on recent comments from Jabil, its entry into Russia would not be indicative of a global strategy for its display business, the main part of which is TVs. Jabil's strategy for its display business "is more of a tactical approach to European production relatively limited to Europe. It has been de-emphasized in terms of high levels of investment and design resources, marketing resources and globalization of the capability," said Tim Main, Jabil's president and CEO, during the company's earnings conference call last month. "So we maintain a very strong display manufacturing capability within Europe, and we operate that business on what I characterize as more of an EMS engagement model." Hence, a TV operation in Russia would extend Jabil's display manufacturing capability in Europe.

As for Sony, for whom Jabil reportedly will manufacture TVs in Russia, outsourcing of Sony TV production in Russia appears to offer further evidence of Sony's pledge to increase its use of contract manufacturers for its LCD-TV business (Sept., p. 6-7; Jan., p. 5).

Despite the global economy and Russia's own problems of currency devaluation and lower prices for exported oil, the country's LCD-TV mar-

ket is expected to show strong growth this year, according to market research firm **iSuppli**. The firm is projecting that LCD-TV shipments will increase by 13.6% this year to about 5 million sets and by 2013 will reach 9.6 million units, almost twice the 2009 figure.

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## Environment

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### **More Substances Called Out**

Environmental regulations are good for the planet. But they don't make life any easier for the EMS industry. Not only do different countries follow different rules regarding chemical substances, but more substances are being considered for regulation, adding complexity to the challenge of global compliance. Take Canada and the European Union. Each has proposed additions to its list of substances that fall under environmental regulations.

### **Canada puts rosin on high-priority list**

Creating what could be a potential bombshell for the EMS industry, Canada has identified five rosin-containing substances as deserving high priority for action. According to the trade association **IPC** (Bannockburn, IL), the Canadian government, under its Chemicals Management Program, has proposed banning rosin from all products manufactured and sold in Canada. Rosin is used in the manufacture of more than 75% of electronic products, IPC reported.

As the EMS industry is well aware, rosin is a key ingredient in soldering flux, solder paste and flux-cored wire solder. Rosin is also found in some semiconductor packaging. Due to the unique characteristics of rosin, there are no drop-in substitutes for it, according to IPC.

IPC said a ban on rosin would make it difficult for electronics manufacturers to continue to do business in

Canada. "Military and telecommunications manufacturers, because of their specifications requiring rosin-based fluxes to ensure product reliability, would be dramatically impacted if this ban was enacted," said Karl Seelig, VP of technology at **AIM Solder** and chairman of the IPC Solder Product Value Council.

Four of the proposed substances are formulations of rosin acids and resin acids, while the fifth is hydrogenated rosin. A Canadian government website presents the five substances as "persistent, bioaccumulative, and inherently toxic to non-human organisms." However, IPC pointed out that the U.S. Environmental Protection Agency, after studying three of the five substances, concluded that the chemicals do not pose a hazard to the environment or human health.

In comments submitted this month, IPC urged the Canadian government to remove rosin from the proposed list of banned substances under the Chemicals Management Plan.

The rosin-containing substances are among about 200 chemical substances that Canada has given high priorities for action. Under the plan, the government is gathering information about these substances in order to make decisions regarding the best approach to protect against the risks that these substances might pose. The government divided these substances into smaller groups, or batches, and in February 2007 began the process of releasing a batch every three months.

### **Proposed additions to REACH's candidate list**

*MMI's* August article on REACH reported that the candidate list of SVHCs (substances of very high concern) will be updated twice a year. Sure enough, an additional 15 substances have recently been nominated for the candidate list. Comments on the proposed substances were due by Oct. 15. The proposed additions can

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be found on the website of the European Chemicals Agency (ECHA).

Six companies comprising the BOMcheck substance list working group met in September to discuss the proposed additions. They are **Osram, Siemens, Philips, Agfa, TI and Ep-cos**. The meeting confirmed that five proposed substances are relevant to hardware products, but three of these are lead compounds already regulated under RoHS. The remaining two are diisobutyl phthalate, a specialist plasticizer, and tris (2-chloroethyl) phosphate, a plasticizer and flame retardant. All five of these proposed substances will be added to the candidate list, the meeting concluded.

BOMcheck, a web database system covered in the August article, is designed to automatically notify users when substances are added to the candidate list and where they can be found in hardware.

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## Market Data

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### Some Q3 Results in Brief

**Celestica.** Q3 sales totaled \$1.56 billion, up 11.0% from the prior period. Producing the largest sequential increase by far, Celestica's consumer business climbed 60%, primarily due to seasonal strength in the September quarter and the ramping of new program wins. Sales in the server and storage segments increased by double digits quarter to quarter. The only segment that declined was telecom, where revenue fell by 31% as a result of weaker end markets and some business that was moved back to an OEM facility. On a year-over-year basis, the company's revenue dropped by 23.4%.

Adjusted (non-GAAP) gross margin for Q3 was 7.0% down 30 basis points from the Q2 figure, but adjusted operating margin reached 3.4%, its highest level since 2002. Adjusted net

earnings, which came in at the high end of guidance, amounted to \$0.17 per share, compared with \$0.11 in the prior quarter and \$0.24 in the year-earlier period. The company recorded a Q3 GAAP loss of \$0.6 million, down from GAAP earnings of \$5.3 million for Q2.

In Q3, Celestica generated free cash flow of \$139 million. The company reported an ROIC of 21.9%, the highest return since Celestica became a public company over 11 years ago. Inventory turns increased to 8.7.

For Q4, Celestica expects sales to be in a range of \$1.55 billion to \$1.70 billion. At the range's midpoint, the sequential increase would be 4%. The company estimates that adjusted EPS will be in a range of \$0.14 to \$0.20.

**Flextronics.** For its fiscal Q2 ended Oct. 2, adjusted (non-GAAP) gross margin rose sequentially by 90 basis points to 5.4%, while adjusted operating margin went up by 100 basis points to 2.6%. Adjusted EPS was \$0.13, which exceeded guidance of \$0.07 to \$0.11 and the prior quarter's EPS of \$0.08. Revenue for the quarter totaled \$5.83 billion, growing by 0.8% from the prior quarter. Strong seasonal sequential growth of 34% in the consumer digital segment and a robust increase of 17% in industrial, medical, automotive and other were offset by declines in the infrastructure and mobile segments. GAAP net income amounted to \$19.7 million, up from a net loss of \$154.0 million in the previous quarter.

Compared with the year-earlier quarter, sales were off 34.2%. Adjusted net income for fiscal Q2 amounted to \$104.0 million, down 54.7% from the year-earlier period, but up 64.8% sequentially.

The company reported an ROIC of 22.2%, the highest in recent history. During the quarter, Flextronics generated free cash flow of \$270 million and reduced its net debt by \$483 million to \$587 million. The provider

ended the quarter with a record balance of about \$2.0 billion in cash and cash equivalents.

For the December quarter, Flextronics expects revenue to be in a range of \$6.0 billion to \$6.4 billion, or a sequential increase of 3% to 10%. The company estimates that adjusted EPS will be in a range of \$0.14 to \$0.16, implying sequential growth.

**Jabil Circuit.** Results for its fiscal Q4 ended Aug. 31 exceeded revenue and EPS guidance. Sales came in at \$2.80 billion versus Jabil's expectation of \$2.5 billion to \$2.7 billion, and core (non-GAAP) EPS amounted to \$0.16 compared with guidance of \$0.02 to \$0.12. Revenue for the quarter rose sequentially by 7.1%, and sales increased from the prior quarter in all of Jabil's sectors except computing & storage. Industrial, instrumentation & medical and telecom led the way with sequential growth of 14% and 13% respectively. Core operating margin was 2.3%, up 120 basis points from the previous quarter.

On a year-over-year basis, revenue for the August quarter was down 14.3%. Core operating income fell by 37.5% from a year earlier, but increased 125.5% sequentially. GAAP net income equaled \$5.5 million, up from a net loss of \$28.8 million in the prior quarter.

For the November quarter, Jabil expects revenue to increase sequentially by 7% to 14%, placing revenue in a range from \$3.0 billion to \$3.2 billion. The midpoint of this range reflects growth of 3% from the prior quarter in the company's EMS division and 30% growth in its consumer division. Guidance of \$0.24 to \$0.32 for core EPS also implies sequential growth for this metric.

Jabil expects to divest its automotive electronics manufacturing activity in Western Europe during the November quarter and to be essentially out of the automotive electronics space by the following quarter.

### **Hon Hai, Flextronics Expanding in China**

#### **Both are investing in computer manufacturing**

To read some reports, one might form the impression that a budding OEM exodus from China could cause EMS companies to stop investing there. Don't tell that to **Flextronics** (Singapore) and **Hon Hai Precision Industry** (Tucheng City, Taiwan). Both are funding expansion projects in China.

This month, Flextronics announced that it will expand its China footprint by creating a design and manufacturing site in the Wuzhong district of Suzhou, China. (Suzhou is within Jiangsu province.) Including a design center and a manufacturing facility, the new site will support the growing demand for computing products in China. The design center will be completed by the end of this year, and the manufacturing facility is scheduled to be completed by the end of 2010.

Sean Burke, president of Flextronics Computing, said the Wuzhong design center will support China's market growth for notebook computers and desktop products. Wuzhong will be positioned as the company's main development center in China for computing products. Flextronics also operates computing design centers in Wujiang, near Suzhou, and Shanghai.

The new manufacturing facility in the Wuzhong Export Processing Zone will be Flextronics' second factory in China for computing products. Last year, the company acquired **Arima's** notebook and server manufacturing facility in Wujiang as part of Flextronics' purchase of Arima's notebook and server businesses. The new Wuzhong facility will have "extended manufacturing capabilities," according to a statement from Flextronics. Intended

for notebooks, all-in-one PCs and mini desktops, the Wuzhong factory will be operational at year-end with a monthly notebook capacity expected to be approximately 300,000 to 350,000 units, Sean Burke told Taiwan's *Digitimes*. By the end of 2010, the announced completion date, notebook capacity at Wuzhong, given current sales projections, is expected to hit 1.1 million units per month, the Taiwan news source reported, citing Burke. During Flextronics' earnings conference call this month, CEO Mike McNamara said that, as a first step, the company will take the site's capacity up to about 1.2 million units a month in terms of facility space.

Flextronics believes Wuzhong is an excellent location based on its world-class infrastructure, supply chain ecosystem and proximity to Suzhou's Higher Education Center. The city of Suzhou is within an area where much of the world's notebook production takes place.

Like Flextronics, Hon Hai is building an ODM business in notebook PCs. But Hon Hai has chosen a different part of China for a new notebook manufacturing operation. According to published reports, Hon Hai has started construction of a manufacturing center in Chongqing, a city in Sichuan province of Southwestern China. Reportedly, this center will have the capacity to turn out 20 million notebooks a year when it goes on line in 2012. What's more, Hon Hai is said to have 10 projects in mind for its industrial base in Chongqing.

The provider's notebook operation will be located in the same city where **HP**, a Hon Hai customer, has a similar project underway. In October 2008, HP announced plans for a PC manufacturing plant in Chongqing. The 20,000-m<sup>2</sup> HP facility will produce notebook and desktop PCs for customers in China.

What's more, last month **Cisco** signed a memorandum of understand-

ing with the Chongqing municipal government. This collaboration will involve three major areas, one of which is the development of a new telecom manufacturing base in Chongqing to be supported by Cisco.

Hon Hai has also earmarked capital spending for another city in Sichuan province. This month, news services reported that Hon Hai will make a \$1-billion investment to set up a production base in Chengdu, the province's capital. The Chengdu base will concentrate on optoelectronics products, namely LCD TVs, LED backlight modules, LCD modules, and LED packaging and lighting, according to *Digitimes*.

It is interesting that Hon Hai has decided to make major investments in two cities within the same province of Southwestern China. By selecting Southwestern China for new production bases, Hon Hai appears to be engaged in geographic diversification within China. Labor costs in China's interior can be significantly lower than those in coastal regions.

### **Dell To Close Plant**

#### **Will result in more outsourcing**

On Oct. 7, **Dell** announced that it will close its desktop computer plant in Winston-Salem, NC, as part of an ongoing initiative to simplify operations and improve efficiency. The closure is expected to be completed in January 2010, and about 905 employees will be affected.

This move by Dell will result in more business for outsourcing providers, based on a statement Dell made in a federal filing. An online report in *The High Point Enterprise*, a newspaper in North Carolina, quoted a statement from a document submitted to the U. S. Department of Labor in regard to unemployment benefits for the plant's workers. As presented by the newspaper, the statement by Dell reads as follows: "The work [from the plant]

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will be given to third-party providers who operate in Mexico and other countries around the globe.”

In January, Dell announced it would move production for Europe, the Middle East and Africa from Limerick, Ireland, to its Polish operation and manufacturing partners over the next year.

*New business...* During the fiscal quarter ended Oct. 2, Flextronics started producing desktop printers for HP in China in connection with HP's move to consolidate its printer supply chain. Also, Flextronics has begun making LED lighting products in North Carolina for **Cree** (Durham, NC)...Hon Hai will manufacture a tablet PC for **Apple**, Taiwan-based *Digitimes* reported, citing market sources. Also, **Overland Storage** (San Diego, CA) has entered into a manufacturing agreement with Hon Hai, which will initially collaborate with Overland on the manufacture of one product line within the company's portfolio of data protection solutions. Finally, Hon Hai partnered with **Sony** for the U.S. launch of the Sony Reader for e-books, according to *CENS*, another Taiwan-based source. Hon Hai, manufacturer of **Amazon's** Kindle reader, expects to handle 80% of the total demand for e-book readers, *CENS* reported....The Guadalajara, Mexico, operation of **Sanmina-SCI** (San Jose, CA) is responsible for designing and developing a new set-top box for **Dish Mexico** in a record 128 days from concept to production, according to a translation of an October report posted by *Electronicsonline.com*. ...Under a new long-term contract, **Kimball Electronics Group**, or KEG (Jasper, IN), will provide complete system assembly of transport temperature control systems in Nanjing, China, for a division of an existing industrial customer. Annual revenue from the contract is initially estimated at \$5 million, and annual volume is expected

to exceed 25,000 units. KEG is the EMS subsidiary of publicly held **Kimball International**....This month, **Suntron** (Phoenix, AZ) will begin manufacturing sun-tracking skylights in Sugarland, TX, for **Ciralight Global** (Irvine, CA). These skylights use a GPS rotational control system that is solar powered....**Radi Medical Systems**, a **St. Jude Medical** company, has selected **NOTE** (Danderyd, Sweden) as a supplier. The relationship will start with the development and production of a wireless instrument used to measure blood pressure in the coronary artery. This instrument – described as the first of its kind – will be produced at NOTE's Torsby, Sweden, facility....**Clear-View Technologies** (San Jose, CA) has retained **Riverwood Solutions** (Menlo Park, CA), a managed services provider, for sourcing and supply chain management services required for a new system providing real-time inventory measurement and management....**Sikorsky Aircraft** has awarded **LaBarge** (St. Louis, MO) a \$2.4-million contract for continued production of wiring harnesses for the UH-60L Black Hawk helicopter and a \$1.8-million contract for continued production of electronic assemblies used for a filtration system that extends the life of Black Hawk engines. Also, LaBarge has received a \$1.8-million order from **United Space Alliance** to supply complex cables and wiring harnesses for the space shuttle's solid rocket boosters. In addition, LaBarge has secured a \$1.9-million contract from **Raytheon Missile Systems** to continue to provide complex cable harnesses for the Joint Standoff Weapon program, a family of air-to-ground weapons that employ GPS guidance. ...**Alternative Manufacturing, Inc.**, an EMS provider in Winthrop, ME, is now providing third-party logistical services for Canada-based **Kantech Systems**, a longtime customer for whom AMI manufactures security products. For Kantech's starter and

expansion kits, AMI merges products it builds for Kantech with off-the-shelf items that AMI buys from other suppliers and then ships the kits directly to Kantech's end customers....**Trilliant** (Redwood City, CA), a supplier of energy management systems, has renewed its relationship with EMS provider **Varitron Technologies** (St. Hubert, Quebec, Canada), which has manufactured two million smart meters for Trilliant....**Stellartech** (Sunnyvale, CA), a provider of medical design and manufacturing services, and **OrthoMEMs** (Menlo Park, CA), a medical device company focused on biomedical applications of MEMS and wireless technology from the **Cleveland Clinic**, have formed an alliance to design, develop and manufacture a portable reader for wireless communication with a miniature pressure sensor implanted in the spine.

## **Flextronics To Make Medical Deal**

### **Addition to disposables offering**

Flextronics has signed an agreement to acquire **Slomedical S.R.O.**, a Slovakian manufacturer that will expand Flextronics' medical disposables offering. Slomedical produces disposable medical devices ranging from tubing sets to complex devices for minimally invasive surgery. This share purchase is expected to close before the end of the year, pending regulatory clearances. The purchase price was not disclosed.

Upon completion, the acquisition will expand Flextronics' overall capability for medical disposables through Slomedical's low-cost European location in Slovakia and allow Flextronics to significantly advance its disposables strategy throughout Europe, according to a statement from the company.

Founded in 2003, Slomedical operates a 7,500-m<sup>2</sup> factory at Vrábľe near the city of Nitra, according to Slomedical's website.

Slomedical said it needed to partner with a larger organization in order to undertake expansion and support the growing needs of its customers. Flextronics stated that it intends to expand Slomedical's low-cost operations once the deal is done.

Flextronics has also invested in its internal capabilities for medical disposables. The company recently completed a major expansion of its Tijuana, Mexico, campus, which is dedicated to disposables manufacturing. In Tijuana, Flextronics' operations now include vertical integration capabilities of plastic injection molding and plastic extrusion as well as clean-room assembly.

*Medical union...* **Circle Medical Devices** (Los Gatos, CA) and **Texcel Medical** (Springfield, MA) have merged to form **CIRTEC Medical Systems**, billed as a leading provider of comprehensive medical product design and manufacturing solutions. CIRTEC combines Circle Medical's design and development capability with Texcel Medical's development and manufacturing. The combined company has 130 people.

In 2007, Circle Medical joined a medical alliance with **Solectron** and three other companies. The alliance disappeared when Solectron was acquired by Flextronics. "It never really got off the ground – good strategy, poor execution," Jerry Hansen, CIRTEC executive chairman and founder, told *MMI*. Hansen is the former chairman and CEO of Circle Medical.

*EMS company news...* **Foxconn International Holdings**, Hon Hai's majority-owned handset subsidiary, has established a technology service unit that includes a focus on retail, according to *Digitimes*, which cited a Chinese-language newspaper.... **Sanmina-SCI** and **OneChip Photonics** (Ottawa, Canada) have formed a partnership to produce OneChip's fiber-to-

the-premises transceivers based on photonic integrated circuit technology.... **Surface Mount Technology (Holdings) Limited** (Hong Kong) recently announced that its plant in Tangxia, China, received a license to manufacture satellite TV reception equipment. The license will enable SMT to offer EMS for set-top boxes in China as well as to manufacture them for existing customers. SMT considers the set-top box segment a significant new market opportunity for the company.... **CEI Contract Manufacturing Limited** (Singapore) through a subsidiary has formed a new company, **Clean Energy Innovation Pte Ltd**, which will invest in technology and manufacture and distribute products related to the investment. CEI's rationale for this undertaking is to enhance its principal activities as well as promote and provide clean energy for manufacturing services and technology.... **Cirtronic** (Milford, NH) has received national certification as a Women's Business Enterprise by the Women's Business Enterprise National Council (WBENC). There are only three organizations in the U.S. that certify women-owned businesses for corporate contracting purposes. According to Cirtronic, WBENC grants the most respected woman-owned certification that can be achieved.

... **Incap** (Helsinki, Finland) plans to extend its design operations in India, where it currently has a design team of 15 people. The aim is to double that number during 2010. Incap's designers in Bangalore also serve European and U.S. customers. Typical customer products designed in India are UPS products, inverters and power supplies.... **Cymbet** (Elk River, MN), which sells a thin-film battery system, has named **Winland Electronics** (Mankato, MN) a Cymbet Premier Design Partner.... NOTE's largest customer in its telecom segment has decided to stop producing part of its line, and further downsizing will result

at NOTE's plant in Skellefteå, Sweden, where about 40 people work. The provider will record termination expenses and write-downs of some SEK 40 million (\$5.8 million), while a settlement with the customer will give NOTE additional liquidity of about SEK 40 million.

*Alliances...* **Zurvahn** (Coconut Creek, FL) and **Celestica** (Toronto, Canada) have entered into a strategic alliance, whereby OEMs can do local NPI and low-volume, high-mix manufacturing with Zurvahn and then shift into high-volume manufacturing with Celestica's global network.... **Composiflex**, a supplier of engineered composite products based in Erie, PA, and **Sunburst Electronics**, an EMS provider also in Erie, have formed a partnership to provide a single source for integration of a composite enclosure with an electronic assembly. ... **Sunstone Circuits** (Mulino, OR), a PCB fabricator, is offering PCB prototypes plus assembly through a partnership with **Screaming Circuits** (Canby, OR), which will handle the assembly work. Screaming Circuits, a division of **MEC** (Milwaukee Electronics Companies), assembles prototype and short-run PCBs.

### *New Player in Tucson*

**Tucson Assembly Solutions**, a new company, recently got started as an EMS provider by opening a 17,000-ft<sup>2</sup> facility in Tucson, AZ. The new provider made its EMS debut with the support of its strategic partner, **Tucson Embedded Systems** (TES), which is a Tucson-based firm that specializes in systems/software engineering for safety critical systems. TES holds a majority interest in Tucson Assembly.

TES entered this partnership because "now they can be fully integrated where they can go from a concept to a full production unit," explained

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Mike Sherwood, Tucson Assembly's general manager. Tucson Assembly and TES want to utilize the synergy of the two companies to win military business.

But Tucson Assembly also sees an opportunity to attract customers looking for a local supplier of PCBA. One of the provider's selling points is "myself and most of my staff have an engineering R&D background," said Sherwood. What's more, Tucson Assembly can deliver working prototypes in two weeks to local customers who typically must wait eight weeks. For example, Tucson Assembly has built prototypes for local companies such as **Rain Bird**, an irrigation products supplier, and **Otis Elevator**. Sherwood is looking to fill his second and third shifts with constant runners, while keeping the day shift open to do prototypes for companies in Tucson.

Tucson Assembly started out with one SMT line and is working on adding a second line. The ISO 9001-certified provider is up to seven employees and three temporaries.

#### *EMS business to stand alone...*

**Kenmec Mechanical Engineering** (Taipei, Taiwan), a supplier of automation equipment for TFT panel production and other such uses, intends to spin off its EMS unit in middle of next year, *Digitimes* reported.

## **Elcoteq Shifts to New Investor**

**Elcoteq** (Luxembourg) has chosen a new strategic investor, India's **Videocon Industries**, after negotiations ended with **Shenzhen Kaifa Technology**, the Chinese company originally selected to make an equity investment in Elcoteq. Elcoteq is seeking an equity investment in order to strengthen its balance sheet (June, p. 7, July, p. 6).

The EMS provider has signed a nonbinding letter of intent with Videocon, enabling the two parties to negoti-

ate a definitive agreement. Reaching a definitive agreement is subject to due diligence and restructuring of senior and subordinate debt. Elcoteq told *Reuters* that Videocon's equity investment in Elcoteq will be around the same amount that Kaifa was to put in. Kaifa's investment was to be 50 million euros (July, p. 6). Subject to regulatory, statutory and corporate approvals, the transaction is expected to close by the end of the year.

Elcoteq has intended to restructure its debt, with permission of creditors, as part of its effort to strengthen its balance sheet. When the company announced it was negotiating with Kaifa, plans for debt restructuring included a partial debt-to-equity swap (July, p. 6). This restructuring will require, among other things, measures to be taken with respect to the company's debentures. In September, holders of all but one of Elcoteq's subordinated notes agreed to amend the terms of the notes to permit loan restructuring. This month, Elcoteq reported that its financial adviser will propose that debenture holders agree to sell the Elcoteq debentures for 25% of nominal value plus accrued interest. Under Elcoteq's plan, a potential investor would buy the debentures and possibly convert them to shares in Elcoteq.

Negotiations regarding debt restructuring also include Videocon.

Videocon is a global conglomerate with interests in consumer electronics, home appliances and durables, color picture tubes, tube glass, oil and gas, and telecom and media.

According to Elcoteq, the proposed transaction with Videocon also offers clear business synergies.

*Some financial news...* **Onex** and certain of its affiliates have completed a secondary offering of 11 million subordinate voting shares of Celestica. Onex and its affiliates now own 100% of the multiple voting shares of Celestica and about 0.8% of the subordinate

voting shares of the company. As a result, Onex and its affiliates have about 69% voting control of Celestica, but only about an 8% economic interest in the company. Also, Celestica will redeem all of its 7.875% senior subordinated notes due 2011, with a total face value of \$339.4 million. ...Likewise, Sanmina-SCI has called for redemption of all of its senior floating rate notes due 2010, totaling \$175.7 million in principal value.

*People on the move...* Bob Eulau has joined **Sanmina-SCI** (San Jose, CA) as executive VP and CFO. Eulau comes with over 20 years of financial and operational management experience, most recently as executive VP, COO and CFO of privately owned **Allen Technology**... **Suntron** (Phoenix, AZ) has named Ed Wheeler its new president and CEO to replace Paul Singh, who has resigned. Wheeler will also join Suntron's board. In July, the company brought in Wheeler, a former **Honeywell** executive, as COO... **Plexus** (Neenah, WI) has hired Jim DiBurro as VP, industrial commercial market sector. DiBurro's career in electronics manufacturing spans 20 years, 11 of which were spent at Celestica, where his last position was VP of sales and marketing for its industrial and consumer sectors. Before joining Plexus, DiBurro worked as a consultant... **AsteelFlash Group** (Paris, France) has appointed Vince Pradia global senior VP of North America and Asia materials/supply chain management. Pradia has over 30 years of materials, logistics and supply chain experience, with his last nine years spent at Flextronics as its worldwide VP of materials... Gary Allen has been named managing director for the Rogerstone, South Wales and Aylesbury, England, plants of **TT electronics - integrated manufacturing services**, a wholly owned subsidiary of publicly held TT electronics (Weybridge, UK). Allen's experience in-

# News

cludes over 18 years at **Thales Avionics Limited UK**. . . . Kam Mahdi, co-founder of EMS provider **Probe Manufacturing** (Lake Forest, CA), has returned to the company as CEO, a position he held from 1996 until October 2005. . . . The **EN Electronic Network group** (Limburg, Germany), a Top-50 EMS provider, has announced the resignations of Ernst Gockel, chief sales officer and a board member; Thomas Hahn, GM of the group's operation in Bad Hersfeld, Germany; and Markus Dillmann, head of strategic purchasing. Chairman and CEO Klaus Kroesen is taking over the responsibilities of both Gockel and Hahn. These changes have resulted from the group's realignment effort. They follow the resignation of Joachim Gödertz, the group's former chairman and CEO. . . . **Catalyst Manufacturing Services** (Endicott, NY) has promoted Hector Rodriguez from the staff of Catalyst's Mexico operation to corporate director of quality assurance. Certified as a master black belt in Lean – Six Sigma, Rodriguez has worked for a number of tier-one contract manufacturers. . . . Tom Collett has brought his 35 years of sales engineering experience to **Hansatech EMS** (Poole, UK), where he will serve as new business development manager. Previously, Collett worked at **Molex** as industry specialist and **AVX** as ap-

plications engineer for Northern Europe.

*Board changes...* Effective Sept. 1, David Stout, a retired pharmaceutical executive, joined the board of directors of **Jabil Circuit** (St. Petersburg, FL). Stout was most recently president of pharmaceutical operations for **GlaxoSmithKline Pharmaceuticals**. A seat opened up on the board when Laurence Grafstein resigned due to a change in employment. . . . Sanmina-SCI has added Jean Manas to its board. Before starting **Foros Group**, a financial services firm, Manas was a senior executive at **Deutsche Bank** and before that **Goldman Sachs**. . . . As of Sept. 18, John Chen became chairman of the board of **SigmaTron International** (Elk Grove Village, IL). Chen, who has been a member of the board since 1994, assumed this role with the retirement of the previous chairman, Franklin Sove. . . . **Sparton** (Schaumburg, IL) has decided to reduce the size of its board from 11 members to nine as two directors are ending their service on the board this month.

*Closure...* **Benchmark Electronics** (Angleton, TX) will close its plant in Beaverton, OR, according to reports by local media.

*Certifications...* Sanmina-SCI's

Huntsville, AL, facility has been certified by the National Aerospace and Defense Contract Accreditation Program. . . . The Vasteras, Sweden, plant of **Enics** (Baden, Switzerland) has earned certification to the IRIS standard, used by the railroad industry. . . . **Logic** (Minneapolis, MN), a product development and manufacturing company, has received ISO 13485 certification for design at its product development centers in Minneapolis and Boston. The company's manufacturing group was certified to the medical industry standard in 2005.

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