

TESTIMONY PRESENTED BEFORE THE COMMERCE COMMITTEE

March 6, 2008

H.B. No. 5584 - 'AN ACT INCREASING FUNDING FOR THE INCUMBENT WORKER TRAINING PROGRAM'

Good afternoon Chairman LeBeau, Chairman Berger, and distinguished members of the committee. My name is Craig Hoekenga and I am the CEO and founder of Microboard Processing, Inc. in Seymour, CT. We employ 150 people in the hi-tech manufacturing industry. Our revenue last year was \$30MM and we are celebrating our 25th anniversary next week on March 14th. We are currently in our second year of implementing Lean manufacturing. I am here today to testify in support of Bill Number 5584.

MPI anticipates significant growth over the next few years. The Electronics Manufacturing industry's most demanding customers, such as industrial, medical and the U.S. military, trust us to manufacture their mission-critical electronic assemblies. MPI has invested significant amounts of money in new, state of the art manufacturing equipment over the last five years.

I have spent one month each year for the past 4 ½ years in China, Taiwan and southeast Asia investigating what is necessary for MPI to do to remain competitive in the global manufacturing arena.

Five years ago, we were convinced that 70% of what we manufactured would go to lower wage, off-shore markets. We now believe that less than 10% of this business will move to Asia. The following changes in the manufacturing paradigm will allow us to maintain this business in the U.S. (1) The weakness of the U.S. dollar helps to lower the cost of manufacturing in the U.S. (2) The actual cost of doing business off-shore is much higher than originally anticipated and a number of companies are now in the process of transitioning their business back to a U.S. manufacturing base (some high volume products will continue to be manufactured off-shore.) Please review the attached articles (1 & 2) included in this is our MPI news letter including a number of articles supporting the theory that U.S. manufacturing has the opportunity to successfully grow in the U.S. over the next few years and one article describing the state of US manufacturing compared to China & the rest of the world. (3) Through The Workplace's incumbent worker training program (federal & state

funding) that we have received over the last few years, MPI has been able to develop Lean manufacturing methods and cross-training of all of our hourly employees. We believe that Lean manufacturing and cross-training will allow us to substantially increase our productivity and we will be able to significantly increase our employee's salaries. One example, Lean manufacturing has allowed us to reduce a defibullator manufacturing area from 2200 square feet to 490 square feet, and we have re-allocated 5 of the 11 employees in this area to new business initiatives while maintaining the same productivity.

I believe that Connecticut should expand the amount of funds it makes available for this type of training, which would allow Connecticut manufacturers to be more competitive world-wide & in the U.S. MPI has had offers from a number of different states to re-locate and after reviewing the cost of doing business in Connecticut versus these other states, unfortunately Connecticut ranked the most expensive. MPI is committed to stay in Connecticut because of our loyalty to our employee base, but we certainly could use any available state funding that will help us to compete in the world-wide manufacturing arena. It seems to me it would be easier to keep high tech manufacturing companies by supporting them with training dollars then offer incentives to out of state companies to relocate to Connecticut. I would like to extend an invitation to all committee members to visit our manufacturing facility. You will see a state of the art manufacturing facility with a dedicated Connecticut employee base. MPI is convinced that not only can we compete and win new business from within the U.S. but also world-wide. During these trying economic times, please consider supporting Connecticut manufacturers with as much funding as possible.

Attached is another article (3) that will be running in major business magazines in the next few weeks outlining how over the last few years how MPI, Avnet (\$15 billion parts distributor), The Workplace and the Connecticut Department of Labor have worked together to lower costs and maintain business in Connecticut.

ARTICLE 1

MPI March Monthly News Letter Written by:

Jim DiBurro – Executive Vice President of Sales and Chief Customer Officer

Dear Customers, Colleagues, and Friends:

Yet another month has passed, and we're getting close to selecting the major party finalists, one of whom will become the next leader of the free world. As I'd alluded to last month, all indications suggest that our next President will likely assume office during an economic downturn, if not a full blown recession. Although economic forecasts vary in terms of the impact on high-tech industries, my prediction, based on discussions with customers and suppliers, is that for high tech 2008 will be a year of slow growth overall, but growth nonetheless. I'm pleased to report that in our specific case, MPI is expecting substantial growth in 2008 resulting from increased sales focus and our ongoing investments in Lean Manufacturing processes that make us ever-more efficient and cost-competitive. All the above macroeconomic forecasts aside, our growth prospects have never been better.

Switching for a moment to one of my favorite topics, (US Manufacturing competitiveness), some surprising data came across my laptop a few days ago that I thought I'd share with you. (See attached .pdf file) In terms of total global manufacturing, to my surprise the US remains the #1 global manufacturer by a sizable percentage, out producing China nearly 3X in total factory output. As I continue to speak with a variety of executives at electronics OEMs there is a growing consensus that low-cost region manufacturing, (Asia, India, Eastern Europe), will continue to fill a need for many products, particularly those that are Consumer oriented or are destined for consumption in the low cost regions, (e.g. cell phones, computers, etc).

That said, those same executives increasingly tell me that they're investigating domestic sources to support their product manufacturing needs as the cost saving equation has dramatically shifted with the weakened US dollar, widespread Asian inflation, and higher energy and transportation costs. (See the below link to a recent WSJ article on this topic). It will be interesting to see whether this issue of preserving and expanding America's manufacturing base is raised by any of the remaining Presidential contenders.

As always, I look forward to your thoughts and feedback on these topics, and sincerely thank you for your continued business and friendship.

Announcement: Next month on March 14th, MPI commemorates 25 years of successful electronics manufacturing in New England with an open house celebration that will be held that afternoon,(12:30P to 3:30P), at our corporate

headquarters facility., The event will be attended by a wide range of distinguished guests, including Customer Executives, Press Representatives, and Federal, State, and Local government officials and all on copy are invited to attend and celebrate this momentous occasion. If you're interested in attending, please contact me by reply email for further information.

Many Factories in China's South Lose Their Edge (Hon Hai Referenced)
<http://online.wsj.com/article/SB120364402025884745.html>

Low-cost country sourcing: Around the world in 5 (not so) easy steps
<http://www.purchasing.com/article/CA6530062.html?industryid=48372>

Hon Hai Acquires Sanmina SCI PC Unit
<http://www.emsnow.com/npps/story.cfm?id=31811&pg=story>

Lego takes back Czech manufacturing from Flextronics
<http://www.my-esm.com/manufacturingchain/showArticle.jhtml?articleID=206800745>

Motorola is Hung Up by Handsets
<http://online.wsj.com/article/SB120364646931784939.html>

Hon Hai's Earnings Estimated at \$2.6B for 2007
<http://www.emsnow.com/npps/story.cfm?id=31700&pg=story>

Zebra Technologies to Implement Global Supply Chain Strategy
<http://biz.yahoo.com/prnews/080206/aqw154.html?.v=25>

Electronic component orders dip, but 2008 outlook remains bright
<http://www.emsnow.com/npps/story.cfm?id=31754&pg=story>

The Crazy World of Outsourcing
<http://blogs.wsj.com/biztech/2008/02/25/the-crazy-world-of-outsourcing/>

Wii to trump PS3, Xbox 360 as leading video-game console
<http://www.edn.com/article/CA6532510.html>

Quotations of the Month:

"Politics, as a practice, whatever its professions, has always been the systematic organization of hatreds."

--Henry Adams

"Being in politics is like being a football coach. You have to be smart enough to understand the game, and dumb enough to think it's important."

--Eugene McCarthy

"Slight not what's near through aiming at what's far."

- Euripides

ARTICLE 2

UPFRONT INDUSTRY DATA

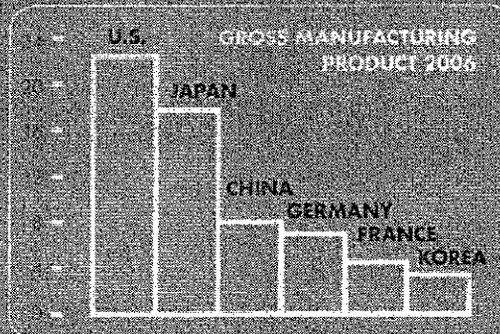
COMPILED BY FRANK MATSIO, MANAGER, PRESIDENT FOR INTERNATIONAL ECONOMIC AFFAIRS

U.S. Manufacturing Is Still No. 1

But growth is not keeping pace with productivity, and employment is falling.

A lot of people think the American manufacturing base has been decimated, but in fact the U.S. manufacturing industry is still the largest in the world. U.S. manufacturers produce considerably more than No. 2 Japan and twice as much as No. 3 China. Despite the U.S. manufacturing industry's overall rank as the world's largest, its economy—and, crucially, U.S. manufacturing industries—are contracting, overall U.S. manufacturing production is at an all-time high. But growth in the last few years has not kept pace with productivity increases, and employment has been falling.

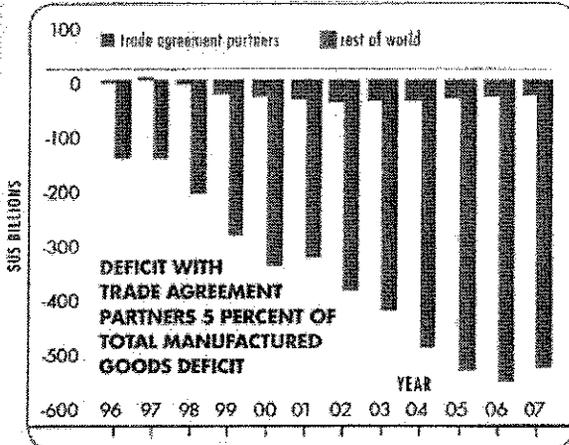
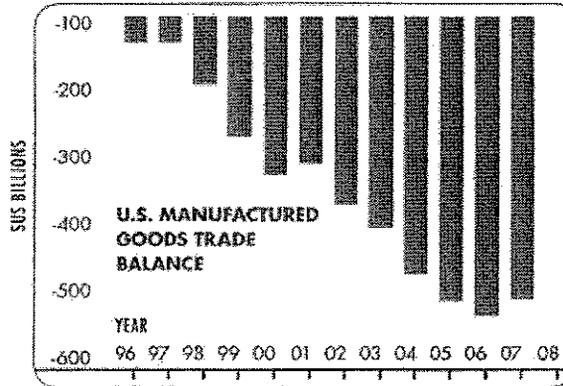
CHANGING OF BUSINESS PARTNERSHIP



Source: U.S. Department of Commerce, Bureau of Economic Analysis

HUGE TRADE DEFICIT:

Global competition has put U.S. manufacturing under enormous pressure. Overall, the U.S. trade deficit in manufactured goods is more than \$500 billion. While the deficit has started to shrink because the falling dollar has made U.S. goods more competitive, it is still huge and is having an impact on a lot of manufacturing sectors.



TRADE AGREEMENTS' BRIGHT SPOT:

U.S. free trade agreements, such as NAFTA, CAFTA and others, are widely assumed to be the cause of the trade deficit. In fact, the manufactured goods deficit with free trade partners hasn't grown in seven years and is only 5 percent of the total. Almost all of the U.S. trade deficit in manufactured goods is with countries that do not have free trade agreements with the United States. Trade analysts say that is because free trade partners eliminate their trade barriers to U.S.-made products while other countries do not, which is why it is easier for U.S. companies to export to trade agreement partners.

CHINA DOMINATES THE MANUFACTURED GOODS DEFICIT:

At about \$270 billion in 2007, the manufactured goods deficit with China accounts for more than half of the U.S. global deficit in manufactured goods. China is a member of the World Trade Organization, but the United States does not have a free trade agreement with China and gives China no special trade privileges. The U.S. government points to an undervalued currency, failure to protect intellectual property, subsidies and other trade distortions as major causes of the bilateral deficit.

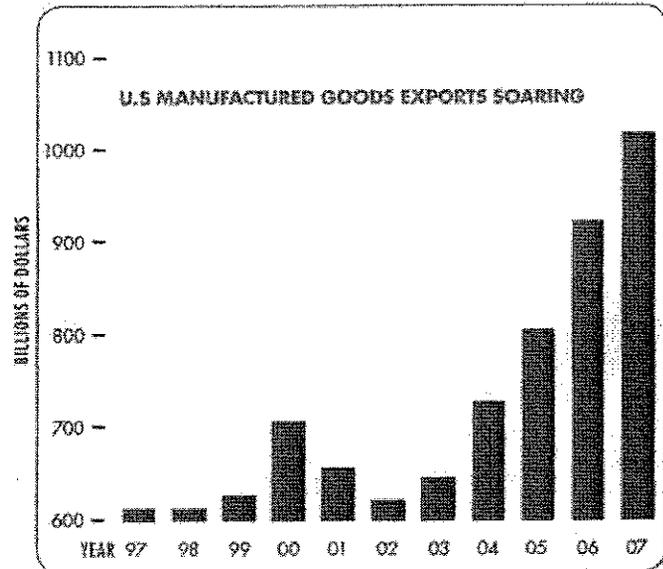


CHINA ACCOUNTS FOR MORE THAN HALF THE U.S. DEFICIT IN MANUFACTURED GOODS TRADE

UPFRONT INDUSTRY DATA

EXPORTS BOOSTING U.S. ECONOMY:

Driven largely by the shift in the value of the dollar relative to other currencies since 2002, U.S. exports of manufactured goods have been soaring — up 40 percent in the last three years. U.S. export growth has been so strong that it has offset the effect of the housing slump in 2007 and has kept U.S. economic growth in the black. Trade experts say that continued export growth coupled with more effort to address trade distortions can speed the reduction in the U.S. trade deficit.



ARTICLE 3

Avnet and MPI: A Partnership built on Faith

By Craig Hoekenga

CEO, Microboard Processing Inc. (MPI)

In today's global economy, it's almost a given that electronic products are primarily manufactured in Asia, then consumed in the US and Europe. As we gear up for our 25th anniversary celebration, MPI is a company that is bucking that trend.

Microboard Processing Inc. (MPI) an electronics manufacturer, is located in Seymour CT – your typical New England mill town that has seen its share of industries rise and fall. We started in 1983 as a small family-owned electronics repair services business. Since then, MPI has evolved to become the largest electronics manufacturing services (EMS) provider in Connecticut – and one of the most technically advanced privately held EMS companies in North America.

It wasn't always easy. In the early days, like many young companies, MPI was strapped for cash to fund growth, particularly the funds needed to invest in inventory on customers' behalf. Bank lending was costly then (if available at all), so MPI turned to electronics distributors for assistance. It was a valuable early

lesson for us: choosing partners who had faith in us, and in whom we could have faith. Avnet Inc. in particular saw the potential that existed and was the first to extend MPI a line of credit and payment terms that allowed MPI to invest in materials to engage with their customers on a turnkey basis.

Avnet's faith in MPI turned out to be well placed as we made it a policy of always paying Avnet well within those terms, making us an exception to the rule in an industry known for stretching out payments to suppliers. In addition to being our "bank," Avnet was instrumental in helping MPI grow our customer base. With Avnet's help, MPI has grown 10 times in revenues over the last 15 years. Avnet District Manager Robert Bartoletti and his team referred a number of promising companies and projects to MPI knowing that they would be in good hands. In a recent conversation Bartoletti said, "We felt very comfortable recommending MPI based on their excellent track record of satisfying customers and their competitive pricing as compared to offshore alternatives. Keeping manufacturing and customer relationships local benefits everybody in the long run."

That faith has been justified. Fast forward to the year 2002: the electronics manufacturing industry (EMS) was undergoing dramatic changes, as a wave of offshoring began to sweep across the electronics industry. Major EMS providers were merging or disappearing, and between 2002 and 2006 many providers in North America and Europe opened facilities in low cost regions such as China, Malaysia, Indonesia, and Thailand, while closing facilities in North America to meet OEM customers' cost reduction demands. Many smaller EMS providers, who have historically been some of distribution's most loyal customers, have gone out of business entirely, leaving a void in the supply chain. But we're still here.

What's kept us here? We've also learned to adapt. The electronics industry has seen substantial consolidation and many industry experts recognize that the pendulum may have swung too far, too fast, in favor of offshore manufacturing. Innovative EMS providers such as MPI have invested in state-of-the-art capital equipment and Lean manufacturing practices to dramatically improve their efficiencies, enabling them to better compete with Asia sources on a total cost basis.

Here, we have also been very fortunate in finding the right partners. The Workplace, Inc., a southwestern Connecticut regional workplace development board run by Joe Carbone and the Connecticut Department of Labor have supplied MPI with federal and state funding that has allowed us to implement Lean manufacturing processes & cross training across our business. That, in turn, has allowed us to significantly reduce operating costs – and guarantee that MPI can be price competitive in the global EMS market.

Our investments in the latest manufacturing and test technologies, Lean manufacturing practices, and professional staff are enabling us to grow in a

market many of the largest EMS providers have abandoned. MPI continues to create manufacturing jobs in the US, and Avnet continues to be our preferred distribution partner. Avnet had faith in us when we needed it, and I have faith that they are the supply partner best suited to helping us remain competitive. I look forward to the next 25 years.

