

SOLECTRON CORP  
Form S-4  
September 10, 2001  
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As filed with the Securities and Exchange Commission on September 10, 2001

Registration No. 333-

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**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**FORM S-4**  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**SOLECTRON CORPORATION**

(Exact name of Registrant as specified in its charter)

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DELAWARE 3670 94-2447045 (State or  
other jurisdiction of  
incorporation or organization) (Primary  
Standard Industrial  
Classification Code Number) (I.R.S.  
Employer  
Identification Number)

777 Gibraltar Drive

Milpitas, California 95035  
(408) 957-8500

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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**Kiran Patel**  
Senior Vice President and  
Chief Financial Officer  
Solectron Corporation  
777 Gibraltar Drive  
Milpitas, California 95035  
(408) 957-8500

(Name, address, including zip code, and telephone number, including area code, of agent for service)

---

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**Approximate date of commencement of proposed sale to the public:** Upon consummation of the arrangement described herein.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement number for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered(2)	Proposed Maximum Offering Price Per Share(3)	Proposed Maximum Aggregate Offering Price(3)	Amount of Registration Fee
Common Stock, par value \$0.001 per share(1)	151,479,449	n/a	\$1,723,672,128	\$430,919

- (1) Each share of common stock includes one preferred share purchase right. No separate consideration will be received for the preferred share purchase rights.
- (2) Based upon the estimated maximum number of shares of common stock, par value \$0.001 per share, of the Registrant, including shares of common stock of the Registrant issuable upon exchange of exchangeable shares of Solectron Global Services Canada Inc. (an indirect wholly-owned Canadian subsidiary of Solectron) that may be issued pursuant to the arrangement, based on the exchange ratio applicable in the arrangement (1.755 shares of the Registrant's common stock for each common share of C-MAC Industries Inc. ( C-MAC common share )),
- (3) Estimated solely for purposes of calculating the registration fee required by the Securities Act of 1933, as amended, and computed pursuant to Rules 457(f) and (c) under the Securities Act based on the product of (i) \$19.97, the average of the high and low per share prices of C-MAC common shares as reported on the New York Stock Exchange on September 6, 2001 and (ii) the maximum number of C-MAC common shares to be acquired by the Registrant.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**[LETTERHEAD OF SOLECTRON]**

**, 2001**

Dear Stockholders:

You are cordially invited to attend the special meeting of stockholders of Solelectron Corporation to be held at \_\_, local time, on \_\_ at Solelectron's corporate offices located at 847 Gibraltar Drive, Milpitas, California 95035. At the special meeting you will be asked to consider and vote upon a proposal to issue up to 151,479,449 shares of Solelectron common stock in connection with a combination with C-MAC Industries Inc. Approximately 151,479,449 shares of Solelectron common stock will be issued (or reserved for issuance on exchange of exchangeable shares of a Canadian subsidiary of Solelectron) in exchange for the common shares of C-MAC pursuant to the terms of a combination agreement dated as of August 8, 2001, as amended September 7, 2001 (referred to in this letter and the document accompanying this letter as the combination agreement) and the terms of a plan of arrangement providing for an arrangement involving, among others, C-MAC and its shareholders under Section 192 of the *Canada Business Corporations Act*.

If the issuance of Solelectron common stock is approved by the requisite holders of Solelectron common stock, the C-MAC arrangement resolution is approved by the requisite holders of C-MAC common shares and options, and the arrangement is subsequently completed, each outstanding C-MAC common share will be exchanged for (1) 1.755 shares of Solelectron common stock, or (2) 1.755 exchangeable shares (and certain ancillary rights) of a Canadian subsidiary of Solelectron (referred to in the document accompanying this letter as Exchangeco), that are exchangeable on a one-for-one basis for shares of Solelectron common stock, or (3) a combination thereof. Only holders of C-MAC common shares who are Canadian residents will be entitled to receive exchangeable shares.

Before we can complete the arrangement, the holders of a majority of the votes cast at a special meeting of Solelectron stockholders must vote in favor of the issuance of Solelectron common stock pursuant to the combination agreement and the plan of arrangement. Each share of Solelectron common stock is entitled to one vote on all matters to come before the special meeting. Only stockholders who hold shares of Solelectron common stock at the close of business on \_\_, 2001 will be entitled to vote at the special meeting. The Solelectron common stock constitutes the only class of Solelectron's capital stock entitled to vote at the special meeting.

**Your board of directors has approved the issuance of Solelectron common stock pursuant to the combination agreement and the plan of arrangement and recommends that you vote for approval of the share issuance.** Merrill Lynch, Pierce, Fenner & Smith Incorporated provided to the Solelectron board of directors a written opinion dated August 8, 2001 to the effect that, as of that date, the exchange ratio set forth in the original combination agreement dated August 8, 2001 was fair, from a financial point of view, to Solelectron. Merrill Lynch's written opinion is attached as Annex G to this document, and you should read it carefully in its entirety.

Following this letter you will find a formal notice of the special meeting and a document providing you with detailed information concerning the combination agreement, the plan of arrangement, C-MAC and Solelectron. Please give all of the information contained in this document your careful attention. **In particular, you should carefully consider the discussion in the section of this document entitled "Risk Factors"**. You may also obtain more information about Solelectron from documents we have filed with the United States Securities and Exchange Commission and about C-MAC from documents they have filed with the Securities and Exchange Commission and with securities regulatory authorities in Canada. If the requisite holders of Solelectron common stock approve the issuance and the requisite holders of C-MAC common shares and C-MAC options approve the C-MAC arrangement resolution, it is expected that completion of the arrangement will occur soon after the special meeting and after all of the other conditions to completion of the arrangement are satisfied or are waived.

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To vote your shares, you may use the enclosed proxy card, use our telephone or Internet voting procedures or attend the special meeting that will be held for this important vote.

Thank you for your cooperation.

Sincerely,

Ko Nishimura  
Chairman, President and Chief Executive Officer

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**SOLECTRON CORPORATION**

777 Gibraltar Drive  
Milpitas, California 95035  
(408) 957-8500

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
TO BE HELD ON \_\_, 2001**

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To the Stockholders of Solectron Corporation:

A special meeting of stockholders of Solectron Corporation will be held on \_\_, 2001, at \_\_, local time, at Solectron's corporate offices at 847 Gibraltar Drive, Milpitas, California 95035, for the following purposes:

1. To consider and vote on a proposal to issue or reserve for issuance up to \_\_ shares of Solectron common stock pursuant to the terms of a combination agreement dated as of August 8, 2001 as amended September 7, 2001, which are attached as Annexes A-1 and A-2 to this document, and the terms of a plan of arrangement providing for an arrangement involving C-MAC Industries Inc. under Section 192 of the *Canada Business Corporations Act*, a form of which as filed with the Superior Court of Justice (Québec) which is attached as Annex B to this document.
2. To transact other business that may properly come before the special meeting and any adjournment or postponement of the special meeting.

All stockholders are invited to attend the special meeting. Stockholders of record at the close of business on \_\_, 2001, the record date fixed by the board of directors, are entitled to notice of and to vote at the special meeting or any adjournment or postponement thereof. Holders of common stock as of the record date will have the right to vote on the above proposals. Approval of the issuance of shares of Solectron common stock requires the affirmative vote of a majority of the votes cast at a special meeting of Solectron stockholders at which a quorum is present.

**Your vote is important. Whether or not you plan to attend the special meeting, you are urged to complete, date, sign and return the enclosed proxy in the accompanying envelope or vote via telephone or the Internet in accordance with the instructions included with the proxy card. A prompt response will greatly facilitate arrangements for the special meeting and your cooperation will be appreciated. You may revoke your proxy in the manner described in this document before it has been voted at the special meeting. Stockholders who attend the special meeting may vote their stock personally even though they have sent their proxies.**

**BY ORDER OF THE BOARD OF DIRECTORS**

Susan S. Wang  
*Senior Vice President and Corporate Secretary*

Milpitas, California  
\_\_, 2001

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[LETTERHEAD OF C-MAC]

\_\_\_\_\_, 2001

Dear C-MAC Securityholder:

The C-MAC board of directors cordially invites you to attend a special meeting of securityholders of C-MAC Industries Inc. to be held at \_\_\_\_\_ a.m. (Montreal time) on \_\_\_\_\_, 2001 at \_\_\_\_\_, Montreal, Québec.

On August 8, 2001, C-MAC entered into a combination agreement with Solectron Corporation to combine the two companies. An amendment to the combination agreement was executed on September 7, 2001. The board of directors regards the proposed combination with Solectron as an event of singular importance to C-MAC. The combination will create a diversified provider of integrated electronic manufacturing solutions. We believe that the combination presents the opportunity to combine complementary products and technologies and to create the largest, most complete electronic manufacturing services provider with the ability to provide customers with end-to-end solutions, including fully-integrated systems.

At the meeting, you will be asked to consider and approve a plan of arrangement pursuant to which C-MAC will become a subsidiary of Solectron. Under the arrangement, the holders of common shares of C-MAC will receive, as consideration for each C-MAC common share held, subject to certain conditions:

1.755 shares of Solectron common stock; or

1.755 exchangeable shares of a Canadian subsidiary of Solectron (referred to in the documents accompanying this letter as Exchangeco), along with certain ancillary rights, that are exchangeable on a one-for-one basis for shares of Solectron common stock; or

a combination of shares of Solectron common stock and exchangeable shares (and certain ancillary rights).

Only C-MAC shareholders who are Canadian residents holding C-MAC common shares in their own names or who hold C-MAC common shares on behalf of Canadian residents (collectively referred to herein as Canadian resident C-MAC shareholders) are entitled to receive exchangeable shares. Each exchangeable share (together with ancillary rights) will entitle its holder to dividends and other rights that are substantially economically equivalent to those of a holder of a share of Solectron common stock. Holders of exchangeable shares will also have the right to vote at meetings of stockholders of Solectron through a voting trust arrangement. Exchangeable shares will be exchangeable at the option of the holder at any time, on a one-for-one basis, for shares of Solectron common stock. By completing the tax election package described in the accompanying C-MAC Management Information Circular and Solectron Proxy Statement/ Prospectus, Canadian resident C-MAC shareholders who are otherwise eligible and who exchange C-MAC common shares for exchangeable shares (and ancillary rights) will be able to obtain a full or partial tax deferral on any accrued capital gain on those shares for Canadian federal income tax purposes.

Under the arrangement, each C-MAC option which remains unexercised on the effective date of the arrangement will be exchanged for an option to purchase a number of shares of Solectron common stock based on the exchange ratio applicable to C-MAC common shares and the exercise price will be adjusted according to the same exchange ratio.

For the arrangement to proceed, it must be approved by not less than two-thirds of the votes cast at the special meeting by holders of C-MAC common shares and options to purchase C-MAC common shares, voting together as a single class. At the special meeting, C-MAC shareholders will have one vote for each C-MAC common share and C-MAC optionholders will have one vote for each C-MAC common share represented by their options. The arrangement is subject to approval of the Superior Court of Justice (Québec) and is also conditional upon the approval of the issuance of shares of Solectron common stock by Solectron stockholders.

**The board of directors has considered the proposed combination with Solectron at length. The board of directors is of the view that the terms of the combination agreement, as amended, and the arrangement are fair to C-MAC shareholders and in the best interests of C-MAC and its shareholders. The board of**

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**directors has unanimously approved the combination agreement, as amended, and the arrangement and recommends that C-MAC securityholders vote FOR the resolution approving the arrangement.**

Included with this letter is the Notice of Special Meeting, the C-MAC Management Information Circular and Solectron Proxy Statement/ Prospectus, a form of proxy for C-MAC shareholders, a form of proxy for C-MAC optionholders, and a letter of transmittal and election form for C-MAC shareholders and a letter of transmittal and election form for C-MAC optionholders, all relating to the C-MAC special meeting. The accompanying circular includes a description of the arrangement and of the businesses of C-MAC and Solectron and related historical and pro forma financial information, a discussion of certain tax matters and information regarding the fairness opinion received by C-MAC from Banc of America Securities LLC, C-MAC's financial advisor. A summary of certain of the information in the circular concerning the arrangement begins on page \_\_\_ of the circular. We urge you to consider carefully all of the information in the circular. In particular, you should give the section entitled "Risk Factors" your careful attention. If you require assistance, please consult your financial, legal or other professional advisors.

It is important that you be represented at the C-MAC special meeting. Whether or not you are able to attend the C-MAC special meeting in person, please complete, sign and date the enclosed form of proxy for C-MAC shareholders or the form of proxy for C-MAC optionholders, as appropriate, and return it in the envelope provided as soon as possible. Completing and returning the enclosed appropriate form of proxy will not limit your right to vote in person if you wish to attend the C-MAC special meeting and vote personally.

In connection with the arrangement, Canadian resident C-MAC shareholders will have the option of receiving exchangeable shares (and certain ancillary rights) for some or all of their C-MAC common shares as long as they properly complete the appropriate letter of transmittal and election form and ensure it is received by General Trust of Canada prior to 5:00 p.m. (Montreal time) on \_\_\_\_\_, 2001 (the election deadline) at its Montreal or Toronto office. Only Canadian resident C-MAC shareholders are entitled to receive exchangeable shares. C-MAC shareholders who do not properly complete their letter of transmittal and election form prior to the election deadline or who are not Canadian resident C-MAC shareholders will receive shares of Solectron common stock for their C-MAC common shares if the arrangement is completed.

C-MAC shareholders will not receive share certificates representing shares of Solectron common stock or exchangeable shares until they have returned their letter of transmittal and election form and their C-MAC share certificates to General Trust of Canada. Options to purchase C-MAC common shares will continue to be evidenced by the agreements made by C-MAC with its optionholders. Please read the instructions in the letters of transmittal and election forms carefully.

On behalf of C-MAC, I would like to thank all C-MAC securityholders for their ongoing support as we prepare to take part in this important event in the history of C-MAC. We are committed to a successful combination with Solectron and believe that the combined company will be uniquely positioned to capitalize on worldwide opportunities and to extend its rapidly growing product ranges and geographical reach.

Yours very truly,

---

Dennis Wood  
Chairman of the Board,  
President and Chief Executive Officer

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**C-MAC INDUSTRIES INC.**

**NOTICE OF SPECIAL MEETING OF SECURITYHOLDERS**

**to be held on \_\_\_, 2001**

To the holders of common shares and options to purchase common shares of C-MAC Industries Inc.:

A special meeting of the holders of common shares and options of C-MAC Industries Inc. will be held at \_\_\_, Montreal, Québec, on \_\_\_, 2001 at \_\_\_ a.m. (Montreal time) for the following purposes:

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1. to consider, pursuant to an interim order of the Superior Court of Justice (Québec) dated \_\_\_, 2001, and, if deemed advisable, to pass, with or without variation, a special resolution to approve an arrangement under Section 192 of the *Canada Business Corporations Act* involving the indirect acquisition by Solectron Corporation of all the issued and outstanding common shares of C-MAC; and
2. to transact such further or other business as may properly come before the meeting or any adjournment or postponement thereof.

The arrangement is described in the accompanying C-MAC Management Information Circular and Solectron Proxy/ Prospectus, which serves as a circular in connection with C-MAC management's solicitation of proxies and as a proxy statement and prospectus under applicable U.S. securities laws for Solectron in connection with the issuance of shares of Solectron common stock pursuant to the arrangement. The full text of the C-MAC arrangement resolution is set out as Annex F to the attached document. C-MAC's notice of application for the interim order and for a final order approving the arrangement and the full text of the interim order is set out in Annex B to the attached document.

Pursuant to the interim order, registered holders of common shares of C-MAC may dissent in respect of the C-MAC arrangement resolution. If the arrangement becomes effective, dissenting C-MAC registered shareholders who comply with the dissent procedures (which are described in the circular under the heading "Dissenting Shareholder Rights") will be entitled to be paid the fair value of their common shares of C-MAC. Failure to comply strictly with such dissent procedures may result in the loss or unavailability of any right to dissent.

**C-MAC securityholders who do not expect to attend the meeting in person are requested to complete, sign, date and return the appropriate enclosed form of proxy in the enclosed envelope or by facsimile to C-MAC Industries Inc., c/o General Trust of Canada, Proxy Department, 1100 University Street, Montreal, Québec, Canada, H3B 2G7 or 121 King Street West, Suite 600, Toronto, Ontario, Canada, M5H 3T9, facsimile numbers (514) 871-7506 or (416) 865-7610. The appropriate form of proxy must be received by General Trust of Canada prior to 5:00 p.m. (Montreal time) on \_\_\_, 2001 or, in the event that the meeting is adjourned or postponed, prior to 5:00 p.m. (Montreal time) on the second business day prior to the day fixed for the adjourned or postponed meeting.**

DATED at Montreal, Québec, the \_\_\_ day of \_\_\_, 2001.

By order of the Board

Michel Megelas  
Assistant Secretary

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The information in this prospectus is not complete and may be changed. Solectron may not sell these securities until the registration statement filed with the United States Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Subject to completion, dated September 10, 2001**

### **C-MAC MANAGEMENT INFORMATION CIRCULAR**

### **AND SOLECTRON PROXY STATEMENT/PROSPECTUS**

## **151,479,449 shares of Solectron Common Stock**

Solectron and C-MAC are preparing to engage in a business combination pursuant to which Solectron will indirectly acquire all of the outstanding shares of C-MAC in exchange for shares of Solectron common stock, and C-MAC will thereby become an indirect subsidiary of Solectron. This document is (1) a C-MAC management information circular; (2) a Solectron proxy statement and (3) a prospectus under U.S. securities laws relating to the issuance of shares of Solectron common stock in connection with the proposed combination.

Up to approximately 151,479,449 shares of Solectron common stock will be issued in connection with the combination with C-MAC. Solectron will not receive any proceeds from the sale of these shares.



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Solectron's common stock is traded on the New York Stock Exchange under the symbol SLR. The last reported sale price on \_\_\_\_\_, 2001, the last trading day prior to the date of this document, was \$\_\_\_\_\_ per share.

**THIS OFFERING INVOLVES MATERIAL RISKS.  
SEE RISK FACTORS BEGINNING ON PAGE 26.**

Neither the United States Securities and Exchange Commission nor any state or other securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**The date of this C-MAC Management Information Circular  
and Solectron Proxy Statement/Prospectus is \_\_\_\_\_, 2001**

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**QUESTIONS AND ANSWERS ABOUT THE TRANSACTION**

**General Questions and Answers**

**Q: What are Solectron and C-MAC proposing?**

A: Solectron and C-MAC are proposing to engage in a business combination pursuant to which Solectron will indirectly acquire all of C-MAC's outstanding shares and C-MAC will thereby become an indirect subsidiary of Solectron. The combination will be carried out pursuant to a combination agreement dated August 8, 2001, as amended September 7, 2001, (hereafter referred to in this document as the combination agreement) and plan of arrangement involving C-MAC and Solectron Global Services Canada Inc., an indirect wholly-owned subsidiary of Solectron (referred to in this document as Exchangeco), whereby Exchangeco will acquire all the outstanding C-MAC common shares and all the outstanding shares of holding companies of certain Canadian C-MAC shareholders in exchange for (1) shares of Solectron common stock, or (2) at the option of C-MAC shareholders who either hold C-MAC common shares on their own behalf and are Canadian residents for Canadian income tax purposes, or hold C-MAC shares on behalf of persons who are Canadian residents for Canadian income tax purposes (collectively referred to in this document as Canadian residents) and who validly so elect, shares of Exchangeco (and certain ancillary rights) exchangeable for shares of Solectron common stock on a one-for-one basis or (3) at the option of Canadian residents who validly so elect, a combination of shares of Solectron common stock and exchangeable shares (and certain ancillary rights).

When the term *transaction* is used throughout this document, it means the transactions contemplated by the combination agreement and the plan of arrangement, whereby, among other things, Solectron will become, indirectly through its subsidiaries, the sole beneficial holder of the C-MAC common shares outstanding after giving effect to the arrangement. Except as otherwise specified in this document, where the term *Canadian resident* is used in this document in reference to a C-MAC shareholder, the term also includes a C-MAC shareholder who holds C-MAC shares on behalf of a Canadian resident.

**Q: Why are Solectron and C-MAC proposing to combine? (See page 58)**

A: Solectron and C-MAC are proposing to combine because Solectron and C-MAC each believe that a combination of the two companies will enable the combined company to create a diversified provider of integrated electronic manufacturing solutions that can benefit from complementary high-end technology capabilities, selected vertical integration and improved access to growth opportunities and meet the growing demand by customers for complete supply chain management solutions. Solectron and C-MAC each believe that greater stockholder value can be achieved through a combined company with additional resources, products, services, customer and supplier relationships and technology.

**Q: What will holders of C-MAC common shares receive in the transaction? (See pages 52 and 53)**

- A: In the transaction, the holders of outstanding common shares of C-MAC (other than holders who properly exercise their dissent rights) will receive as consideration for each C-MAC common share, subject to certain conditions, (1) 1.755 shares of Solectron common stock, or (2) 1.755 shares of a class of shares of Exchangeco (and certain ancillary rights), that are exchangeable at any time on a one-for-one basis for shares of Solectron common stock, or (3) a combination thereof. Only C-MAC shareholders who are Canadian residents will be entitled to receive exchangeable shares. The exchangeable shares will entitle their holders to dividends and other rights that are substantially economically equivalent to those of holders of shares of Solectron common stock. Holders of exchangeable shares will also have the right, through a voting trust arrangement, to vote at meetings of Solectron stockholders. The exchangeable share structure is designed to provide an opportunity for shareholders of C-MAC who are Canadian residents and who validly make the required tax election to achieve a deferral of Canadian tax on any accrued capital gain on their C-MAC common shares in certain circumstances.

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Neither Solectron nor Exchangeco will issue fractional shares in connection with the transaction. Rather than receiving a fractional share of Solectron common stock or a fraction of an Exchangeco exchangeable share, a C-MAC shareholder will receive cash, without interest, equal to the shareholder's pro rata portion of the net proceeds after expenses received by General Trust of Canada (the depository) upon the sale of whole shares representing the accumulation of all fractional interests in shares of Solectron common stock or exchangeable shares, respectively, to which all C-MAC shareholders would otherwise be entitled.

### **Q: How will the transaction affect options to acquire C-MAC common shares? (See pages 84 and 85)**

- A: Options to purchase common shares of C-MAC will be exchanged for options to purchase shares of Solectron common stock pursuant to the arrangement. The number of shares issuable upon the exercise of these options, and their applicable exercise prices, will be adjusted using the 1.755 exchange ratio applicable in connection with the transaction.

### **Q: Will C-MAC shareholders be able to trade the shares of Solectron common stock and Exchangeco exchangeable shares that they receive in the transaction? (See page 80)**

- A: Yes. The Solectron common stock will be listed on the New York Stock Exchange under the symbol SLR. Exchangeco intends to apply to The Toronto Stock Exchange to list the exchangeable shares, such listing to be effective prior to the effective date of the arrangement. It is a condition to completion of the transaction that the relevant Canadian securities regulatory authorities shall have granted relief to permit resale of the Solectron common stock and exchangeable shares issued in the transaction or issued upon exchange of exchangeable shares, without restriction by persons other than control persons, provided that no unusual effort is made to prepare the market for any such resale or to create a demand for the securities which are the subject of any such resale and no extraordinary commission or consideration is paid in respect thereof. Persons who are deemed to be affiliates of C-MAC prior to the completion of the transaction, however, must comply with Rule 145 under the United States Securities Act of 1933 if they wish to sell or otherwise transfer the shares of Solectron common stock or exchangeable shares they receive in the transaction or shares of Solectron common stock they receive upon exchange of exchangeable shares or on the exercise of replacement options.

### **Q: When do Solectron and C-MAC expect to complete the transaction?**

- A: Solectron and C-MAC will complete the transaction when all of the conditions to completion of the arrangement contained in the combination agreement have been satisfied or waived. Solectron and C-MAC are working toward satisfying these conditions and completing the arrangement as quickly as possible. Solectron and C-MAC currently plan to complete the transaction during the fourth calendar quarter of 2001. Because the arrangement is subject to governmental and regulatory approvals and other conditions, some of which are beyond Solectron's and C-MAC's control, the exact timing cannot be predicted.

### **Q: What happens if the transaction is not completed?**

- A: If the transaction is not completed, each of C-MAC and Solectron will continue as independent companies.

## **Solectron Stockholder Questions and Answers**

### **Q: On what am I being asked to vote? (See page 44)**

- A: Solectron stockholders are being asked to approve a proposal to issue up to \_\_\_\_\_ shares of Solectron common stock in connection with the transaction (including the shares of Solectron common stock which will be issued upon exchange of Exchangeco exchangeable shares). As of September 4, 2001 there were 86,317,076 common shares of C-MAC issued and outstanding. This issuance of Solectron common

stock is referred to in this document as the Solectron share issuance. These shares will be issued as consideration for the C-MAC common shares to be acquired by Solectron at the exchange ratio of 1.755 shares of Solectron stock or 1.755 exchangeable shares (or a combination

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thereof) for each C-MAC common share. Stockholder approval of the Solectron share issuance is not required by Delaware law or Solectron's certificate of incorporation or bylaws, but is required by the rules of the New York Stock Exchange.

### **Q: What vote is required to approve the Solectron share issuance?**

A: A majority of the votes cast by Solectron stockholders at the Solectron special meeting at which a quorum is present is required to approve the Solectron share issuance. Each share of Solectron common stock is entitled to one vote on all matters to come before the special meeting. Only stockholders who hold shares of Solectron common stock at the close of business on \_\_\_\_\_, 2001 will be entitled to vote at the special meeting. The Solectron common stock constitutes the only class of Solectron's capital stock entitled to vote at the Solectron special meeting. Solectron stockholders are not required to vote on the combination agreement or the plan of arrangement.

### **Q: How do I vote on the proposed issuance of shares of Solectron common stock? (See page 46)**

A: First, please review the information contained in this document, including the annexes. It contains important information about C-MAC and Solectron. It also contains important information about what the boards of directors of C-MAC and Solectron considered in evaluating the transaction. Next, complete and sign the enclosed proxy card, and then mail it in the enclosed return envelope as soon as possible so that your shares can be voted at the special meeting of Solectron stockholders at which the Solectron share issuance will be presented and voted upon. You may also attend the special meeting in person and vote at the special meeting.

### **Q: What happens if I don't indicate how to vote my proxy? (See page 46)**

A: If you sign and send in your proxy, but do not include instructions on how to vote your properly signed proxy card, your shares will be voted **FOR** approval of the Solectron share issuance.

### **Q: What happens if I don't return a proxy card? (See page 45)**

A: Not returning your proxy card will have the effect of reducing the number of votes cast at the special meeting, thereby also reducing the number of votes needed to approve the Solectron share issuance. It may also contribute to a failure to obtain a quorum at the special meeting. Under Solectron's bylaws, a majority of the total issued and outstanding shares entitled to vote thereat, present in person or represented by proxy, constitutes a quorum at a special meeting.

### **Q: Can I change my vote after I have mailed my signed proxy card? (See page 46)**

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting of Solectron stockholders at which the Solectron share issuance will be presented and voted upon. You can do this in one of three ways:

first, you can send a written notice to the Secretary of Solectron at the address specified below stating that you would like to revoke your proxy;

second, you can complete and submit a later-dated proxy card; or

third, you can attend the special meeting and vote in person. Your attendance at the special meeting alone will not revoke your proxy. You must also vote at the special meeting in order to revoke your previously submitted proxy.

You should send any notice of revocation or your completed new proxy card, as the case may be, to Solectron at the following address:

Solectron Corporation  
c/o Morrow & Co.  
445 Park Avenue  
New York, New York 10022



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### **Q: Can I vote by telephone or electronically? (See page 46)**

A: If you are a registered stockholder of Solectron (that is, if you hold your stock in certificate form), you may vote by telephone, or electronically through the Internet, by following the instructions included with your proxy card.

If your shares are held in street name, please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically.

The deadline for voting by telephone or electronically is \_\_\_ on \_\_\_, 2001.

### **Q: If my broker holds my shares in street name, will my broker vote my shares for me? (See page 45)**

A: No. Your broker will not be able to vote your shares without instructions from you. If you do not provide your broker with voting instructions, your shares may be considered present at the special meeting for purposes of determining a quorum, but will not be considered to have been voted in favor of approval of the Solectron share issuance. If you have instructed a broker to vote your shares and wish to change your vote, you must follow directions received from your broker to change those instructions.

### **Q: Am I entitled to dissenters or appraisal rights? (See page 46)**

A: No. Holders of Solectron common stock do not have dissenters or appraisal rights in connection with the transaction. See Dissenting Shareholder Rights.

### **Q: Are there risks I should consider in deciding whether to vote for the issuance of Solectron common stock pursuant to the combination agreement and the plan of arrangement?**

A: Yes. A number of risk factors that you should consider in connection with the transaction are described in the section of this document entitled Risk Factors.

### **Q: Who can help answer my questions about the transaction?**

A: You may call Morrow & Co., Inc. at (800) 607-0088, with any questions you may have about the transaction.

### **C-MAC Securityholder Questions and Answers**

### **Q: On what am I being asked to vote? (See page 48)**

A: C-MAC shareholders and optionholders are being asked to consider, pursuant to an order of the Superior Court of Justice (Québec) rendered on \_\_\_, 2001, and if deemed advisable, to pass a special resolution to approve the arrangement under Section 192 of the *Canada Business Corporations Act* involving the indirect acquisition by Solectron of all the issued and outstanding common shares of C-MAC. This special resolution is referred to in this document as the C-MAC arrangement resolution.

### **Q: What vote is required to approve the C-MAC arrangement resolution?**

A: The affirmative vote of not less than two-thirds of the votes cast at the special meeting by holders of C-MAC common shares and C-MAC options, voting together as a class, is required to approve the C-MAC arrangement resolution. Each C-MAC common share is entitled to one vote on all matters to come before the special meeting and each holder of options to purchase C-MAC common shares will be entitled to one vote for each C-MAC common share that would be received on a valid exercise of that holder's C-MAC options regardless of whether they are presently exercisable. Only holders of C-MAC common shares and options at the close of business on the day immediately preceding the day on which the notice of special meeting is given will be entitled to vote at the special meeting. The C-MAC common shares and the options to purchase C-MAC common shares constitute the only securities of C-MAC's capital stock entitled to vote at the C-MAC special meeting.

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**Q: How do I vote on the transaction? (See pages 48, 49 and 50)**

A: After carefully reading and considering the information contained in this document, including the annexes, please respond by completing, signing and dating your proxy form and returning it in the enclosed postage paid envelope or to C-MAC at the address specified in the enclosed envelope as soon as possible so that your securities can be voted at the special meeting of C-MAC's securityholders at which the C-MAC arrangement resolution will be presented and voted upon. You may also attend the special meeting in person and vote at the special meeting instead of submitting a proxy.

There are two forms of proxy, a yellow proxy applicable to C-MAC shareholders and a grey proxy applicable to C-MAC optionholders.

In addition, if you are a Canadian resident and wish to elect to receive exchangeable shares, you must also submit your properly completed and duly executed letter of transmittal and election form to General Trust of Canada, the depository for the C-MAC common shares, in the enclosed envelope at one of the addresses indicated in the letter of transmittal and election form before 5:00 p.m. (Montreal time) on \_\_\_, 2001. If you submit these materials after \_\_\_, 2001, the election deadline, and the arrangement is successfully completed, you will be entitled to receive only Solectron common stock.

Holders of C-MAC options who wish to exercise such options conditional upon completion of the arrangement should deliver to General Trust of Canada, in the enclosed envelope at one of the addresses indicated in the letter of transmittal and election form for C-MAC optionholders, before 5:00 p.m. (Montreal time) on \_\_\_, 2001, a properly completed and signed letter of transmittal and election form for C-MAC optionholders, including a notice of conditional exercise of the C-MAC options. If you submit these materials after such time, or if the arrangement is not completed, your options will be deemed not to have been exercised.

You do not need to submit a letter of transmittal and election form before the election deadline unless you are a Canadian resident electing to receive exchangeable shares, an optionholder wishing to conditionally exercise your options or you wish to participate in the transaction using the holding company alternative. Whether or not you are a Canadian resident, an optionholder wishing to conditionally exercise your options or you wish to participate in the transaction using the holding company alternative, you should vote by returning your proxy card.

**Q: What happens if I don't indicate how to vote my proxy? (See page 49)**

A: If a proxy given to management is completed, signed and returned, the securities represented by the proxy will be voted FOR or AGAINST the C-MAC arrangement resolution, in accordance with the instructions marked on the proxy. If no instructions are marked, the securities represented by a proxy given to management will be voted FOR the C-MAC arrangement resolution and in accordance with management's recommendation with respect to amendments or variations of the matters set out in the notice of special meeting or any other matters which may properly come before the C-MAC meeting.

**Q: What happens if I don't return a proxy card? (See page 49)**

A: Not returning your proxy card or not voting will have the effect of reducing the number of votes cast at the special meeting of securityholders of C-MAC, thereby also reducing the number of votes needed to approve the transactions being voted on by the securityholders of C-MAC. It may also contribute to a failure to obtain a quorum at the special meeting. Under C-MAC's bylaws, at least two persons holding or representing by proxy at least 10% of the common shares constitute a quorum.

**Q: Can I change my vote after I have mailed my signed proxy card? (See page 50)**

A: Yes. You can change your vote by submitting a new proxy to C-MAC's secretary no later than 5:00 p.m. (Montreal time) on \_\_\_, 2001 or if you are a holder of record, by attending the meeting and voting your shares in person. You may also revoke your proxy by delivering a written notice signed by you or your attorney in fact to C-MAC's secretary on or before \_\_\_, 2001 or to the chairman of the special meeting of securityholders of C-MAC at the meeting.

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You should send your completed notice of revocation of proxies or new proxy card, as the case may be, to C-MAC at one of the following addresses:

C-MAC Industries Inc.

c/o General Trust of Canada  
1100 University Street  
Montreal, Québec  
Canada H3B 2G7

-or-

C-MAC Industries Inc.  
c/o General Trust of Canada  
121 King Street West  
Suite 600  
Toronto, Ontario  
Canada M5H 3T9

**Q: Can I vote by telephone or electronically?**

A: No.

**Q: If my broker holds my shares in street name, will my broker vote my shares for me? (See page 49)**

A: After carefully reading and considering the information contained in this document, including the annexes, please follow the directions provided by your broker with respect to voting procedures and, if you are a Canadian resident electing to receive exchangeable shares, with respect to procedures for making that election. Please ensure that your instructions are submitted to your broker in sufficient time to ensure that your votes are received by C-MAC on or before \_\_\_ 5:00 p.m., Montreal time, on \_\_\_, 2001.

**Q: When should I send my share certificates?**

A: While you are not required to do so now, you must send in your share certificates in addition to the letter of transmittal and election form in order to receive certificates representing shares of Solectron common stock or exchangeable shares of Exchangeco. The letter of transmittal and election form, when properly completed, duly executed and returned together with a certificate or certificates representing common shares of C-MAC and all other required documents, will entitle a C-MAC shareholder to receive a certificate or certificates representing the appropriate number of exchangeable shares and/or shares of Solectron common stock, as the case may be. Certificates representing the appropriate number of exchangeable shares and/or shares of Solectron common stock issuable to a C-MAC shareholder who has delivered certificates representing the shareholder's C-MAC common shares, together with a cheque in the amount, if any, payable with respect to fractional exchangeable shares and/or shares of Solectron common stock will, as soon as practicable after the effective date of the transaction, be forwarded to the C-MAC shareholder at the address specified on the letter of transmittal and election form by insured first class mail or will be made available at the offices of General Trust of Canada, 1100 University Street, 9th Floor, Montreal, Québec, Canada H3B 2G7 or 121 King Street West, Suite 600, Toronto, Ontario, Canada M5H 3T9 for pick up by the holder as requested in a letter of transmittal and election form.

Where a certificate for C-MAC common shares has been destroyed, lost or misplaced, the registered C-MAC shareholder of that certificate should immediately complete the letter of transmittal and election form for the C-MAC shares as fully as possible and return it, together with a letter describing the loss, to General Trust of Canada in accordance with the instructions in the letter of transmittal and election form for the C-MAC shareholders. General Trust of Canada will respond with replacement requirements.

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**Q: Am I entitled to dissent or appraisal rights? (See page 50)**

A: Yes. Registered C-MAC shareholders who properly exercise their dissent rights pursuant to the interim order issued by the Superior Court of Justice (Québec) will be entitled to be paid the fair value of their C-MAC common shares. The dissent procedures require that a registered C-MAC shareholder who wishes to dissent must provide to C-MAC a dissent notice prior to 5:00 p.m. (Montreal time) on the business day preceding the C-MAC meeting. It is important that C-MAC shareholders strictly comply with this requirement, which is different from the statutory dissent provisions of the *Canada Business Corporations Act* that would otherwise permit a dissent notice to be provided at or at any time prior to the C-MAC meeting.

**Q: Are there risks I should consider in deciding whether to vote for the C-MAC arrangement resolution?**

A: Yes. A number of risk factors that you should consider in connection with the transaction are described in the section of this document entitled Risk Factors .

**Q: Who can help answer my questions about the transaction?**

A: You may call Claude Michaud, Vice President and Chief Financial Officer of C-MAC at (514) 282-3581, with any questions you may have about the transaction.

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**SUMMARY**

The following is a summary of the information contained in this document. This summary may not contain all of the information that is important to you. You should carefully read this entire document and the other documents referred to for a more complete understanding of the arrangement and related transactions. In particular, you should read the annexes attached to this document, including the combination agreement and related amendment and the form of plan of arrangement, which are attached to this document as Annexes A-1, A-2 and C, respectively.

Unless otherwise noted, all dollar amounts in this document are expressed in U.S. dollars.

**Parties to the Transaction**

**Solectron Corporation**

777 Gibraltar Drive  
Milpitas, California 95035  
(408) 957-8500  
www.solectron.com

Solectron provides electronics manufacturing services, or EMS, to original equipment manufacturers, or OEMs, who design and sell networking equipment, mobile and land based telecommunications equipment, computing equipment, including workstations, notebooks, desktops and peripherals, and other electronic equipment. These companies contract with Solectron to build their products for them or to obtain other related services from Solectron. Solectron furnishes integrated supply-chain solutions that span the entire product life-cycle from technology solutions, to manufacturing and operations, to global services. Solectron's range of services includes advanced building block design solutions, product design and manufacturing, new product introduction management, materials purchasing and management, prototyping, printed circuit board assembly (the process of placing components on an electrical printed circuit board that controls the processing functions of a personal computer or other electronic equipment), system assembly (for example, building complete systems such as mobile telephones and testing them to ensure functionality), distribution, product repair and warranty services.

Solectron has manufacturing facilities in the Americas, Europe and Asia/ Pacific. Solectron was originally incorporated in California in August 1977. In February 1997, Solectron was reincorporated in Delaware.

**Solectron Global Services Canada Inc.**

P.O. Box 7289, Station A  
44 Chipman Hill, 10th Floor  
Saint John, New Brunswick  
E2L 4S6

Solectron Global Services Canada Inc. is referred to as Exchangeco throughout this document and all of the annexes to this document, including the combination agreement, as amended, and the form of plan of arrangement. Exchangeco is a corporation organized and existing

under the laws of the province of New Brunswick and is an indirect wholly-owned Canadian subsidiary of Solectron. Exchangeco resulted from an amalgamation effective December 25, 1999. It is intended that Exchangeco will be continued under the *Canada Business Corporations Act* prior to the effective date of the arrangement. A predecessor company to Exchangeco was established as a result of the acquisition in November 1999 of the repair operations of IBM's NULOGIX Technical Services in Vaughn, Ontario, Canada. Exchangeco provides a complete range of technology repair, remanufacturing and refurbishment services for a large variety of electronic products.

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**3942163 Canada Inc.**

100 King Street West  
1 First Canadian Place, Suite 6600  
Toronto, Ontario  
M5X 1B8

3942163 Canada Inc. is referred to as Callco throughout this document and all of the annexes to this document. Callco is a newly formed corporation organized and existing under the *Canada Business Corporations Act* and is a direct, wholly-owned subsidiary of Solectron. Callco was formed solely to effect the transaction and has not conducted any business during any period of its existence.

**Solectron Canada ULC**

1959 Upper Water Street, Suite 800  
Halifax, Nova Scotia  
B3J 2X2

Solectron Canada ULC is referred to as Nova Scotia Company throughout this document and all of the annexes to this document. Nova Scotia Company is a newly formed unlimited liability company organized under the laws of Nova Scotia and is a direct, wholly-owned subsidiary of Solectron. Nova Scotia Company was formed solely to effect the transaction and has not conducted any business during any period of its existence.

**C-MAC Industries Inc.**

1010 Sherbrooke Street West, Suite 1610  
Montreal, Québec  
H3A 2R7  
(514) 282-7629  
www.cmac.com

C-MAC provides a comprehensive portfolio of electronic manufacturing services and solutions to over 500 customers worldwide. C-MAC focuses on complex, high-margin products and services ranging from components to full systems in addition to design, test, supply chain management, order fulfillment and aftermarket support services. C-MAC primarily serves the global communications equipment market. In addition, C-MAC provides integrated systems solutions for the transportation electronics, aerospace, military and industrial markets. C-MAC is a leading provider of a broad array of products, including optical, switching, transmission and other solutions to communications equipment customers, including Nortel, Alcatel, Lucent, Marconi and Motorola. C-MAC's major transportation electronics customers include Daimler-Chrysler, Delphi, Ford, General Motors, Hella and Siemens Automotive.

C-MAC was incorporated under the *Canada Business Corporations Act* on October 7, 1985.

**Joint Reasons for the Transaction**

The boards of directors of Solectron and C-MAC approved the combination agreement and the transactions contemplated by the combination agreement, including the arrangement and the issuance of shares of Solectron common stock, because they determined that the combined company would have the potential to realize a stronger competitive position and improved long-term operating and financial results. Among other benefits, the boards of directors believe that the transaction should allow the combined company the opportunity to:

selectively vertically integrate a variety of services across the supply chain, and thereby provide existing and new customers a more complete range of manufacturing capabilities and related products and services;

complement Solectron's diversified contract manufacturing business through the addition of C-MAC's specialized design and engineering, network systems, microtechnology capabilities and components, and electro-mechanical components (i.e., printed circuit board (PCB), backplane, and enclosures);

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capitalize on the strength of some industries served by C-MAC;

benefit from combining established customer and supplier relationships of both companies;

leverage manufacturing and production resources and technology; and

reduce costs through broader-based manufacturing activities and vertical integration.

See The Transaction Joint Reasons for the Transaction .

## **Recommendation of Solectron's Board of Directors**

**After careful consideration, Solectron's board of directors approved the combination agreement and the transactions contemplated by the combination agreement, including the arrangement and the issuance of shares of Solectron common stock. Solectron's board of directors recommends that Solectron's stockholders vote FOR the Solectron share issuance.**

Solectron's board of directors considered a number of factors, including those set forth below, in reaching its decision to approve the combination agreement and the transactions contemplated by the combination agreement, and to recommend that Solectron stockholders vote **FOR** the Solectron share issuance. Among the factors considered by Solectron's board of directors were:

the historical trading prices of the C-MAC common shares and Solectron common stock;

the possible effect of the transaction on Solectron's employees, customers and current facilities;

the opportunity afforded by the transaction for Solectron to combine its operations with those of C-MAC;

the structure of the transaction;

the terms and conditions of the combination agreement generally, including the circumstances in which a termination fee is payable to Solectron, and the provisions relating to the ability of C-MAC to solicit or enter into a competing acquisition transaction; and

the fairness opinion of Solectron's financial advisor, Merrill Lynch, Pierce, Fenner & Smith Incorporated.

See The Transaction Joint Reasons for the Transaction and The Transaction Recommendation of Solectron's Board of Directors .

## **Opinion of Solectron's Financial Advisor**

In deciding to approve the combination agreement and the transactions contemplated by the combination agreement, the Solectron board of directors considered an opinion from its financial advisor, Merrill Lynch Pierce, Fenner & Smith Incorporated. On August 8, 2001, Merrill Lynch delivered its oral opinion to the board of directors of Solectron, subsequently confirmed in writing, that, as of the date of such opinion, the exchange ratio was fair, from a financial point of view, to Solectron.

The full text of the Merrill Lynch written opinion is attached to this document as Annex G. You are encouraged to read the opinion carefully. The opinion of Merrill Lynch does not constitute a recommendation as to how any holder of Solectron common stock should vote with respect to the Solectron share issuance.

See The Transaction Opinion of Solectron's Financial Advisor .

### **Recommendation of C-MAC's Board of Directors**

**The C-MAC board of directors believes that the terms of the arrangement are fair to C-MAC's securityholders and in the best interest of C-MAC and its shareholders. Accordingly, the C-MAC board**

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**of directors has unanimously approved the combination agreement and recommends that C-MAC's securityholders vote FOR the C-MAC arrangement resolution.**

In approving the combination agreement, the C-MAC board of directors considered a number of factors, including:

the opportunity afforded by the transaction for C-MAC to combine its operations with those of Solectron;

the current industry and market trends affecting C-MAC;

the risks and the potential rewards associated with, as an alternative to the transaction, continuing to execute C-MAC's strategic plan as an independent entity operating in a highly competitive environment;

the historical trading prices of the Solectron common stock and the C-MAC common shares;

the structure of the transaction, which effectively permits Canadian resident C-MAC shareholders to receive exchangeable shares (and certain ancillary rights), generally without realizing a gain for Canadian federal income tax purposes at the time of the arrangement (upon filing the required tax election) and permits C-MAC shareholders that are registered pension plans or trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans governed by Canadian law to hold exchangeable shares without regard to limitations on holding foreign property;

the terms and conditions of the combination agreement generally, including the amount of and the circumstances in which the C-MAC termination fee is payable, and the fact that the terms of the combination agreement do not prohibit C-MAC from accepting a superior proposal;

the fairness opinion of C-MAC's financial advisor, Banc of America Securities LLC; and

other factors that the C-MAC board of directors deemed relevant in order to make its decision.

See The Transaction Joint Reasons for the Transaction and The Transaction Recommendation of the C-MAC Board of Directors .

### **Opinion of C-MAC's Financial Advisor**

In deciding to approve the combination agreement and the transactions contemplated by the combination agreement, C-MAC's board of directors considered an opinion from its financial advisor, Banc of America Securities. On August 8, 2001, Banc of America Securities delivered its opinion to the board of directors of C-MAC that, as of the date of such opinion, the exchange ratio set forth in the original combination agreement was fair, from a financial point of view, to the shareholders of C-MAC.

The full text of the Banc of America Securities opinion, which sets forth the assumptions made, matters considered and limits on review undertaken, is attached to this document as Annex H. C-MAC securityholders are encouraged to read the opinion carefully. The opinion of Banc of America Securities is addressed to the board of directors of C-MAC and relates only to the fairness, from a financial point of view, of the exchange ratio to the holders of C-MAC common shares. The opinion does not address any other aspects of the proposed arrangement and does not constitute an opinion or recommendation to any securityholder of C-MAC as to how such securityholder should vote with respect to the C-MAC arrangement resolution.

See The Transaction Opinion of C-MAC's Financial Advisor .

### **Interests of Certain Persons in the Transaction**

In considering the recommendation of the C-MAC board of directors with respect to the transaction, you should be aware that certain members of the management and board of directors of C-MAC have certain interests in the transaction that may present them with actual or potential conflicts of interest in

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connection with the transaction. The C-MAC board of directors was aware of these interests and considered them along with the other matters summarized above. Those interests include:

ownership of C-MAC common shares;

the receipt of options to purchase Solectron common stock in exchange for options to purchase C-MAC common shares;

ownership of options to purchase C-MAC common shares and the potential acceleration of the vesting schedule of such options held by certain senior employees of C-MAC in certain limited circumstances;

offers of directorships at Solectron; and

change of control benefits in employment agreements of certain senior employees of C-MAC.

Furthermore, the combination agreement provides executive officers and directors of C-MAC with continuing indemnification rights.

As of the close of business on \_\_, 2001, directors and executive officers of C-MAC (and their respective affiliates) collectively owned or exercised direction or control over approximately \_\_\_% of the C-MAC common shares entitled to vote at the C-MAC special meeting. This includes \_ C-MAC common shares underlying options which these directors and officers beneficially own. The vote required for approval of the C-MAC arrangement resolution at the C-MAC special meeting is not less than two-thirds of the votes cast at the special meeting by holders of C-MAC common shares and options to purchase C-MAC common shares, voting together as a class.

See The Transaction Interests of Certain Persons in the Transaction .

### **Share Ownership of Solectron Directors and Officers**

As of the close of business on the record date for the Solectron special meeting at which the Solectron share issuance will be considered and voted upon, directors and executive officers of Solectron (and their respective affiliates) collectively owned approximately \_% of the outstanding shares of Solectron common stock entitled to vote at the special meeting on the issuance. This does not include \_ shares of Solectron common stock underlying presently exercisable options which these directors and officers beneficially own. If all of these stock options had been exercised prior to the record date for the special meeting, the directors and executive officers of Solectron (and their respective affiliates) would collectively own approximately \_% of the outstanding shares of Solectron common stock entitled to vote at the special meeting. The vote required for approval of the Solectron share issuance is a majority of the votes cast at a special meeting of Solectron stockholders at which a quorum is present.

### **Structure and Effects of the Transaction**

The original combination agreement between Solectron and C-MAC dated as of August 8, 2001, including the form of plan of arrangement, was amended on September 7, 2001. The combination agreement, the amendment to the combination agreement, (referred together in this document as the combination agreement ) and the form of plan of arrangement are attached to this document as Annexes A-1, A-2 and C, respectively. Please read the combination agreement, the form of plan of arrangement and the other transaction agreements as they are the principal legal documents that govern the transaction.



The combination agreement and plan of arrangement provide for the combination of Solectron and C-MAC in a transaction in which each holder of C-MAC common shares who is a Canadian resident will effectively have the choice of receiving, for each C-MAC common share held, (1) 1.755 shares of Solectron common stock, (2) 1.755 exchangeable shares of Exchangeco (and certain ancillary rights) which are exchangeable into shares of Solectron common stock on a one-for-one basis at the option of the holder or (3) a combination of shares of Solectron common stock and exchangeable shares (and certain ancillary rights). Any C-MAC shareholder who is not a Canadian resident will not be entitled to receive

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exchangeable shares and will receive 1.755 shares of Solectron common stock for each C-MAC common share held. A C-MAC shareholder (other than dissenting C-MAC shareholders who ultimately receive the fair value of their C-MAC common shares from C-MAC and other than Solectron or its affiliates) who is a Canadian resident and who does not make a valid election to receive exchangeable shares will receive 1.755 shares of Solectron common stock for each C-MAC common share held. C-MAC shareholders who properly exercise dissent rights will not be entitled to exchangeable shares or shares of Solectron common stock but will be entitled to receive payment in cash from C-MAC representing the fair value of their C-MAC shares.

The mechanics of the transaction will involve Exchangeco acquiring all of the outstanding common shares of C-MAC (other than those of dissenting C-MAC shareholders who ultimately receive the fair value of their C-MAC common shares from C-MAC and those held by Solectron or its affiliates), in exchange for shares of Solectron common stock and/or, at the option of validly electing Canadian resident C-MAC shareholders, exchangeable shares and certain ancillary rights. The exchangeable shares will be securities issued by Exchangeco. Holders of the exchangeable shares will be entitled to dividend and other rights that are substantially economically equivalent to those of holders of Solectron common stock. Through a voting trust arrangement, holders of the exchangeable shares will be entitled to vote at meetings of Solectron stockholders. Exchangeable shares will be exchangeable at the option of the holder at any time on a one-for-one basis for shares of Solectron common stock.

Persons owning C-MAC common shares through a holding company at the time of the transaction and meeting certain conditions may participate in the transaction by having Exchangeco acquire all of the shares of their holding company instead of the C-MAC common shares held by such holding company, in exchange for the same consideration otherwise receivable for such C-MAC common shares. This holding company alternative involves a complex series of transactions and is described in greater detail in *Transaction Mechanics Holding Company Alternative*.

Each C-MAC option will be exchanged for an option to purchase the number of shares of Solectron common stock equal to 1.755 multiplied by the number of C-MAC common shares subject to such C-MAC option, rounded down to the nearest whole number. The exercise price per share of Solectron common stock shall be equal to the exercise price per C-MAC common share of such C-MAC option immediately prior to the consummation of the arrangement divided by 1.755.

Solectron and its affiliates do not currently own any C-MAC common shares. Prior to the effective time of the arrangement, Exchangeco has agreed in contemplation of the arrangement to purchase at least Cdn.\$1 million, but not more than Cdn.\$3 million, of C-MAC common shares on the open market.

Based on the number of C-MAC common shares outstanding on \_\_\_, 2001, immediately following the completion of the transaction, former holders of C-MAC common shares will hold an aggregate of approximately \_\_\_ million exchangeable shares and shares of Solectron common stock. Assuming that all C-MAC common shares are exchanged for shares of Solectron common stock and based upon the number of C-MAC common shares and shares of Solectron common stock outstanding as of \_\_\_, immediately following completion of the transaction, existing C-MAC shareholders would hold approximately \_\_\_% of the outstanding shares of Solectron common stock.

See *The Transaction*, *Transaction Mechanics*, *Description of Exchangeable Shares*, *Exchangeco Share Capital* and *Pro Forma Capitalization of Solectron*.

## **The Companies After the Transaction**

Following completion of the transaction, Solectron will operate the business of C-MAC in combination with the existing business of Solectron.

See The Companies after the Transaction .

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### **Completion and Effectiveness of the Transaction**

Solectron and C-MAC are working toward satisfying the conditions to the consummation of the arrangement and completing the transaction as quickly as possible. The transaction will be completed as soon as practicable after the requisite shareholder, regulatory and court approvals have been obtained and are final and all other conditions to the transaction have been satisfied or waived. Solectron and C-MAC currently plan to complete the transaction during the fourth calendar quarter of 2001. Because the arrangement is subject to regulatory approvals and other conditions, some of which are beyond Solectron's and C-MAC's control, the exact timing cannot be predicted.

See The Transaction Court Approval of the Arrangement and Completion of the Transaction .

### **The Combination Agreement**

#### *No Solicitation*

C-MAC has agreed that, while the transaction is pending, it will not initiate or engage in discussions with any third parties regarding an alternative transaction, such as a merger, business combination or sale of a material amount of assets or capital stock, provided that C-MAC may enter into such discussions and enter into an agreement with a third party with respect to such a transaction if C-MAC's board of directors determines, subject to the satisfaction of certain conditions, that such a transaction is superior from a financial point of view to C-MAC's shareholders to the transaction with Solectron.

See The Combination Agreement Material Covenants .

#### *Conditions to Completion of the Arrangement*

Completion of the arrangement is subject to the satisfaction of a number of conditions, including:

the issuance of an interim order and a final order of the Superior Court of Justice (Québec);

the approval of the C-MAC arrangement resolution by at least two-thirds of the votes cast by the holders of C-MAC common shares and the holders of options to purchase C-MAC common shares who are represented at the C-MAC special meeting, voting together as a single class, and in accordance with any other conditions imposed by the interim order;

the approval of the Solectron share issuance by at least a majority of the votes cast by holders of Solectron common stock voting at the Solectron special meeting;

the expiration or termination of applicable waiting periods under U.S. and certain other foreign antitrust laws;

receipt of the necessary approvals under the *Competition Act* (Canada) and the *Investment Canada Act*;

the absence of any law, decree or order preventing the consummation of the arrangement;

the accuracy of the representations and warranties of Solectron and C-MAC contained in the combination agreement (except to the extent that any inaccuracies would not constitute a material adverse effect on the applicable company); and

holders of no more than 10% of the issued and outstanding C-MAC common shares having exercised and not withdrawn their dissent rights.

Some of the conditions to completion of the arrangement may be waived by the party entitled to assert the benefit of the condition.

See The Transaction The Combination Agreement Conditions to Completion of the Arrangement .

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### *Termination of the Combination Agreement*

C-MAC and Solectron may mutually agree to terminate the combination agreement without completing the transaction. In addition, either C-MAC or Solectron may terminate the combination agreement under any of the following circumstances:

if the arrangement has not occurred by February 8, 2002 (or April 8, 2002 if the failure to consummate the arrangement prior to that date was due to the failure to obtain any governmental approval, waiver or consent);

if a law is passed or a final non-appealable court or other governmental order is issued prohibiting the arrangement;

if the requisite approval of the holders of C-MAC common shares and options to purchase C-MAC common shares is not obtained;

if the requisite approval of the holders of Solectron common stock is not obtained; or

if the conditions to completion of the arrangement would not be satisfied because of a breach by the other party of any of its covenants or other agreements contained in the combination agreement or if any of the other party's representations or warranties becomes untrue (although the breaching company will have 30 days to cure any such breach).

Solectron may also terminate the combination agreement under any of the following circumstances:

if C-MAC's board of directors withdraws or changes, in a manner adverse to Solectron, its recommendation in favor of the adoption and approval of the combination agreement and the transactions contemplated by the combination agreement;

if C-MAC's board of directors approves or recommends any acquisition proposal from a third party;

if C-MAC enters into a letter of intent or other agreement accepting any acquisition proposal from a third party;

if C-MAC intentionally breaches the provisions of the combination agreement that prohibit C-MAC from soliciting acquisition proposals from third parties and restricts (subject to limited exceptions) C-MAC's ability to participate in negotiations with third parties regarding an acquisition transaction and to enter into a superior acquisition transaction; or

if a third party unaffiliated with Solectron undertakes a tender or exchange offer relating to the securities of C-MAC, and C-MAC does not recommend that its shareholders reject the offer within ten business days after the offer is first made.

C-MAC may also terminate the combination agreement in connection with its execution of an agreement with a third party with respect to an unsolicited proposal for a merger or other business combination, or a sale of a majority of its assets, that C-MAC's board of directors has determined, subject to some conditions, is superior from a financial point of view to the transaction with Solectron and has also determined that the failure to engage in negotiations and enter into such agreement would be inconsistent with its fiduciary duties to C-MAC shareholders.

See The Combination Agreement Termination of the Combination Agreement .

### *Payment of Termination Fee*

Under some circumstances, C-MAC may have to pay Solectron a termination fee of \$75 million if the combination agreement is terminated.

See The Combination Agreement Payment of Termination Fees .

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### **The Exchangeable Shares**

The exchangeable shares will be securities of Exchangeco that, together with certain ancillary rights, are substantially economically equivalent to shares of Solectron common stock. Pursuant to the plan of arrangement, the terms of the exchangeable share and the voting and exchange trust agreement, the holders of exchangeable shares will have the following rights:

the right to exchange such shares for shares of Solectron common stock on a one-for-one basis;

the right to receive dividends, on a per share basis, in amounts (or property in the case of non-cash dividends) which are the same as, and which are payable at the same time as, dividends declared on the shares of Solectron common stock;

the right to vote at all shareholder meetings at which Solectron common stockholders are entitled to vote; and

the right to participate upon certain specified events relating to the voluntary or involuntary liquidation, dissolution, winding-up or other distribution of the assets of Solectron among its stockholders for the purpose of winding-up its affairs, on a pro rata basis with the holders of Solectron common stock in the distribution of assets of Solectron, through the mandatory exchange of exchangeable shares for shares of Solectron common stock.

The exchangeable shares have no rights to dividends, rights on liquidation, dissolution or winding-up and no voting rights in Exchangeco, except as required by law or under the exchangeable share provisions and the voting and exchange trust agreement.

Holders of exchangeable shares will be entitled generally to require Exchangeco to redeem any or all of their exchangeable shares for shares of Solectron common stock for a purchase price per share of one share of Solectron common stock and an amount equal to all declared and unpaid dividends. However, in the event that a holder of exchangeable shares delivers notice of its exercise of such redemption right, Callco will have the overriding right to purchase, in lieu of Exchangeco, all of such holder's exchangeable shares in respect of which the right to force redemption shall have been exercised.

Subject to applicable law and Callco's call right (described immediately below), on a date on or after the seventh anniversary of the effective date of the arrangement, as established by Exchangeco's board of directors, all of the outstanding exchangeable shares (other than those held by Solectron or its affiliates) will be redeemed by Exchangeco for a redemption price per share of one share of Solectron common stock and an amount equal to all declared and unpaid dividends. Callco will have the overriding right to purchase on such redemption date the outstanding exchangeable shares for a purchase price per share of one share of Solectron common stock and an amount equal to all declared and unpaid dividends.

In certain circumstances, Exchangeco will have the right to require a redemption of the exchangeable shares prior to such redemption date. An early redemption may occur, among certain other circumstances, if:

there are fewer than 30% of the number of exchangeable shares issuable as determined at the election deadline in respect of the arrangement outstanding (other than exchangeable shares held by Solectron and its affiliates) at any time after the fifth anniversary of the effective date of the arrangement;

there are fewer than 10% of the number of exchangeable shares issuable as determined at the election deadline in respect of the arrangement outstanding (other than exchangeable shares held by Solectron and its affiliates) at any time; and

any merger, amalgamation, arrangement, tender offer, material sale of shares or rights or similar transaction involving Solectron occurs or any proposal related to any such transaction exists; provided that, among other things, the board of directors of Exchangeco determines that it is not reasonably practical to substantially replicate the terms and conditions of the exchangeable shares in

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connection with such a transaction and the redemption of exchangeable shares is necessary to enable the completion of the transaction.

Solectron will also have the right to purchase (or cause Callco to purchase) all of the exchangeable shares for consideration per share consisting of one share of Solectron common stock and an amount equal to all declared and unpaid dividends in the event of a change in Canadian and Québec tax laws that allows Canadian resident holders of exchangeable shares to make such exchange on a tax-deferred basis.

See Description of Exchangeable Shares .

Prior to the effective time of the arrangement, Exchangeco will adopt an exchangeable share rights plan substantially equivalent to the Solectron rights agreement. Pursuant thereto, each exchangeable share issued on the arrangement will have an associated exchangeable share right entitling the holder of such exchangeable share right to acquire additional exchangeable shares on terms and conditions substantially the same as the terms and conditions upon which a holder of Solectron common stock is entitled to acquire Solectron Series A preferred stock. The exchangeable share rights are intended to have characteristics essentially equivalent in economic effect to the Solectron rights.

See Description of Exchangeable Shares Exchangeable Share Rights and Solectron Capital Stock Series A Participating Preferred Stock and Rights Agreement .

### **Tax Considerations for C-MAC Securityholders**

**C-MAC securityholders should read carefully the information under Tax Considerations for C-MAC Securityholders, which qualifies the information set forth below, and should consult their tax advisors. No advance income tax rulings have been sought or obtained with respect to any of the transactions described herein.**

#### *Canada*

Canadian resident C-MAC shareholders validly electing to receive exchangeable shares may generally elect to defer recognition of all or part of any accrued gain on their C-MAC common shares for Canadian federal income tax purposes by making a valid tax election with Exchangeco as described herein. Canadian resident C-MAC shareholders receiving shares of Solectron common stock upon the arrangement will generally recognize any accrued gain or loss on their C-MAC common shares for Canadian federal income tax purposes. Exchangeable shares received by C-MAC shareholders that are Canadian deferred income plans will be qualified investments that are not foreign property for Canadian federal income tax purposes. Shares of Solectron common stock received by C-MAC shareholders that are Canadian deferred income plans will be qualified investments but will be foreign property for Canadian federal income tax purposes. Canadian resident C-MAC optionholders will not be subject to tax on the exchange of their C-MAC options for options to purchase shares of Solectron common stock. C-MAC shareholders who are not Canadian residents will not generally be subject to Canadian tax on the exchange of C-MAC common shares for shares of Solectron common stock.

See Tax Considerations for C-MAC Securityholders Canadian Tax Considerations for C-MAC Shareholders .

#### *United States*

The exchange of C-MAC common shares for Solectron common stock pursuant to the arrangement will be a taxable exchange for United States federal income tax purposes.

See Tax Considerations for C-MAC Securityholders United States Federal Income Tax Considerations for C-MAC Shareholders.

### **Accounting Treatment of the Transaction**

The transaction will be accounted for by Solectron under the purchase method of accounting.

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See The Transaction Accounting Treatment .

### **Approvals Required to Complete the Transaction**

*Solectron Stockholder Approval*

## Edgar Filing: SOLECTRON CORP - Form S-4

The Solectron special meeting will be held on \_\_\_\_\_, 2001. At the Solectron special meeting, the Solectron stockholders will be asked to approve the Solectron share issuance. A majority of the votes cast at the Solectron special meeting is required to approve the issuance of Solectron common stock pursuant to the combination agreement and the plan of arrangement. Solectron stockholders are not required to vote on the combination agreement or the plan of arrangement.

See The Special Meeting of Solectron Stockholders Vote Required .

### *C-MAC Securityholder Approval*

The C-MAC special meeting will also be held on \_\_\_\_\_, 2001. At the C-MAC special meeting, the holders of C-MAC common shares and the holders of C-MAC options will be asked to approve the C-MAC arrangement resolution. The C-MAC arrangement resolution must be approved by the affirmative vote of at least two-thirds of the votes cast on the special resolution by the holders of C-MAC common shares and the holders of C-MAC options, voting together as a class, present in person or by proxy at the C-MAC special meeting.

See The Special Meeting of C-MAC Securityholders Vote Required .

### *Court Approval*

An arrangement under the *Canada Business Corporations Act* requires court approval. Prior to the mailing of this document in connection with the C-MAC special meeting, C-MAC obtained an interim order from the Superior Court of Justice (Québec) providing for the calling and holding of the C-MAC special meeting and other procedural matters. Subject to the approval of the C-MAC arrangement resolution at the C-MAC special meeting and the approval of the Solectron share issuance at the Solectron special meeting, the hearing to obtain a final order of the Court is scheduled to take place on or about \_\_\_\_\_, 2001 at \_\_\_\_\_ (Montreal time) in room \_\_\_ at the Montreal courthouse located at 1 Notre Dame Street East in Montreal, Québec.

See The Transaction Court Approval of the Arrangement and Completion of the Transaction .

### *Regulatory Approvals*

The arrangement is subject to United States, Canadian and certain other antitrust laws. Solectron and C-MAC intend to make all necessary filings under applicable U.S., Canadian and foreign antitrust laws and the *Investment Canada Act*. Solectron and C-MAC are not permitted to complete the arrangement until the waiting periods under all applicable U.S. and foreign antitrust laws have expired or been terminated, and Solectron and C-MAC have obtained all other regulatory approvals without which the arrangement would be prohibited. A governmental authority or any private person may challenge the transaction in the United States on antitrust grounds at any time before or after completion.

See The Transaction Regulatory Matters .

### **Restrictions on the Ability of C-MAC Shareholders to Sell Solectron Common Stock and Exchangeable Shares**

All shares of Solectron common stock and exchangeable shares received by C-MAC shareholders in connection with the transaction and all shares of Solectron common stock received upon exchange of exchangeable shares will be freely transferable under U.S. securities laws unless a C-MAC shareholder is deemed to be an affiliate of C-MAC prior to the completion of the transaction under the United States

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Securities Act of 1933. Shares of Solectron common stock held by C-MAC's affiliates may only be sold in compliance with Rule 145 under the United States Securities Act of 1933.

It is a condition to completion of the transaction that the relevant Canadian securities regulatory authorities shall have granted relief to permit resale of the Solectron common stock and exchangeable shares issued in the transaction or issued upon exchange of exchangeable shares or upon the exercise of the replacement options, without restriction by persons other than control persons, provided that no unusual effort is made to prepare the market for any such resale or to create a demand for the securities which are the subject of any such resale and no extraordinary commission or consideration is paid in respect thereof.

See The Transaction Resale of Exchangeable Shares and Shares of Solectron Common Stock .

**Stock Exchange Listings**

The shares of Solectron common stock issued in connection with the transaction will be listed on the New York Stock Exchange. Exchangeco intends to apply to The Toronto Stock Exchange to list the exchangeable shares, such listing to be effective prior to the effective date of the arrangement. There is no current intention to list the exchangeable shares on any stock exchange other than The Toronto Stock Exchange.

See The Transaction Stock Exchange Listings .

**Dissenters and Appraisal Rights**

*Solectron*

Holders of Solectron common stock do not have dissenters appraisal rights in connection with the transaction.

*C-MAC*

Registered C-MAC shareholders who properly exercise their dissent rights pursuant to the interim order issued by the Superior Court of Justice (Québec) will be entitled to be paid the fair value of their C-MAC common shares. The dissent procedures require that a registered C-MAC shareholder who wishes to dissent must provide C-MAC a dissent notice prior to 5:00 p.m. (Montreal time) on the business day preceding the C-MAC meeting. It is important that C-MAC shareholders strictly comply with this requirement, which is different from the statutory dissent provisions of the *Canada Business Corporations Act* which would permit a dissent notice to be provided at or prior to the C-MAC meeting.

See Dissenting Shareholder Rights .

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**COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA**

The following tables set forth certain historical per share data of Solectron and C-MAC and combined per share data on an unaudited pro forma basis after giving effect to the transaction using the purchase method of accounting. The following data should be read in conjunction with the separate historical consolidated financial statements of Solectron attached to this document as Annex J and the historical consolidated financial statements of C-MAC attached to this document as Annex K. The unaudited pro forma combined per share data does not necessarily indicate the operating results that would have been achieved had the transaction been completed as of the beginning of the earliest period presented and should not be taken as representative of future operations. The results may have been different if the companies had always been consolidated. All per share information has been restated, as applicable, for stock splits, as discussed in each entity's respective consolidated financial statements and notes thereto. No cash dividends have ever been declared or paid on Solectron common stock or C-MAC common shares.

	<b>Solectron Year Ended August 31, 2000</b>	<b>C-MAC Twelve Months Ended September 30, 2000</b>
	(in U.S. dollars unaudited)(1)	

**Net income per share  
(basic):**

Canadian GAAP:

n/a \$0.94  
 U.S. GAAP:  
 \$0.83 \$0.94

**Net income per share  
 (diluted):**

Canadian GAAP:  
 n/a \$0.92

U.S. GAAP:  
 \$0.80 \$0.91

**Book value per share  
 (diluted)(2):**

Canadian GAAP:  
 n/a \$14.93

U.S. GAAP:  
 \$6.28 \$14.90

**Nine Months Ended  
 May 31, 2001**

**Nine Months Ended  
 June 30, 2001**

(in U.S. dollars unaudited)(1)

**Net income per share (basic):**

Canadian GAAP:  
 n/a \$0.82

U.S. GAAP  
 \$0.20 \$0.84

**Net income per share (diluted):**

Canadian GAAP:  
 n/a \$0.80

U.S. GAAP  
 \$0.19 \$0.83

**Book value per share (diluted)(2):**

Canadian GAAP:  
 n/a \$16.86

U.S. GAAP  
 \$8.24 \$16.86

**As of and for the Year Ended August 31, 2000(3)**

**Solectron  
 Pro Forma Combined**

**C-MAC Equivalent  
 Pro Forma Combined(5)**

(in U.S. dollars unaudited)(1)

**Net income per share  
 (basic):**

Canadian GAAP:  
 n/a n/a

U.S. GAAP:  
 \$0.59 \$1.04

**Net income per share  
 (diluted):**

Canadian GAAP:  
 n/a n/a

U.S. GAAP:



\$0.57 \$1.00

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	As of and for the Nine Months Ended May 31, 2001(3)	
	Solectron Pro Forma Combined	C-MAC Equivalent Pro Forma Combined(5)
	(in U.S. dollars	unaudited)(1)
<b>Net income per share (basic):</b>		
Canadian GAAP:		
n/a n/a		
U.S. GAAP:		
\$0.11 \$0.19		
<b>Net income per share (diluted):</b>		
Canadian GAAP:		
n/a n/a		
U.S. GAAP:		
\$0.11 \$0.19		
<b>Book value per share (diluted)(4):</b>		
Canadian GAAP:		
n/a n/a		
U.S. GAAP:		
\$11.57 \$20.31		

- (1) The C-MAC statements of operations for the twelve months ended September 30, 2000 and for the nine months ended June 30, 2001, were converted from Cdn.\$ to U.S.\$ using average exchange rates for each period (U.S. \$0.6793 per Cdn.\$1 and U.S. \$0.6528 per Cdn.\$1, respectively). The balance sheets of C-MAC as of September 30, 2000 and June 30, 2001 were converted from Cdn.\$ to U.S.\$ using the exchange rate effective on the balance sheet dates (U.S. \$0.6651 per Cdn.\$1 and U.S. \$0.6605 per Cdn.\$1, respectively).
- (2) Historical book value per share is computed by dividing stockholders' equity by the number of shares of Solectron common stock or C-MAC common shares outstanding at the end of each period.
- (3) Because of different fiscal year ends, consolidated financial information relating to Solectron's fiscal year ended August 31, 2000 and nine months ended May 31, 2001 has been combined with the unaudited financial information for C-MAC for the twelve months ended September 30, 2000 and thirty-nine week period ended June 30, 2001, respectively.
- (4) Pro forma book value per share is computed by dividing pro forma stockholders' equity by the pro forma number of shares of Solectron common stock outstanding at the end of each period.
- (5) The C-MAC equivalent pro forma combined per share amounts are calculated by multiplying Solectron combined pro forma share amounts by 1.755 (the exchange ratio for the transaction).

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**Table of Contents****COMPARATIVE MARKET PRICE AND TRADING VOLUME INFORMATION**

Solectron common stock is traded on the New York Stock Exchange under the symbol SLR . C-MAC common shares are traded on The Toronto Stock Exchange under the symbol CMS and on the New York Stock Exchange under the symbol EMS .

The following table sets forth, for the periods indicated, the high and low sale prices per share and the average trading volumes of Solectron common stock as reported on the New York Stock Exchange expressed in U.S.\$ (as adjusted to reflect stock splits in February 1999 and March 2000).

Fiscal Quarters	Solectron Common Stock Per Share Sales Prices		Solectron Common Stock Average Trading Volume
	High \$	Low \$	
<b>1999:</b>			
First Quarter	17.344	9.703	2,708,600
Second Quarter	23.563	16.250	4,862,885
Third Quarter	28.938	20.251	2,744,203
Fourth Quarter	39.469	26.125	2,618,022
<b>2000:</b>			
First Quarter	45.000	33.063	2,764,381
Second Quarter	49.000	31.250	4,907,971
Third Quarter	49.500	28.250	5,240,325
Fourth Quarter	48.375	30.938	3,279,624
September	49.813	43.750	3,295,165
October	52.625	39.250	4,383,682
November	46.000	28.000	7,317,586
December	34.930	24.540	6,067,175
<b>2001:</b>			
January	41.950	30.060	5,367,443
February	40.930	26.500	6,742,179
March	30.690	18.050	7,730,795
April	26.450	16.060	5,600,270
May	28.120	20.650	4,331,327
June			

23.350	16.330	4,943,467
July		
18.400	14.710	4,259,976
August		
19.000	13.440	6,525,126
September(1)		
13.600	11.450	7,569,650

(1) Through September 6, 2001.

The following table sets forth, for the periods indicated, the high and low sale prices per C-MAC common share and trading volume of C-MAC common shares as reported on The Toronto Stock Exchange expressed in Cdn.\$ and as reported on the New York Stock Exchange expressed in U.S.\$ (as adjusted to reflect a stock split in January 2000).

The Toronto Stock Exchange			New York Stock Exchange(1)		
High Cdn.\$	Low Cdn.\$	Average Volume	High U.S.\$	Low U.S.\$	Average Volume

**1999:**

First Quarter						
14.250	11.150	195,959	n/a	n/a	n/a	
Second Quarter						
16.375	12.575	109,106	n/a	n/a	n/a	
Third Quarter						
19.750	15.425	182,022	n/a	n/a	n/a	
Fourth Quarter						
44.250	18.500	322,835	n/a	n/a	n/a	

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The Toronto Stock Exchange			New York Stock Exchange(1)		
High Cdn.\$	Low Cdn.\$	Average Volume	High U.S.\$	Low U.S.\$	Average Volume

**2000:**

First Quarter						
80.250	32.875	451,222	n/a	n/a	n/a	
Second Quarter						
77.500	48.000	356,619	n/a	n/a	n/a	
Third Quarter						
112.800	69.900	457,035	76.750	56.688	297,003	
Fourth Quarter						
113.500	60.550	564,920	74.813	39.375	229,632	

**2001**

January						
84.750	56.100	643,706	55.938	37.625	190,405	
February						

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83.000	39.600	952,558	55.510	25.730	181,679
March					
40.190	27.450	1,171,088	26.050	17.700	142,582
April					
52.500	27.500	986,484	33.900	17.400	244,630
May					
59.750	44.750	824,192	38.890	29.120	177,991
June					
50.200	29.800	613,414	32.750	19.500	119,581
July					
43.650	32.650	579,721	28.200	21.000	109,910
August					
40.900	34.500	1,501,046	26.740	22.550	623,709
September(2)					
36.000	30.160	2,381,164	23.550	19.380	1,852,567

(1) The C-MAC common shares were listed on the New York Stock Exchange on August 9, 2000.

(2) Through September 6, 2001.

The following table shows the closing prices (1) per C-MAC common share as reported on each of The Toronto Stock Exchange and the New York Stock Exchange and (2) per share of Solectron common stock as reported on the New York Stock Exchange, on August 8, 2001, the business day preceding the public announcement that Solectron and C-MAC had entered into the combination agreement and September 6, 2001, the last full trading day for which closing prices were available at the time of the printing of this document.

The table also includes the equivalent price per C-MAC common share on those dates. This equivalent per share price reflects the value of the Solectron common stock C-MAC shareholders would receive for each C-MAC common share if the transaction had been completed on either of these dates applying the exchange ratio of 1.755 shares of Solectron common stock for each C-MAC common share on those dates.

	C-MAC Common Shares	C-MAC Common Shares	Solectron Common Stock	Equivalent Price Per Share
	(Cdn.\$ on TSE)	(U.S.\$ on NYSE)	(U.S.\$)	(U.S.\$)(1)
August 8, 2001				
	\$34.80	\$22.67	\$17.20	\$30.19
September 6, 2001				
	\$31.15	\$20.00	\$11.90	\$20.88

(1) Based on the exchange ratio applicable to the transaction of 1.755 shares of Solectron common stock for each C-MAC common share.

Because the market price of Solectron common stock is subject to fluctuation due to numerous market forces, the market value of the Solectron common stock that holders of C-MAC common shares will receive pursuant to the transaction or upon exchange of exchangeable shares may increase or decrease prior to the effective time of the arrangement or the time of exchange of the exchangeable shares (respectively). Shareholders are urged to obtain current market quotations for the C-MAC common shares and the Solectron common stock. Historical market prices are not indicative of future market prices.

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#### **Solectron Dividend Policy**

Solectron's policy has been to not pay dividends on its common stock in order to retain earnings for investment in Solectron's business. No cash dividends have ever been paid or declared on the shares of Solectron common stock. Solectron does not intend to pay cash dividends on its common stock in the foreseeable future.

Solectron's present intention is to retain its earnings to finance the growth and development of its business. Any future payments of dividends on Solectron's stock will be at the board's discretion and will depend upon, among other things, Solectron's earnings, financial condition, capital requirements, level of indebtedness and other factors that the Solectron board deems relevant.

#### **C-MAC Dividend Policy**

Since C-MAC began its operations, it has not paid any dividends on its common shares, except in connection with a two-for-one stock split effective January 14, 2000. C-MAC's board of directors has maintained a policy of retaining earnings to finance growth and expand its operations.

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### **CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS**

#### **IN THIS DOCUMENT**

This document contains forward-looking statements about Solectron and C-MAC within the meaning of Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934, as amended, that are subject to the safe harbor provisions created by that statute. Statements about Solectron or C-MAC containing the words "believes", "anticipates", "estimates", "expects", or words of similar import, constitute forward-looking statements that involve risks and uncertainties. Such statements are based on current expectations and are subject to risks, uncertainties and changes in condition, significance, value and effect, including those discussed in the section of this document entitled "Risk Factors" and in reports filed by Solectron and C-MAC with the United States Securities and Exchange Commission, specifically forms 6-K, 8-K, 10-K, 10-Q, 40-F, S-3 and S-8, and reports and documents filed by C-MAC with securities regulatory authorities in Canada. Such risks, uncertainties and changes in condition, significance, value and effect could cause Solectron's or C-MAC's actual results to differ materially from those anticipated events.

In evaluating the transaction, you should carefully consider the discussion of risks and uncertainties discussed in the section of this document entitled "Risk Factors".

Although Solectron and C-MAC believe that their plans, intentions and expectations as reflected in or suggested by these forward-looking statements are reasonable, they can give no assurance that the plans, intentions or expectations will be achieved. Listed below and discussed elsewhere in this document are some important risks, uncertainties and contingencies which could cause actual results, performances or achievements to be materially different from the forward-looking statements made in this document, particularly if the transaction is not completed. These risks, uncertainties and contingencies include, but are not limited to, the following:

anticipated revenues and expenses;

possible price competition and erosion;

expansion into new markets;

future sales mix;

future supply of raw materials;

gross margins;

raw material inventory procurement practices;

customers;

future developments involving certain investments;

future availability of financings;

the receipt of stockholder and other approvals of the transaction;

general economic conditions; and

industry's continued reliance upon contract manufacturers.

In addition, events may occur in the future that Solectron and C-MAC are not able to accurately predict or control and that may cause actual results to differ materially from the expectations described in these forward-looking statements.

Readers should not place undue reliance on forward-looking statements contained in this document. These forward-looking statements speak only as of the date on which the statements were made. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in Solectron's reports and documents filed with the United States Securities and Exchange Commission and C-MAC's reports and documents filed with the United States Securities and Exchange Commission and securities regulatory authorities in Canada, and you should not place undue reliance on those statements.

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### **RISK FACTORS**

**The transaction involves a substantial amount of risk. In addition to the other information contained in this document, the following risk factors should be considered by the C-MAC securityholders and Solectron stockholders in evaluating the transaction and deciding whether to approve the C-MAC arrangement resolution or Solectron share issuance. By voting in favor of the C-MAC arrangement resolution, C-MAC securityholders will be choosing to invest in Solectron common stock or exchangeable shares of Exchangeco (and certain ancillary rights) that are exchangeable for shares of Solectron common stock (or in certain circumstances may choose a combination thereof). An investment in Solectron common stock or exchangeable shares involves a substantial amount of risk. By voting in favor of the share issuance Solectron stockholders are authorizing the issuance of a substantial amount of additional shares of Solectron common stock. Unless the transaction adds a proportional amount of value, the value of outstanding Solectron common stock will be substantially diluted.**

#### **General risks relating to the proposed transaction**

**Solectron and C-MAC may not achieve the benefits they expect from the transaction, in which case the transaction could have a material adverse effect on the combined company's business, financial condition and operating results.**

If the benefits of the transaction do not exceed the costs associated with the transaction, including any dilution to Solectron stockholders resulting from the issuance of shares in connection with the transaction, Solectron's financial results, including earnings per share, could be adversely affected. Solectron will need to overcome significant issues in order to realize any benefits or synergies from the transaction, including the timely, efficient and successful execution of a number of post-transaction events. Key events include:

integrating the operations of the two companies;

retaining and assimilating the key personnel of each company;

selling the existing services of each company to the other company's customers;

retaining the existing customers and strategic partners of each company;

developing new services that utilize the assets of both companies; and

maintaining uniform standards, controls, procedures and policies.

The execution of these post-transaction events will involve considerable risks and may not be successful. These risks include:

the potential disruption of the combined company's ongoing business and distraction of its management;

the difficulty of incorporating technology and rights into the combined company's products and services;

unanticipated expenses related to technology integration;

the impairment of relationships with employees and customers as a result of any integration of new management personnel; and

potential unknown liabilities associated with the acquired business.

The combined company may not succeed in addressing these risks or any other problems encountered in connection with the transaction. There can be no assurance that Solectron will successfully integrate the businesses, operations or product lines of Solectron and C-MAC, or that Solectron will realize any of the anticipated benefits of the transaction. Additionally, neither Solectron nor C-MAC can give any assurance that the growth rate of the combined company will equal the growth rate that has been experienced by Solectron and C-MAC in the past.

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**Because C-MAC shareholders will receive a fixed number of shares of Solectron common stock and/or exchangeable shares, the actual dollar value of the Solectron common stock or exchangeable shares that C-MAC shareholders receive when the transaction is completed may be less than it is on the date that C-MAC securityholders vote on the transaction.**

Upon the arrangement's completion, each C-MAC common share will be exchanged for either 1.755 shares of Solectron common stock, or at the option of validly electing Canadian resident C-MAC shareholders, 1.755 exchangeable shares of Exchangeco (and certain ancillary rights) or a combination of shares of Solectron common stock and exchangeable shares (and certain ancillary rights). Each exchangeable share of Exchangeco will be exchangeable after the effective time of the arrangement at the option of the holder for one share of Solectron common stock. The exchange ratios for both Solectron and Exchangeco shares are fixed, and there will be no adjustment for changes in the market price of either C-MAC common shares or shares of Solectron common stock. In addition, neither C-MAC nor Solectron may terminate the combination agreement or "walk away" from the transaction solely because of changes in the market price of Solectron common stock or C-MAC common shares. Accordingly, the specific dollar value of Solectron common stock and/or exchangeable shares that C-MAC shareholders will receive upon the transaction's completion will depend on the market value of Solectron common stock at that time and may decrease from the date C-MAC securityholders vote on the transaction. The share price of Solectron common stock is subject to the general price fluctuations in the market for publicly traded equity securities and has experienced significant volatility. Solectron and C-MAC urge you to obtain recent market quotations for Solectron common stock and C-MAC common shares and consult your own investment advisor prior to voting. Solectron cannot predict or give any assurances as to the market price of Solectron common stock at any time before or after the completion of the arrangement.

**The market price of both Solectron common stock and C-MAC common shares may fluctuate.**

The market price for Solectron common stock and C-MAC common shares could each fluctuate significantly in response to various factors and events, including the differences between Solectron's and C-MAC's actual financial or operating results and those expected by investors and analysts, changes in analysts' projections or recommendations, changes in general economic or market conditions and broad market fluctuations. Because historical market prices are not indicative of future market prices, C-MAC securityholders should obtain current market quotations for the Solectron common stock and the C-MAC common shares prior to voting. There can be no assurance that the market value of Solectron common stock and/or exchangeable shares that the holders of C-MAC common shares receive after consummation of the transaction will equal or exceed the market value of the C-MAC common shares held by such shareholders prior to the effective time of the arrangement.

**C-MAC shareholders who receive exchangeable shares of Exchangeco and later request to exchange such shares for Solectron common stock will not receive the Solectron common stock for ten to fifteen business days from the date that they request such an exchange.**

C-MAC shareholders who receive exchangeable shares on the arrangement and later request to receive Solectron common stock in exchange for their exchangeable shares will not receive Solectron common stock for ten to fifteen business days after the applicable request. During this ten to fifteen business day period, the market price of Solectron common stock may increase or decrease. Any such increase or decrease would affect the value of the consideration to be received by the holder of exchangeable shares on the effective date of exchange.

**For Canadian-resident C-MAC shareholders who choose to receive exchangeable shares, file a tax election and thereby defer Canadian tax on any accrued capital gains, under current law such tax deferral will only be available for as long as they hold exchangeable shares.**

The transaction has been structured to allow Canadian resident C-MAC shareholders who choose to receive exchangeable shares (and certain ancillary rights) pursuant to the arrangement and who validly make the required tax election to generally defer Canadian income taxation of accrued capital gains on

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their C-MAC common shares. Under current Canadian tax law, this deferral will generally continue only for as long as Canadian resident C-MAC shareholders continue to hold those exchangeable shares. Under current Canadian tax legislation, Canadian resident C-MAC shareholders will generally recognize (i) a gain or loss upon the sale of their exchangeable shares in the market, or (ii) a taxable dividend and/or a gain or loss upon the exchange of their exchangeable shares for Solectron common stock. However, based on an announcement of the Canadian Minister of Finance, it is possible that legislation will be introduced under which an exchange of exchangeable shares for Solectron common stock will be treated as a tax-deferred exchange in certain circumstances.

The exchange of exchangeable shares for Solectron common stock may occur at any time after the effective date if certain events occur permitting early redemption. Because of the existence of the call rights of Calco and Solectron, the exchange right and the automatic exchange right, a holder of exchangeable shares cannot control whether such holder will receive Solectron common stock by way of Exchangeco redeeming the exchangeable shares or by way of Solectron or Calco purchasing the exchangeable shares. The Canadian federal income tax consequences of a redemption differ from those of a purchase.

**The sales and marketing channels of both Solectron and C-MAC may be negatively affected.**

Solectron and C-MAC may experience disruption in sales and marketing as a result of attempting to integrate their respective sales channels, and may be unable to smoothly or effectively correct such disruption, or to successfully execute their sales and marketing objectives, even after the companies' respective sales and marketing forces have been integrated. In addition, sales cycles and sales models for the various products may vary significantly from product to product. Sales personnel not accustomed to the different sales cycles and approaches required for products newly added to their portfolio may experience delays and difficulties in selling these newly added products. Furthermore, it may be difficult to retain key sales personnel during the period prior to and after the effective date of the arrangement. As a result, Solectron and C-MAC may be unable to take full advantage of the combined sales forces' efforts, and the sales approach and distribution channels of one company may be ineffective in promoting the products of the other, which may have a material adverse effect on the business, financial condition or operating results of the combined company.

**The market price of Solectron common stock and/or the exchangeable shares may decline as a result of the transaction.**

The market price of Solectron common stock and the exchangeable shares may decline as a result of the transaction for a number of reasons, including if:

the integration of Solectron and C-MAC is unsuccessful;

Solectron does not achieve the perceived benefits of the transaction as rapidly or to the extent anticipated by financial or industry analysts; or

the effect of the transaction on Solectron's financial results is not consistent with the expectations of financial or industry analysts.

**Failure to complete the transaction could negatively impact C-MAC's and/or Solectron's stock price, future business and operations.**

If the transaction is not completed, C-MAC and/or Solectron may be subject to a number of material risks, including the following:



C-MAC may be required under certain circumstances to pay Solectron a termination fee of \$75 million;

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the price of C-MAC common shares and/or Solectron common stock may decline to the extent that the relevant current market price reflects a market assumption that the transaction will be completed; and

certain costs related to the transaction, such as legal, accounting and financial advisor fees, must be paid even if the transaction is not completed.

In addition, C-MAC's and/or Solectron's customers and strategic partners, in response to the announcement of the transaction, may delay or defer decisions concerning the applicable company. Any delay or deferral in those decisions by customers, strategic partners or suppliers could have a material adverse effect on the business and operations of the applicable company, regardless of whether the transaction is ultimately completed. Similarly, current and prospective C-MAC and/or Solectron employees may experience uncertainty about their future roles with Solectron until Solectron's strategies with regard to C-MAC are announced or executed. This may adversely affect C-MAC's and/or Solectron's ability to attract and retain key management, sales, marketing and technical personnel.

Further, if the transaction is terminated and C-MAC's board of directors determines to seek another merger or business combination, there can be no assurance that it will be able to find a partner willing to pay an equivalent or more attractive price than the price to be paid by Solectron pursuant to the arrangement.

### **The failure to obtain all required consents and waivers may cause third parties to terminate or alter existing contracts with C-MAC.**

Some of the contracts C-MAC has with its suppliers, customers, lessors, licensors, licensees and other business partners require C-MAC to obtain the consent, waiver or approval of the other party to the contract in connection with the transactions contemplated by the combination agreement. If any such consent, waiver or approval cannot be obtained, C-MAC may suffer a loss of potential future revenue and may lose rights to facilities or intellectual property that are material to C-MAC's business. C-MAC has agreed to use reasonable efforts to secure the necessary consents, waivers and approvals. However, C-MAC may not be able to obtain all of the necessary consents, waivers and approvals and failure to do so could seriously harm the business and operating results of the combined company. In addition, some arrangements between C-MAC and its lenders require approval of such lenders in connection with the arrangement. If such approvals are not obtained and the arrangement is completed, C-MAC will be required to repay loans made by such lenders.

### **Solectron and C-MAC expect to incur significant costs associated with the transaction.**

The combined estimated fees, costs and expenses of Solectron and C-MAC in connection with the transaction including, without limitation, financial advisors' fees, filing fees, legal and accounting fees, soliciting fees, dealer fees and printing and mailing costs are anticipated to be approximately \$32 million. The Solectron portion of the expenses are referred to in Note 1 to the Solectron unaudited pro forma consolidated condensed statements of operations and have been reflected in the Solectron unaudited pro forma consolidated condensed balance sheet included herein. See *Solectron Unaudited Pro Forma Financial Statements*. Solectron believes the combined company may incur charges to operations, which are not currently reasonably estimable, in the quarter in which the arrangement is completed or the following quarters, to reflect costs associated with integrating the two companies. There can be no assurance that the combined company will not incur additional material charges in subsequent quarters to reflect additional costs associated with the transaction.

### **Solectron and C-MAC may be unable to obtain the required regulatory and court approvals for completing the arrangement.**

The arrangement is subject to merger notification requirements pursuant to the antitrust laws of the United States, Canada, the European Union and Brazil and subject to review under the *Investment Canada Act*. The arrangement may be subject to additional foreign antitrust laws to be determined.

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Solectron and C-MAC intend to make all necessary filings where required by law. It is a condition to the completion of the arrangement that all waiting periods under applicable U.S., Canadian and foreign antitrust laws expire or are terminated and that Solectron and C-MAC obtain all government approvals without which the consummation of the transaction would be prohibited.

The combined company may be required to agree to various operating restrictions or other conditions, before or after receipt of shareholder approval, in order to obtain the necessary approvals of the arrangement under U.S. antitrust laws and foreign antitrust and investment review laws, or to ensure that U.S., Canadian or foreign governmental authorities do not seek to block the transaction. No additional shareholder approval is expected to be required or sought for any decision by Solectron or C-MAC, after the C-MAC and Solectron special meetings, to agree to any terms and conditions necessary to resolve any foreign regulatory objections to the transaction, and shareholder approval will not be sought unless such shareholder approval is required to approve such terms and conditions under applicable foreign law. Solectron or C-MAC or any of their subsidiaries or affiliates may be required to divest capital stock, businesses, assets or property of Solectron or its subsidiaries or affiliates or of C-MAC or its subsidiaries or affiliates. In addition, operating restrictions or other conditions required to secure U.S. or foreign regulatory approval may include the imposition of a material limitation on the ability of any of these parties to conduct their businesses or to own or exercise control of such assets, properties and stock. Any of these operating restrictions or conditions could have a material adverse effect on Solectron's ability to operate the combined company following consummation of the transaction or obtain the desired benefits of the combination. Even if all applicable waiting periods have expired and foreign regulatory approvals have been obtained, the laws of the U.S. and certain other jurisdictions permit federal, state and foreign governmental entities and any private person to challenge the transaction at any time before or after its completion.

In addition to regulatory approvals, the proposed arrangement under the *Canada Business Corporations Act* requires approval by the Superior Court of Justice (Québec). Prior to the mailing of this document, C-MAC obtained an interim order providing for the calling and holding of the C-MAC special meeting and other procedural matters. Subject to the approval of the C-MAC arrangement resolution at the C-MAC special meeting and the approval of the Solectron share issuance at the Solectron special meeting, the hearing to obtain a final order of the court is expected to take place on or about \_\_, 2001 at \_\_ (Montreal time) in room \_\_ at the Montreal Courthouse at 1 Notre Dame Street East, Montreal, Québec.

**C-MAC executive officers and directors have interests that may influence them to support and approve the transaction.**

The officers and directors of C-MAC have interests in the transaction that are in addition to, or different than, those of C-MAC securityholders generally. These interests may include the following:

the receipt of options to purchase Solectron common stock in exchange for options to purchase C-MAC common shares;

the potential accelerated vesting of stock options in the event that the employment of some of C-MAC's senior employees with the combined company is terminated under certain circumstances following the completion of the transaction;

the receipt of severance benefits under employment, severance and retention agreements in the event that the employment of some of C-MAC's senior employees with the combined company is terminated following the completion of the transaction; and

the receipt of indemnification and insurance coverage with respect to acts taken and omissions to take action in their capacities as officers and directors of C-MAC and the combined company.

For the above reasons, the directors and officers of C-MAC could be more likely to vote to approve the C-MAC arrangement resolution than if they did not hold these interests. C-MAC securityholders should consider whether these interests may have influenced these directors and officers to support or

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recommend the transaction. The C-MAC board of directors was aware of these interests when it approved the combination agreement. See *The Transaction - Interests of Certain Persons in the Transaction* .

**Risks relating to Solectron**

**Soletron is exposed to general economic conditions, which could have a material adverse impact on its business, operating results and financial condition.**

As a result of recent unfavorable economic conditions and reduced capital spending, Soletron's sales have declined in the third quarter compared to the first two quarters of fiscal 2001. In particular, sales to OEMs, in the telecommunications, workstation and server equipment manufacturing industry worldwide were impacted during the third quarter of fiscal 2001. If the economic conditions in the United States worsen Soletron may experience a material adverse impact on its business, operating results and financial condition.

**Soletron has significant debt leverage and debt service obligations; if Soletron is unable to service these debt obligations, its business, operating results and financial condition could be materially adversely impacted.**

Soletron's ratio of earnings to fixed charges for the nine months ended May 31, 2001 was 2.10x as compared to 8.84x for the nine months ended May 31, 2000, which is the corresponding period for the prior year. This decline in the ratio is primarily due to interest expense growing at a greater rate than income during the period of fiscal 2001.

The degree to which Soletron may be leveraged could materially and adversely affect its ability to obtain financing for working capital, acquisitions or other purposes and could make Soletron more vulnerable to industry downturns and competitive pressures. Soletron's ability to meet its debt service obligations will be dependent upon its future performance, which will be subject to financial, business and other factors affecting its operations, many of which are beyond its control.

Soletron will require substantial amounts of cash to fund scheduled payments of principal and interest on its outstanding indebtedness, including future capital expenditures and any increased working capital requirements. If Soletron is unable to meet its cash requirements out of cash flow from operations, there can be no assurance that it will be able to obtain alternative financing, that any such financing would be on favorable terms, or that Soletron will be permitted to do so under the terms of its existing financing arrangements, or its financing arrangements in effect in the future. In the absence of such financing, Soletron's ability to respond to changing business and economic conditions, to make future acquisitions, to experience adverse operating results or to fund required capital expenditures or increased working capital requirements may be adversely affected.

**Most of Soletron's net sales comes from a small number of customers; if it loses any of these customers, its net sales could decline significantly.**

Most of Soletron's annual net sales come from a small number of its customers. Soletron's ten largest customers accounted for approximately 65% and 72% of net sales in the three- and nine-month periods ended May 31, 2001, respectively, and approximately 68% and 71% of net sales for the corresponding periods of fiscal 2000. Since Soletron depends on continued net sales from its ten largest customers, any material delay, cancellation or reduction of orders from these or other major customers could cause its net sales to decline significantly. Some of these customers individually account for more than ten percent of Soletron's annual net sales. Soletron cannot guarantee that it will be able to retain any of its ten largest customers or any other accounts. In addition, Soletron's customers may materially reduce the level of services ordered from it at any time. This could cause a significant decline in Soletron's net sales, and Soletron may not be able to reduce the accompanying expenses at the same time. Moreover, Soletron's business, financial condition and results of operations will continue to depend significantly on its ability to obtain orders from new customers, as well as on the financial condition and success of its customers. Therefore, any adverse factors affecting any of Soletron's customers or their

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customers could have a material adverse effect on Soletron's business, financial condition and results of operations.

**Soletron's long-term contracts do not include minimum purchase requirements.**

Although Soletron has long-term contracts with a few of its top ten customers, including Cisco, Ericsson and Nortel, under which these customers are obligated to obtain services from Soletron, not all of them are obligated to purchase any minimum amount of services. As a result, Soletron cannot guarantee that it will receive any net sales from these contracts. In addition, customers with whom Soletron has long-term contracts may materially reduce the level of services ordered at any time. This could cause a significant decline in Soletron's net sales, and Soletron may not be able to reduce its accompanying expenses at the same time.

**Possible fluctuation of operating results from quarter to quarter could affect the market price of Solectron's securities.**

Solectron's quarterly earnings may fluctuate in the future due to a number of factors including the following:

differences in the profitability of the types of manufacturing services Solectron provides. For example, high-velocity and low-complexity printed circuit board, or PCB, and systems assembly services have lower gross margins than low-volume, high-complexity PCB and systems assembly services;

Solectron's ability to maximize the use of its equipment and facilities depends on the duration of the production run time for each job and customer;

the amount of automation Solectron can use in the manufacturing process for cost reduction varies, depending upon the complexity of the product being made;

Solectron's ability to optimize the ordering of inventory as to timing and amount to avoid holding inventory in excess of immediate production needs;

fluctuations in demand for Solectron's services or the products being manufactured;

fluctuations in the availability and pricing of components;

timing of expenditures in anticipation of increased sales;

cyclicality in Solectron's target markets; and

expenses associated with acquisitions.

Therefore, Solectron's operating results in the future could be below the expectations of securities analysts and investors. If this occurs, the market price of Solectron's securities could be harmed.

**Solectron depends upon the electronics industry, which continually produces technologically advanced products with short life cycles; Solectron's inability continually to manufacture such products in a cost effective manner would harm its business, financial condition and results of operations.**

Most of Solectron's net sales are to companies in the electronics industry, which is subject to rapid technological change and product obsolescence. If Solectron's customers are unable to create products that keep pace with the changing technological environment, its customers products could become obsolete, and the demand for Solectron's services could decline significantly. If Solectron is unable to offer technologically advanced, cost-effective, quick-response manufacturing services to customers, demand for Solectron's services would also decline. In addition, a substantial portion of Solectron's net sales is derived from its ability to offer complete service solutions for its customers. For example, if Solectron fails to maintain high-quality design and engineering services, its net sales would significantly decline.

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For Solectron's technology solutions business, it has experienced, and may in the future experience, delays from time to time in the development and introduction of new products. Moreover, Solectron cannot ensure that it will be successful in selecting, developing, manufacturing and marketing new products or enhancements. Solectron cannot ensure that defects or errors will not be found in its products after commencement of commercial shipments, which could delay the market acceptance of those products. The inability to introduce new products or enhancements could harm Solectron's business, financial condition and results of operations.

**Solectron depends on a limited or sole source of suppliers for critical components. The inability to obtain sufficient components as required would cause harm to its business.**

Solectron depends on certain suppliers, including limited and sole source suppliers, to provide key components used in its products. Solectron has experienced and may continue to experience delays in component deliveries, which could cause delays in product shipments and

require the redesign of certain products. Also, for its technology solutions business, Solectron depends on certain limited or sole source suppliers for critical components used for its memory module, communications card and embedded computer products. The electronics industry has experienced in the past, and may experience in the future, shortages in semiconductor devices, including DRAM, SRAM, flash memory, tantalum capacitors and other commodities that may be caused by such conditions as overall market demand surges or supplier production capacity constraints. Except for certain commodity parts, Solectron generally has no written agreements with its suppliers. Solectron cannot give any assurance that it will receive adequate component supplies on a timely basis in the future. The inability to continue to obtain sufficient components as required, or to develop alternative sources as required, could cause delays, disruptions or reductions in product shipments or require product redesigns, which could damage relationships with current or prospective customers, thereby causing harm to Solectron's business.

**Solectron potentially bears the risk of price increases associated with potential shortages in the availability of electronics components.**

At various times, there have been shortages of components in the electronics industry. One of the services that Solectron performs for many customers is purchasing electronics components used in the manufacturing of the customers' products. As a result of this service, Solectron potentially bears the risk of price increases for these components if it is unable to purchase components at the pricing level anticipated to support the margins assumed in its agreements with its customers.

**Solectron's net sales could decline if its competitors provide comparable manufacturing services and improved products at a lower cost.**

Solectron competes with different contract manufacturers, depending on the type of service it provides or the location of its operations. The memory module, communications card and embedded computer subsystem industries are also intensely competitive. Competitors may have greater manufacturing, financial, research and development and/or marketing resources than Solectron. In addition, Solectron may not be able to offer prices as low as some of its competitors because those competitors may have lower cost structures as a result of their geographic location or the services they provide. Solectron's inability to provide comparable or better manufacturing services at a lower cost than its competitors could cause its net sales to decline. Solectron also expects its 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 Solectron's products or services, or profit margin compression.

**Solectron depends on the memory module product market.**

Most of Solectron's technology solutions net sales is derived from memory modular products. The market for these products is characterized by frequent transitions in which products rapidly incorporate

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new features and performance standards. A failure to develop products with required feature sets or performance standards or a delay as short as a few months in bringing a new product to market could reduce Solectron's net sales which may have a material adverse effect on its business, financial condition and results of operations. In addition, the market for semiconductor memory devices has been cyclical. The industry has experienced significant economic downturns at various times, characterized by diminished product demand, excess production, and accelerated erosion of average selling prices. In the past, there have been significant declines in the prices for DRAM, SRAM and flash memory. Similar occurrences in the future would reduce Solectron's profit.

**Solectron depends on the continuing trend of OEMs to outsource.**

A substantial factor in Solectron's revenue growth is attributable to the transfer of manufacturing and supply base management activities from its OEM customers. Future growth depends partially on new outsourcing opportunities. To the extent that these opportunities are not available, its future growth would be unfavorably impacted. These outsourcing opportunities may include the transfer of assets such as facilities, equipment and inventory.

**If Solectron is unable to manage its rapid growth and cost effectively assimilate new operations, its profitability could decline.**

Solectron has experienced rapid growth over many years. Solectron's historical growth may not continue. In recent years Solectron has established operations throughout the world. For example, in fiscal 1998, it opened offices in Taipei, Taiwan and Norrkoping and Stockholm, Sweden and commenced manufacturing operations in Guadalajara, Mexico; Suzhou, China; and Timisoara, Romania. Also in fiscal 1998,

Solectron acquired facilities in Sao Paulo, Brazil and Dublin, Ireland. Furthermore, through acquisitions in fiscal 1998 and 1999, it added facilities in Columbia, South Carolina and Memphis, Tennessee and enhanced its capabilities in Charlotte, North Carolina; Austin, Texas; and Milpitas, California.

In fiscal 2000, Solectron completed acquisitions of AMERICOM, SMART Modular Technologies Inc. (SMART) and the Bluegum Group (Bluegum), each of which was accounted for as a pooling of interests. Through additional acquisitions, Solectron also acquired facilities in Puerto Rico, Mexico, Canada, France, Sweden, Wales, France, Northern Ireland, and Australia.

During the second quarter of fiscal 2001, Solectron completed acquisitions of NatSteel Electronics Ltd (NEL), Sony's manufacturing facilities in Japan and Taiwan and IBM's repair center in the Netherlands. During the third quarter of fiscal 2001, Solectron completed the acquisition of Centennial Technologies, Inc. During the fourth quarter of fiscal 2001, Solectron completed the acquisition of Singapore Shinei Sangyo Pte Ltd and its subsidiaries.

Solectron's expansion and growth places a heavy strain on its personnel and management, manufacturing and other resources. Solectron's ability to manage the expansion to date, as well as any future expansion, will require progressive increases in manufacturing capacity, enhancements or upgrades of accounting and other internal management systems, and implementation of various procedures and controls. Solectron cannot ensure that significant problems in these areas will not occur. Any failure to enhance or expand these systems and implement such procedures and controls in an efficient manner and at a pace consistent with its business activities could harm its financial condition and results of operations. Also, in order to achieve anticipated revenue and other financial performance targets, Solectron will continue to be required to manage its assets and operations efficiently. In addition, should Solectron continue to expand geographically, it may experience certain inefficiencies from the management of geographically dispersed facilities.

As Solectron manages and continues to expand new operations, it may incur substantial infrastructure and working capital costs. If Solectron does not achieve sufficient growth to offset increased expenses associated with rapid expansion, its profitability would decline.

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### **Solectron needs to integrate its acquisitions successfully to maintain profitability.**

As Solectron expands its operations through acquisitions and continues to evaluate acquisition opportunities, it may pursue additional acquisitions over time. These acquisitions involve risks, including:

integration and management of the operations;

retention of key personnel;

integration of purchasing operations and information systems;

retention of the customer base of acquired businesses;

management of an increasingly larger and more geographically dispersed business; and

diversion of management's attention from other ongoing business concerns.

Solectron's profitability will suffer if it is unable to integrate and manage recent acquisitions and pending acquisitions successfully including, in particular, the NEL, Shinei and Centennial transactions, as well as any future acquisitions that it might pursue, or if it does not achieve sufficient revenue to offset the increased expenses associated with these acquisitions.

### **Solectron's non-U.S. locations represent a significant and growing portion of its net sales; Solectron is increasingly exposed to risks associated with operating internationally.**

In the three- and nine-month periods ended May 31, 2001, approximately 58% and 49%, respectively, of Solectron's net sales came from sites outside the United States, while approximately 46% and 43%, of net sales came from sites outside the United States in the same periods of

fiscal 2000. As a result of its foreign sales and facilities, Solectron's operations are subject to a variety of risks unique to international operations, including the following:

adverse changes in value of foreign currencies against the U.S. dollar in which its results are reported;

import and export duties and value-added taxes;

import and export regulation changes that could erode its profit margins or restrict exports;

potential restrictions on the transfer of funds;

inflexible employee contracts in the event of business downturns; and

the burden and cost of complying with foreign laws.

In addition, Solectron has operations in several emerging or developing economies that have a potential for higher risk. The risks associated with these economies include, but are not limited to currency volatility and other economic or political risks. In the future, these factors may harm Solectron's results of operations. Solectron locations in emerging or developing economies include Indonesia, Mexico, Brazil, China, Malaysia and Romania. As of May 31, 2001 Solectron had \$220.8 million in cumulative foreign exchange translation losses on its balance sheet, primarily attributable to the devaluation of the Brazilian real in January of 1998. While, to date, these factors have not had a significant adverse impact on its results of operations, Solectron cannot give any assurance that there will not be such an impact. Furthermore, while it may adopt measures to reduce the impact of losses resulting from volatile currencies and other risks of doing business abroad, Solectron cannot give any assurance that such measures will be adequate.

The Malaysian government adopted currency exchange controls, including controls on its currency, the ringgit, held outside Malaysia, and established a fixed exchange rate for the ringgit against the U.S. dollar. The fixed exchange rate provides a stable rate environment when applied to local expenses denominated in ringgit. The long-term impact of such controls is not predictable due to dynamic economic conditions that also affect or are affected by other regional or global economies.

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Solectron has been granted a tax holiday effective through January 31, 2002, subject to some conditions, for its Malaysian sites. Solectron has also been granted various tax holidays in China. These tax holidays are effective for various terms and are subject to some conditions. It is possible that the current tax holidays will be terminated or modified or that future tax holidays that Solectron may seek will not be granted. If the current tax holidays are terminated or modified, or if additional tax holidays are not granted in the future, Solectron's effective income tax rate would likely increase.

### **Solectron is exposed to fluctuations in foreign currency exchange rates.**

Solectron does not use derivative financial instruments for speculative purposes. Its policy is to hedge its foreign currency denominated transactions in a manner that substantially offsets the effects of changes in foreign currency exchange rates. Presently, Solectron uses foreign currency borrowings and foreign currency forward contracts to hedge only those currency exposures associated with certain assets and liabilities denominated in non-functional currencies. Corresponding gains and losses on the underlying transaction generally offset the gains and losses on these foreign currency hedges.

As of May 31, 2001, the majority of the foreign currency hedging contracts were scheduled to mature in less than three months, and there were no material deferred gains or losses. In addition, Solectron's international operations in some instances act as a natural hedge because both operating expenses and a portion of sales are denominated in local currency. In these instances, including Solectron's current experience involving the devaluation of the Brazilian real, although an unfavorable change in the exchange rate of a foreign currency against the U.S. dollar would result in lower sales when translated to U.S. dollars, operating expenses would also be lower in these circumstances. Also, since less than 13% of Solectron's net sales for the nine-month period ended May 31, 2001 are denominated in currencies other than the U.S. dollar, it does not believe its total exposure is significant.

Solectron has currency exposures arising from both sales and purchases denominated in currencies other than the functional currency of its sites. Fluctuations in the rate of exchange between the currency of the exposure and the functional currency of its sites could seriously harm its business, operating results and financial condition. For example, an increase in the rate at which a foreign currency is exchanged for U.S. dollars would require more of the foreign currency to equal a specified amount of U.S. dollars than before the rate increase. In such cases, and if Solectron prices its products and services in the foreign currency, Solectron would receive less in U.S. dollars than it did before the rate increase went into effect. If Solectron prices its products and services in U.S. dollars and competitors price their products in local currency, an increase in the relative strength of the U.S. dollar would result in Solectron's prices being uncompetitive in markets where business is transacted in the local currency.

**Solectron is exposed to interest rate fluctuations.**

The primary objective of Solectron's investment activities is to preserve principal and, at the same time, maximize yields without significantly increasing risk. To achieve this objective, Solectron maintains its portfolio of cash equivalents and short-term investments in a variety of securities, including both government and corporate obligations, certificates of deposit and money market funds. As of May 31, 2001, approximately 96% of Solectron's total portfolio investments were scheduled to mature in less than six months. In addition, Solectron's investments are diversified and of relatively short maturity.

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The following table presents the amounts of Solectron's cash equivalents and short-term investments that are subject to interest rate risk by calendar year of expected maturity and weighted average interest rates as of May 31, 2001:

	Expected Maturity			Fair Value
	Q1 2002	Q4 2002	Total	
	(in thousands)			
Cash equivalents and short-term investments	\$1,122.8	\$46.5	\$1,169.3	\$1,169.3
Average interest rate	4.70%	6.30%		

Solectron has entered into an interest rate swap transaction under which it pays a fixed rate of interest hedging against the variable interest rates implicit in the rent charged by the lessor for the facility lease at Milpitas, California. The interest rate swap expires June 3, 2002, which coincides with the maturity date of the lease term. As Solectron intends to hold the interest rate swap until the maturity date, it is not subject to market risk. In substance, such interest rate swap has fixed the interest rate for the facility lease, thus reducing interest rate risk.

Solectron's long-term debt instruments are subject to fixed interest rates. In addition, the amount of principal to be repaid at maturity is also fixed. In the case of the convertible notes, such notes are based on fixed conversion ratios into common stock. Therefore, Solectron is not exposed to variable interest rates related to its long-term debt instruments.

**Solectron may not be able to adequately protect or enforce its intellectual property rights; and it could become involved in intellectual property disputes.**

Solectron's ability to compete effectively may be affected by its ability to protect its proprietary information. Solectron holds a number of patents and other license rights. These patent and license rights may not provide meaningful protection for Solectron's manufacturing processes and equipment innovations. In the semiconductor, computer, telecommunications and networking industries, companies receive notices from time to time alleging infringement of patents, copyrights or other intellectual property rights, and litigation sometimes arises out of such notices. For example, in January 2000, SMART filed a lawsuit seeking to have declared invalid, and/or not infringed, three patents purportedly applicable to industry standard memory products, including those manufactured by SMART and the other manufacturers of these industry standard memory products. The owner of these patents brought a cross-complaint alleging patent infringement against SMART, and has also brought suit against several other memory product manufacturers alleging infringement of the three patents. Solectron believes that SMART's memory products do not infringe any valid claims of any of the three patents at issue. Moreover, Solectron has been and may from time to time continue to be notified of claims that it may be infringing patents, copyrights or other intellectual property rights owned by other third parties.



The current litigation or any other litigation could result in substantial costs and diversion of resources and could have a material adverse effect on Solectron's business, financial condition and results of operations. In the future, third parties may assert infringement claims against Solectron or its customers. In the event of an infringement claim, Solectron may be required to spend a significant amount of money to develop a non-infringing alternative or to obtain licenses. Solectron may not be successful in developing such an alternative or obtaining a license on reasonable terms, if at all. In addition, any such litigation could be lengthy, costly and could harm Solectron's financial condition.

**Failure to comply with environmental regulations could harm Solectron's business.**

As a company in the electronics manufacturing services industry, Solectron is subject to a variety of environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals used during its manufacturing processes. Although Solectron has never sustained any significant loss as a result of non-compliance with such regulations, any failure by it to comply with environmental laws and regulations could result in material liabilities, the suspension of production or a material adverse effect on

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its business or financial condition. In addition, these laws and regulations could significantly restrict Solectron's ability to expand its facilities or require it to acquire costly equipment or incur other material costs to comply with regulations.

**Solectron's administrative facilities and principal business operations are located in California, and any disruption in the available power supply in California could disrupt its operations, reduce its revenues, and increase its expense.**

The State of California is in the midst of an energy crisis that could interrupt Solectron's power supply or that of the third-party service providers and thereby disrupt its operations, reduce its revenues and increase its expenses. A substantial portion of Solectron's operating activities and facilities, including its headquarters and principal administrative facilities, are located in California. During acute power shortages, California has implemented, and may in the future continue to implement, rolling blackouts throughout the state. The rolling blackouts that have occurred to date have not materially disrupted the operations of Solectron's facilities. Should these blackouts continue or increase in severity, however, they could materially disrupt the operations of one or more of Solectron's facilities. Although Solectron currently does not have backup generator or long-term alternate sources of power in the event of a blackout, it does have some flexibility to shift some manufacturing volume to other manufacturing sites around the world. If blackouts interrupt its power supply, Solectron would be temporarily unable to continue operations at its affected facilities. Solectron's current insurance does not provide coverage for any damages it or its customers may suffer as a result of any interruption in its power supply. Consequently, any interruption in Solectron's ability to continue operations at its facilities could damage its reputation, harm its ability to retain existing customers and to obtain new customers, and could result in lost revenue, any of which would substantially harm its business and results of operations.

In addition, the utility deregulation program instituted in 1996 by the California government deregulated wholesale prices while continuing to regulate the retail prices charged by the electrical utilities. While wholesale prices have increased dramatically, retail prices have, until recently, not increased at a comparable rate. Solectron's business is substantially dependent on the availability and price of electricity. If retail electricity prices rise dramatically, Solectron would expect its expenses to increase, its operating results to be harmed, and the possible decline of its stock price.

**Solectron's stock price may be volatile due to factors outside of its control.**

Solectron's stock price could fluctuate due to the following factors, among others:

announcements of operating results and business conditions by its customers;

announcements by its competitors relating to new customers, technological innovation or new services;

economic developments in the electronics industry as a whole;

political and economic developments in countries where it has operations; and

general market conditions.

**Solectron's low stock price may reduce its diluted earnings per share.**

On January 27, 2002, Solectron may become obligated to purchase all or a portion of the outstanding 4.0% liquid yield option notes, or LYONs, at a price of \$510.03 per note (the purchase price) at the option of the holders of such securities. Solectron has the option to pay the purchase price of LYONs in cash or Solectron common stock or any combination thereof. If Solectron elects to pay the purchase price, in whole or part, in shares of its common stock, the number of shares of Solectron common stock to be delivered shall equal the purchase price divided by the average of the sale prices of the Solectron common stock for the five trading day period ending on the third business day prior to January 27, 2002. The LYONs are convertible into Solectron common stock at a price of \$34.13 per share or 14.944 shares per

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LYON. In the event that Solectron's stock price remains below \$34.13 per share at January 27, 2002, Solectron may have to issue additional shares to the holders. Accordingly, Solectron's diluted earnings per share may be reduced.

**Failure to retain key personnel and skilled associates could hurt Solectron's operations.**

Solectron's continued success depends to a large extent upon the efforts and abilities of key managerial and technical associates. Losing the services of key personnel could harm Solectron. Solectron's business also depends upon its ability to continue to attract and retain senior managers and skilled associates. Failure to do so could harm Solectron's operations.

**Solectron's anti-takeover defense provisions may deter potential acquirors and may depress its stock price.**

Solectron's certificate of incorporation, bylaws and the stockholder rights plan recently approved by the Solectron board of directors, contain provisions that could make it more difficult for a third party to acquire, or may discourage a third party from attempting to acquire, control of Solectron. These provisions allow Solectron to issue preferred stock with rights senior to those of its common stock and impose various procedural and other requirements that could make it more difficult for its stockholders to effect certain corporate actions.

**Risks relating to C-MAC**

**C-MAC depends on Nortel for a significant portion of its business, and further declines in sales to Nortel would materially harm its business, financial condition and operating results.**

For the year ended December 31, 2000, Nortel Networks Corporation and its affiliates accounted for approximately 60% of C-MAC's revenue, compared to 62% in the previous year. For the twenty-six week period ended June 30, 2001, Nortel and its affiliates accounted for approximately 46.8% of C-MAC's revenue compared to approximately 64.3% for the corresponding period of the previous year. C-MAC expects to continue to depend on Nortel for a significant percentage of its revenue, and any material delay, cancellation, or reduction of orders from Nortel, or any significant pricing or margin pressures exerted by Nortel, would have a material adverse effect on C-MAC's business, financial condition and operating results. In addition, C-MAC cannot guarantee that it will be able to retain Nortel's business or any other customer's business in its entirety.

**C-MAC typically does not enter into minimum purchase contracts with its customers.**

C-MAC's contracts with its customers typically do not provide for minimum purchases. Most of C-MAC's sales are derived from purchase orders from its customers, which typically commit to production schedules up to 90 days in advance. As a result, C-MAC cannot guarantee that it will receive any orders under its existing contracts. Orders may generally be cancelled, reduced or delayed with little advance notice. C-MAC cannot be certain that it will be able to replace delayed or reduced orders with new business. As a result, cancellations, reductions or rescheduling of orders could have an adverse effect on C-MAC's operating results.

**C-MAC is exposed to general economic conditions, which could have a material adverse impact on its business, operating results and financial condition.**

As a result of recent unfavorable economic conditions, C-MAC's sales in the third quarter have declined over the first two quarters of 2001. In particular, sales to OEMs, in the communications market in the United States and Canada were particularly affected during the third quarter of 2001. If the economic conditions in the United States and Canada worsen or if a wider or global economic slowdown occurs, C-MAC may

experience a material adverse impact on its business, operating results and financial condition.

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### **C-MAC's annual and quarterly operating results may fluctuate.**

C-MAC's operating results may fluctuate significantly from quarter to quarter and from year to year due to a number of factors, including the following:

the level and timing of customer orders;

differences in profitability in the type of products and services it sells;

the volume of orders relative to its capacity;

fluctuations in demand for its products and services due to seasonality in the communications equipment market;

the impact of acquisitions;

pricing and other competitive pressures;

fluctuations in the availability and cost of raw materials;

its ability to manage inventory and fixed assets effectively; and

its ability to coordinate expenditures in anticipation of future sales.

C-MAC's customers generally require short delivery cycles. Quarterly sales and operating results therefore depend in large part on the volume and timing of orders received during the quarter. C-MAC is unable to forecast the level of customer orders with certainty, which may lead to fluctuations in operating results. These fluctuations make it difficult to schedule production and maximize utilization of C-MAC's manufacturing capacity. In the past, C-MAC has been required to increase staffing, purchase materials and incur other expenses to meet the anticipated demand of its customers. In addition, some of the expenses related to C-MAC's operations are relatively fixed in nature and planned expenditures are based in part on anticipated orders. Any inability to adjust spending quickly enough to compensate for any revenue shortfall may magnify the adverse impact of such revenue shortfall on C-MAC's business, financial condition and operating results.

### **C-MAC is dependent on the continuing trend of outsourcing by OEMs, and its growth could be adversely affected if this trend slows or ceases to continue.**

C-MAC's revenue growth is significantly attributable to the increased outsourcing of manufacturing and supply chain services by its original equipment manufacturer, or OEM, customers. C-MAC's future growth is partially dependent on new outsourcing opportunities. These outsourcing opportunities may include the transfer by OEMs of assets such as facilities, equipment, inventory and labor. To the extent that these opportunities are not available or the outsourcing trend by OEMs does not continue, C-MAC's future growth would be adversely affected.

### **C-MAC depends upon the electronics industry, particularly the communications equipment market, which is subject to rapid technological change and product obsolescence.**

C-MAC's business is heavily dependent upon the electronics industry, particularly the communications equipment market, which is subject to rapid technological change and product obsolescence. If C-MAC is unable to provide technologically advanced products and manufacturing services at competitive prices, demand for its services will decline. In the past, C-MAC has experienced delays in the development and introduction of new products. C-MAC cannot guarantee that it will not experience similar delays in the future. Any inability to maintain high-quality design and engineering services or introduce new products at competitive prices would adversely affect its operating results. Furthermore, if C-MAC's major customers do not design products that keep pace with this rapid technological change, their products could become obsolete and their demand for C-MAC's services could decline significantly.

**Table of Contents****C-MAC operates in a highly competitive industry which could cause it to experience downward pressure on prices, fewer customer orders and the loss of market share.**

The EMS industry is highly competitive. Consolidation in the EMS industry is leading to a continually changing competitive landscape and the creation of larger and more geographically diverse competitors with significant combined resources. In addition, C-MAC may in the future encounter competition from other large electronic manufacturers that are selling, or may begin to sell, electronic manufacturing services. C-MAC also faces potential competition from the manufacturing operations of its current and potential customers, who are continually evaluating the merits of manufacturing products internally versus the advantages of outsourcing. C-MAC will face increasing competitive pressures to grow its business in order to remain competitive. Increased competition from existing or potential competitors could result in price reductions, fewer customer orders or loss of market share.

**C-MAC may experience component shortages, which would increase its costs or cause it to delay shipments to customers.**

C-MAC procures components and incorporates them into the assemblies and subassemblies it manufactures. C-MAC depends on a single supplier or a limited number of suppliers for certain raw materials or components, and it generally does not have long-term supply agreements. Therefore, C-MAC may occasionally experience delays in component deliveries which could cause delays in product shipments. The inability to procure sufficient components, or to develop alternative sources if required, could cause delays, disruptions or reductions in product shipments and could adversely affect its operating results.

While most of its significant customers' contracts permit quarterly or other periodic adjustments to pricing based on increases or decreases in component prices, C-MAC typically bears the risk of component price increases that occur between any such repricings or, if such repricings are not permitted, during the balance of the term of the particular customer's contract. Accordingly, certain component price increases could adversely affect C-MAC's operating margins.

**C-MAC may fail to successfully complete future acquisitions and may not successfully integrate acquired businesses which could adversely affect its financial performance.**

C-MAC has, for the past several years, pursued a strategy of growth in large part through acquisitions. C-MAC cannot give any assurance that it would be able to successfully complete future acquisitions, due primarily to increased competition for the acquisition of electronics manufacturing services operations. Similarly, C-MAC cannot give any assurance that it will be able to successfully integrate the operations and management of its recent acquisitions or future acquisitions. Acquisitions of companies and assets involve significant risks that could have a material adverse effect on C-MAC, including:

Operating risks, such as:

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

diversion of C-MAC's management's attention;

difficulties in scaling-up production and coordinating management of operations at new sites;

the strain placed on C-MAC's systems and resources;

disruption in manufacturing operations;

the possible modification or termination of customer programs; and

loss of key employees of the acquired businesses.

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Financial risks, such as:

the dilutive effect of the issuance of additional equity securities;

the incurrence of additional debt;

the incurrence of large one-time write-offs;

possible effect of adverse tax and accounting treatments; and

unforeseen liabilities of the acquired businesses.

### **C-MAC may fail to successfully establish new facilities.**

C-MAC faces numerous risks in establishing, equipping and commencing operations in any new facilities that it establishes. These risks, which could be more pronounced for facilities that C-MAC establishes outside of North America, include:

the failure to identify and acquire or lease suitable properties;

construction delays and cost overruns;

the cost and unavailability of necessary equipment;

the failure to hire, train and manage manufacturing personnel; and

production delays, unfavorable manufacturing yields and lengthening delivery schedules.

### **Failure to manage its growth may seriously harm C-MAC's business.**

C-MAC's business has grown rapidly in recent years through both internal growth and acquisitions. This growth has placed, and will continue to place, significant strain on its operations. To manage its growth effectively, C-MAC must continue to improve and expand its financial, operational and management information systems; continue to develop the management skills of its managers and supervisors; and continue to train, manage and motivate its employees. If C-MAC is unable to manage its growth effectively, its operating results could be harmed.

### **Failure to effectively manage the risks associated with its international operations could harm C-MAC's operating results.**

International operations involve significant risks. The failure to effectively manage these risks could harm C-MAC's operating results. During 2000, approximately 20% of its revenue was derived from sales outside of North America. C-MAC also has substantial manufacturing operations in Europe and C-MAC purchases components manufactured outside of North America. International sales and operations may be limited or disrupted by increased regulatory requirements, the imposition of government and currency controls, export license requirements, political instability, labor unrest, transportation delays and interruptions, trade restrictions, changes in tariffs and difficulties in staffing and co-ordinating communications among international operations. Additionally, C-MAC's business and operating results may be harmed by fluctuations in international currency exchange rates as well as increases in duty rates, constraints on the ability to maintain or increase prices, and competition. C-MAC cannot give any assurance that its international operations will continue to contribute positively to its business and operating results.

### **C-MAC depends on certain key personnel, and the loss of key personnel may harm its business.**

C-MAC's future success depends in large part on the continued service of its key technical and management personnel and on its ability to continue to attract and retain qualified employees, particularly those highly skilled design, process and test engineers involved in the manufacture of existing products and the development of new products and processes. The competition for such personnel is intense, and the

loss of key employees, none of whom is subject to an employment agreement for a specified term or a post-employment non-competition agreement, could harm its business.

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### **The products C-MAC manufactures may contain defects that are difficult to detect and correct; if C-MAC fails to detect or correct them, C-MAC could lose customers and be subject to warranty or other claims.**

Some of the products C-MAC manufactures are highly complex and sophisticated and may contain defects that are difficult to detect and correct. Even though designs are generally provided by its customers, C-MAC cannot give any assurance that errors will not be found in products after commencement of commercial shipments or, if discovered, that C-MAC will be able to successfully correct such errors in a timely manner or at all. The occurrence of errors and failures in its products could result in warranty claims or loss of customers. Correcting such defects could require significant capital investment. When defective products are integrated in its customers' equipment, C-MAC may face product liability claims based on damages to such equipment. Any claims, errors or failures could have an adverse effect on its operating results and its business.

### **C-MAC is exposed to foreign currency risk.**

C-MAC's financial results are reported in Canadian dollars. A significant portion of its revenue and expenses as well as its accounts payable, accounts receivable and other balance sheet items are denominated in currencies other than the Canadian dollar, primarily in United States dollars. Fluctuations in the exchange rate between these other currencies and the Canadian dollar could reduce its reported revenue, increase its costs or give rise to a charge related to foreign currency translation, all of which could adversely affect its operating results and reported earnings.

### **C-MAC relies primarily on trade secrets to protect its technology; C-MAC may also be subject to claims for infringement on the intellectual property of others.**

C-MAC believes that certain of its proprietary design and manufacturing technologies give C-MAC a competitive advantage. Accordingly, C-MAC has taken, and intends to continue to take, appropriate steps to protect this proprietary information, including signing non-disclosure agreements with certain customers, employees and other parties. C-MAC relies primarily on trade secrets and C-MAC generally does not rely on copyright protections, trademarks or patents. C-MAC's protection measures may not be sufficient to prevent the misappropriation or unauthorized disclosure of its technology or information.

C-MAC also faces the risk that infringement claims may be brought against C-MAC or its customers in the future. If someone does successfully assert an infringement claim, C-MAC may be required to spend significant time and money to defend against such claim, to develop a manufacturing process that does not infringe upon the rights of such other person or to obtain licenses for the technology, process or information from the owner. C-MAC may not be successful in the defense of such claims and may not be able to develop processes that do not infringe on the rights of third parties or obtain licenses on commercially acceptable terms, if available at all. In addition, any litigation could be lengthy and costly and could adversely affect C-MAC, its operations or financial results, whether or not C-MAC is successful in defending any litigation.

### **Failure to comply with environmental laws could harm its business.**

Like other EMS companies, C-MAC is subject to extensive environmental laws and regulations in various jurisdictions. Although all of its manufacturing facilities have personnel responsible for monitoring environmental compliance, there can be no assurance that violations have not or will not occur in the future as a result of human error, equipment failure or other causes. In the event of a violation of environmental laws, C-MAC could be held liable for fines or penalties and be subject to revocation of certain environmental permits. Any revocation of, or the failure to renew, environmental permits could require C-MAC to cease or limit production at one or more of its facilities, which could adversely affect its operating results. Under certain environmental laws, C-MAC could also be liable for the cost of remedial action. Environmental laws could become more stringent over time. The costs of compliance with, and penalties and damages associated with violation of, environmental laws could be significant.

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**THE SPECIAL MEETING OF SOLECTRON STOCKHOLDERS**

**General**

Solectron is furnishing this document to all stockholders of record of Solectron common stock in connection with the solicitation of proxies by the Solectron board of directors for use at the special meeting of Solectron stockholders to be held on \_\_, 2001, and at any adjournment or postponement thereof. This document is also being furnished to C-MAC securityholders by Solectron as a prospectus of Solectron in connection with the issuance by Solectron of shares of Solectron common stock as contemplated by the combination agreement and plan of arrangement.

The rules of the New York Stock Exchange require that a listed issuer obtain the consent of its stockholders prior to completing any transaction that would result in the issuance of more than 20% of the issuer's outstanding common stock. The transaction provides that Solectron will issue shares of its common stock (either directly or on exchange of exchangeable shares) representing, in the aggregate, in excess of 20% of its outstanding common stock. If Solectron were to consummate the transactions without stockholder approval, Solectron common stock could not remain listed on the New York Stock Exchange. Stockholder approval of the transactions is not required by Delaware law or Solectron's certificate of incorporation.

**Although Solectron stockholders are not being asked to vote on the combination agreement or the plan of arrangement, the issuance of Solectron common stock is necessary in order to complete the acquisition of C-MAC as contemplated by those agreements.**

**Date, Time and Place**

The special meeting of stockholders of Solectron will be held on \_\_, 2001 at \_\_, California time, at Solectron's corporate offices at 847 Gibraltar Drive, Milpitas, California 95035.

**Purpose of the Special Meeting**

At the special meeting, and any adjournment or postponement thereof, Solectron stockholders will be asked:

1. to consider and vote upon a proposal to approve the issuance of up to \_\_ shares of Solectron common stock pursuant to the combination agreement and the plan of arrangement; and
2. to transact other business that may properly come before the special meeting and any adjournment or postponement of the special meeting.

Copies of the combination agreement and all related exhibits, including the plan of arrangement, are attached to this document as Annexes A-1, A-2 and C through E. Solectron stockholders are encouraged to read the combination agreement and related exhibits in their entirety and the other information contained in this document carefully before deciding how to vote.

**Record Date for the Special Meeting**

The Solectron board of directors has fixed the close of business on \_\_, 2001 as the record date for determination of Solectron stockholders entitled to notice of and to vote at the special meeting.

**Vote Required**

In order for the Solectron share issuance to be approved, the rules of the New York Stock Exchange require that a majority of the votes cast at a special meeting of Solectron stockholders (at which a quorum is present) must approve the issuance. Each share of Solectron common stock entitles the holder to one vote per share with respect to the matters expected to be submitted to the stockholders at the special meeting. There are no other voting securities of Solectron.

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As of the close of business on the record date for the special meeting, approximately \_ shares of Solectron common stock were issued and outstanding, and there were approximately \_ stockholders of record. Each share of Solectron common stock is entitled to one vote. There are no other shares of Solectron capital stock entitled to vote at the special meeting.

As of the close of business on the record date for the special meeting of Solectron stockholders at which the Solectron share issuance will be considered and voted upon, directors and executive officers of Solectron (and their respective affiliates) collectively owned approximately \_% of the outstanding shares of Solectron common stock entitled to vote at the special meeting on the issuance. This does not include \_ shares of Solectron common stock underlying presently exercisable options which these directors and officers beneficially own. If all of these stock options had been exercised prior to the record date for the special meeting, the directors and executive officers of Solectron (and their respective affiliates) would collectively own approximately \_% of the outstanding shares of Solectron common stock entitled to vote at the special meeting.

## **Quorum, Abstentions and Broker Non-Votes**

A majority of all issued and outstanding voting shares of Solectron as of the record date, represented in person or by proxy, constitutes a quorum for the transaction of business at the special meeting. Solectron has appointed Susan Wang to function as the inspector of elections of the special meeting. The inspector of elections will ascertain whether a quorum is present, tabulate votes and determine the voting results on all matters presented to Solectron stockholders at the special meeting. If a quorum is not obtained, the special meeting may be postponed or adjourned for the purpose of allowing additional time for obtaining additional proxies or votes, and at any subsequent reconvening of the special meeting, all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the special meeting, except for any proxies that have been effectively revoked or withdrawn prior to the subsequent special meeting.

If you submit a proxy that indicates an abstention from voting in all matters, your shares will be counted as present for the purpose of determining the existence of a quorum at the special meeting, but they will not be voted on any matter at the applicable special meeting. In addition, the failure of a Solectron stockholder to return a proxy will have the effect of reducing the number of votes cast at the special meeting thereby also reducing the number of votes needed to approve the Solectron share issuance. The failure to return a proxy may also contribute to a failure to obtain a quorum at the special meeting.

Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients, who are the beneficial owners of the shares, brokers have discretion to vote these shares on routine matters but not on non-routine matters. The approval of the Solectron share issuance at the special meeting is not considered a routine matter. Accordingly, brokers will not have discretionary voting authority to vote your shares at the special meeting. A broker non-vote occurs when brokers do not have discretionary voting authority and have not received instructions from the beneficial owners of the shares. At the special meeting, broker non-votes will be counted for the purpose of determining the presence of a quorum but will not be counted for the purpose of determining the number of votes cast on a matter. Consequently, **Solectron stockholders are urged to return the enclosed proxy card marked to indicate their vote.**

## **Solicitation of Proxies and Expenses**

Solectron will bear its own expenses in connection with the solicitation of proxies for its special meeting of stockholders, except that C-MAC and Solectron will divide evenly all out-of-pocket expenses (other than fees and expenses of attorneys, accountants, investment bankers and other advisors) incurred in connection with the printing and filing of the C-MAC circular, this document and the filing and registration with any governmental entity of any documents in connection with the transaction, including registration and filing fees.

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In addition to solicitation by mail, directors, officers and employees of Solectron may solicit proxies from stockholders by telephone, facsimile, e-mail or in person. No additional compensation will be paid to these individuals for any such services. Some of these individuals may have interests in the transaction that are different from, or in addition to, the interests of Solectron stockholders generally. Solectron has retained Morrow & Co. for the purpose of soliciting proxies and will pay Morrow & Co. \$12,500 for its services. Record holders such as brokerage houses, nominees, fiduciaries and other custodians will be requested to forward soliciting materials to beneficial owners and to request authority for the exercise of proxies, and, upon the request of such record holders, they will be reimbursed for their reasonable expenses incurred in sending proxy materials to beneficial owners.



### **Voting of Proxies at the Special Meeting and Revocation of Proxies**

Solectron requests that all holders of Solectron common stock on the record date complete, date and sign the accompanying proxy and promptly return it in the accompanying envelope or otherwise mail it to Solectron. Brokers holding voting shares in street name may vote the shares only if the stockholder provides instructions on how to vote. Brokers will provide directions to stockholders on how to instruct your broker to vote the shares. Please note, however, that if the holder of record of your shares is your broker, bank or other nominee and you wish to vote at the meeting, you must bring a letter from the broker, bank or other nominee confirming that you are the beneficial owner of the shares. All properly executed proxies that Solectron receives prior to the vote at the special meeting, and that are not revoked, will be voted in accordance with the instructions indicated on the proxy card. If no direction is indicated on such proxies, such proxies will be voted in favor of approval of the Solectron share issuance (except for broker non-votes, which are discussed above). The Solectron board of directors does not currently intend to bring any other business before the special meeting and, to the knowledge of the Solectron board of directors, no other matters are to be brought before the special meeting. If other business properly comes before the special meeting, the proxies will vote in accordance with their own judgment.

A Solectron stockholder may revoke a proxy at any time prior to its use:

by delivering to the Secretary of Solectron a later-dated signed notice of revocation;

by delivering to the Secretary of Solectron a later-dated signed proxy (which will automatically replace any earlier dated proxy card that you returned); or

by attending the special meeting and voting in person.

Attendance at the special meeting does not in itself constitute the revocation of a proxy.

In addition to voting by the enclosed proxy card, you may vote by telephone, or electronically through the Internet, if you are a registered shareholder of Solectron. If you wish to vote by these methods, please follow the instructions included with your proxy card.

If your shares are held in street name, your broker or nominee may permit you to vote by telephone or electronically. Please check your proxy card or contact your broker or nominee to determine whether this method of voting is available to you.

### **Dissenters' Appraisal Rights**

Under the Delaware General Corporation Law, holders of Solectron common stock will not be entitled to demand appraisal of, or to receive payment for, their shares of Solectron common stock.

### **Other Matters**

Solectron is not aware of any business or matter other than those indicated above that may be properly presented at the special meeting. If, however, any other matter properly comes before the special meeting, the proxy holders will, in their discretion, vote on it in accordance with their best judgment.

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### **Recommendation of Solectron Board of Directors**

The Solectron board of directors has approved the combination agreement and the transactions contemplated by the combination agreement, including the issuance of shares of Solectron common stock. Accordingly, the Solectron board of directors recommends that stockholders vote **FOR** approval of the Solectron share issuance. In considering such recommendation, Solectron stockholders should be aware that some Solectron directors and officers have interests in the transaction that are different from, or in addition to, those of Solectron stockholders, and that Solectron provides indemnification to directors and officers of Solectron.

**The matters to be considered at the special meeting are of great importance to the stockholders of Solectron. Accordingly, you are urged to read and carefully consider the information presented in this document, and to complete, date, sign and promptly return the**

enclosed proxy in the enclosed postage-paid envelope.

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### **THE SPECIAL MEETING OF C-MAC SECURITYHOLDERS**

#### **General**

C-MAC is furnishing this document to its securityholders in connection with the solicitation of proxies by the management of C-MAC for use at the C-MAC special meeting to be held on \_\_, 2001.

#### **Date, Time and Place**

The special meeting of securityholders of C-MAC will be held on \_\_, 2001 at \_\_, Montreal time at \_\_.

#### **Purpose of the Special Meeting**

At the C-MAC special meeting, C-MAC securityholders will be asked:

1. to consider, pursuant to an order of the Superior Court of Justice (Québec) dated \_\_, 2001, and, if deemed advisable, to pass, with or without variation, a special resolution to approve the arrangement under Section 192 of the *Canada Business Corporations Act* involving the indirect acquisition by Solectron of all the issued and outstanding common shares of C-MAC; and
2. to transact such further or other business as may properly come before the C-MAC special meeting or any adjournment or postponement thereof.

Copies of the combination agreement and all related exhibits, including the plan of arrangement, are attached to this document as Annexes A-1, A-2 and C through E. C-MAC securityholders are encouraged to read the combination agreement and related exhibits in their entirety and the other information contained in this document, including the annexes, carefully before deciding how to vote.

#### **Record Date for Special Meeting**

The *Canada Business Corporations Act* does not require a fixed record date. The C-MAC board of directors has not fixed a record date for the special meeting. Pursuant to the *Canada Business Corporations Act*, the record date for determining the C-MAC securityholders entitled to notice of and to vote at the special meeting will be \_\_, 2001, the date before notice of the meeting is given.

#### **Vote Required**

The C-MAC arrangement resolution must be approved by not less than two-thirds of the votes cast by the holders of C-MAC common shares and holders of options to purchase C-MAC common shares, voting together as a class, in person or by proxy, at the C-MAC special meeting.

As of \_\_, 2001, there were \_\_ C-MAC common shares outstanding and there were options outstanding entitling holders thereof to receive \_\_ C-MAC common shares.

The C-MAC shareholders whose names were entered on the register of shareholders of C-MAC at the close of business on \_\_, 2001 and the C-MAC optionholders on \_\_, 2001 will be entitled to attend in person, or appoint a proxy nominee to attend, the C-MAC special meeting and to vote on a show of hands and, on a poll, to one vote for each C-MAC common share held on that date and for each C-MAC common share underlying any C-MAC options held on that date.

In the event that a holder has transferred any C-MAC common shares after \_\_, 2001, the transferee shall be entitled to vote at the C-MAC special meeting if such transferee produces properly endorsed share certificates or otherwise establishes proof of ownership of the shares and

demands, not later than ten days before the C-MAC special meeting that such transferee's name be included in the list of shareholders entitled to vote at the C-MAC special meeting. The list of shareholders of C-MAC will be available for inspection on and after \_\_, 2001, during usual business hours at the Montreal office of C-MAC's transfer agent and at the special meeting.

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To the knowledge of the directors and senior officers of C-MAC, as at \_\_, 2001, no person or company beneficially owned, directly or indirectly, or exercised control or direction over, C-MAC common shares and C-MAC options collectively carrying more than 10% of the voting rights attributable to all the outstanding C-MAC common shares and C-MAC options.

### **Quorum and Non-Registered Shareholders**

At least two persons present in person or by proxy or by any other duly authorized representative shall constitute a quorum for any meeting of the shareholders of C-MAC if the persons so present are shareholders of C-MAC and entitled to cast, in the aggregate, not less than ten percent of the votes which all of the shareholders of C-MAC are entitled to cast; provided that, if at the opening of any meeting a quorum is not present, one or more persons present in person or by proxy or by any other duly authorized representative shall constitute a quorum to adjourn the meeting of the shareholders of C-MAC if the person or persons so present hold at least one common share of C-MAC.

Non-registered shareholders should follow the directions of their intermediaries with respect to the procedures to be followed for voting. Generally, non-registered shareholders will not receive the same proxy form as distributed by C-MAC to registered shareholders but will be provided with either a request for voting instructions or a proxy form executed by the intermediary but otherwise uncompleted. Intermediaries will then submit votes on behalf of the non-registered shareholders. If you are a non-registered shareholder, please submit your voting instructions to your intermediary in sufficient time to ensure that your votes are received by C-MAC on or before 5:00 p.m., Montreal time, on \_\_, 2001.

### **Solicitation of Proxies and Expenses**

Proxies may be solicited personally or by telephone by representatives of C-MAC. The cost of solicitation will be borne by C-MAC. C-MAC has retained RBC Dominion Securities to form a soliciting dealer group to assist in the solicitation of proxies. C-MAC will pay to RBC Dominion Securities a fee for managing the solicitation, payable in the event of the successful completion of the transaction. In addition, each member of the soliciting dealer group whose name appears in the appropriate place on a proxy from a holder of C-MAC common shares or C-MAC options is to be paid a fee of Cdn.\$0.18 for each C-MAC common share or C-MAC option represented by the proxy that is voted in favor of the arrangement resolution provided that the solicitation fee in respect of any single beneficial owner of C-MAC common shares or C-MAC option will not be less than Cdn.\$85 or more than Cdn.\$1,500. Where the voted shares registered in a single name are beneficially owned by more than one person, the minimum and maximum amounts will be applied separately in respect of each such beneficial owner. The members of the soliciting dealer group may be required to furnish evidence of such beneficial ownership. The solicitation fee is only payable in the event that the transaction is completed.

### **Voting of Proxies at Special Meeting and Revocation of Proxies**

**The forms of proxy accompanying this document confer discretionary authority upon the proxy nominee with respect to any amendments or variations to the matter identified in the notice of special meeting of securityholders of C-MAC and any other matter which may properly come before the C-MAC special meeting or any adjournment thereof.**

**If a proxy given to C-MAC management is signed and returned, the securities represented by the proxy will be voted for or against the C-MAC arrangement resolution, in accordance with the instructions marked on the proxy. If no instructions are marked, the securities represented by such a proxy will be voted FOR the C-MAC arrangement resolution and in accordance with C-MAC management's recommendation with respect to amendments or variations of the matters set out in the C-MAC notice of special meeting or any other matters which may properly come before the C-MAC special meeting.**

The persons named in the C-MAC forms of proxy are officers of C-MAC. **A C-MAC securityholder has the right to appoint a person (who need not be a C-MAC securityholder) to represent such**

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securityholder at the C-MAC special meeting other than the persons designated in the form of proxy and may exercise such right by inserting the name in full of the desired person in the blank space provided in the C-MAC forms of proxy and striking out the names now designated.

Securityholders who do not expect to attend the C-MAC special meeting in person are requested to complete, sign, date and return the enclosed appropriate form of proxy in the enclosed envelope addressed to C-MAC Industries Inc., c/o General Trust of Canada, 1100 University Street, Montreal, Québec, Canada H3B 2G7 or 121 King Street West, Suite 600, Toronto, Ontario, Canada M5H 3T9, facsimile numbers (514) 871-7506 or (416) 865-7610. The C-MAC forms of proxy must be received by no later than 5:00 p.m. (Montreal time) on \_\_, 2001 or, in the event that the C-MAC special meeting is adjourned or postponed, by no later than 5:00 p.m. (Montreal time) on the second business day prior to the day fixed for the adjourned or postponed C-MAC special meeting.

There are two forms of proxy, a yellow proxy applicable to C-MAC shareholders and a grey proxy applicable to C-MAC optionholders. If you have the wrong form of proxy, please contact General Trust of Canada for the correct form at the address and phone number set out in the letters of transmittal and election forms sent to C-MAC securityholders with this document.

A C-MAC securityholder executing the form of proxy enclosed with the C-MAC circular has the power to revoke it by instrument in writing executed by the C-MAC securityholder or an attorney authorized in writing or, where the C-MAC shareholder is a corporation, by a duly authorized officer or attorney of the corporation. The instrument of revocation must be delivered to C-MAC Industries Inc., c/o General Trust of Canada, 1100 University Street, Montreal, Québec, Canada H3B 2G7 or 121 King Street West, Suite 600, Toronto, Ontario, Canada M5H 3T9, facsimile numbers (514) 871-7506 or (416) 865-7610 at any time up to and including the last business day preceding the date of the C-MAC special meeting or any adjournment thereof or to the Chairman of the C-MAC special meeting on the day of the C-MAC special meeting or any adjournment thereof before any vote in respect of which the proxy is to be used is taken or in any other manner permitted by law.

## **Dissenting Shareholder Rights**

Pursuant to the provisions of the interim order, registered C-MAC shareholders have been granted the right to dissent with respect to the C-MAC arrangement resolution. If the arrangement becomes effective, a registered C-MAC shareholder who dissents will be entitled to be paid the fair value of its C-MAC common shares by C-MAC. This right to dissent is described in this document and in the plan of arrangement which is attached to this document as Annex C. **The dissent procedures require that a registered holder of C-MAC common shares who wishes to dissent must provide to C-MAC Industries Inc., c/o General Trust of Canada, 1100 University Street, Montreal, Québec, Canada H3B 2G7 or 121 King Street West, Suite 600, Toronto, Ontario, Canada M5H 3T9, facsimile numbers (514) 871-7506 or (416) 865-7610 a dissent notice prior to 5:00 p.m. (Montreal time) on the last business day preceding the C-MAC special meeting. It is important that C-MAC shareholders strictly comply with this requirement and the other procedural requirements described in the interim order and this document, which are different from the statutory dissent provisions of the *Canada Business Corporations Act* that would permit a dissent notice to be provided at or at any time prior to the C-MAC special meeting. Failure to comply strictly with the dissent procedures may result in the loss or unavailability of any right of dissent. See **Dissenting Shareholder Rights** .**

## **Other Matters**

As at the date of this document, management of C-MAC is not aware of any amendments or variations to the C-MAC arrangement resolution, or of any other matter to be presented for action at the C-MAC special meeting.

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### **Recommendation of the C-MAC Board of Directors**

The board of directors of C-MAC has approved the combination agreement and the transaction contemplated by the combination agreement, including the arrangement. Accordingly, the board of directors recommends that the securityholders of C-MAC vote **FOR** approval of the C-MAC arrangement resolution. In considering such recommendation, C-MAC securityholders should be aware that some C-MAC directors and officers have interests in the transaction which are different from or in addition to, those of C-MAC securityholders generally, and

that Solectron provides indemnification to directors and officers of C-MAC. For more information about these interests see the section of this document entitled "The Transaction - Interest of Certain Persons in Transaction".

**The matters to be considered at the C-MAC special meeting are of great importance to the securityholders of C-MAC. Accordingly, you are urged to read and carefully consider the information presented in this document, including its annexes, and to complete, date, sign and promptly return the applicable enclosed form of proxy card in the enclosed postage paid envelope.**

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### **THE TRANSACTION**

The following is a description of the material aspects of the transaction, including the combination agreement, the plan of arrangement, and certain other agreements to be entered into in connection with the transaction. While Solectron and C-MAC believe that the following description covers the material terms of the combination agreement, the plan of arrangement and the related transactions and agreements, the description may not contain all of the information that is important to you. You should read this entire document and the other documents referred to carefully for a more complete understanding of the transaction. In particular, the following summaries of the combination agreement and the plan of arrangement are not complete and are qualified in their entirety by reference to the copies of the combination agreement and the plan of arrangement which are attached to this document as Annexes A-1, A-2 and C and are incorporated by reference into this document in their entirety. You should read the combination agreement and the plan of arrangement and the other transaction agreements in their entirety for a complete understanding of the terms of the transaction.

#### **General**

The Solectron board of directors and the C-MAC board of directors have each approved the combination agreement. The combination agreement provides that subsidiaries of Solectron will acquire all of the C-MAC common shares, subject to, among other things:

approval of the Solectron share issuance by Solectron stockholders;

approval of the C-MAC arrangement resolution by the C-MAC securityholders; and

approval of the arrangement by the Superior Court of Justice (Québec).

As a consequence of the arrangement, C-MAC will become an indirect wholly-owned subsidiary of Solectron. Pursuant to the arrangement, Solectron Global Services Canada Inc. (an indirect, wholly-owned subsidiary of Solectron referred to in this document as Exchangeco), will acquire all of the outstanding common shares of C-MAC (other than those of C-MAC shareholders who properly exercise their dissent rights and are paid by C-MAC and those held by Solectron or its affiliates), and the C-MAC shareholders (other than those who properly exercise their dissent rights or Solectron or its affiliates) will receive from Exchangeco for each C-MAC common share held either:

1.755 shares of Solectron common stock; or

in the case of Canadian resident C-MAC shareholders who validly so elect, 1.755 exchangeable shares of Exchangeco (and certain ancillary rights), or a combination of shares of Solectron common stock and exchangeable shares (and certain ancillary rights)

C-MAC shareholders who are not eligible to receive exchangeable shares or who are so eligible but do not validly elect to receive exchangeable shares will receive 1.755 shares of Solectron common stock for each C-MAC common share they own.

Persons owning C-MAC common shares through a holding company at the time of the transaction and meeting certain conditions may participate in the transaction by having Exchangeco acquire all of the shares of their holding company instead of the C-MAC common shares held by such holding company, in exchange for the same consideration otherwise receivable for such C-MAC common shares. This holding company alternative involves a complex series of transactions and is described in greater detail in "Transaction Mechanics - Holding Company Alternative".

Solectron, its affiliates and directors and, to Solectron's knowledge, none of its officers currently own any C-MAC common shares. Prior to the effective time of the arrangement, Exchangeco has agreed, in contemplation of the arrangement, to purchase at least Cdn.\$1 million, but not

more than Cdn.\$3 million, of C-MAC common shares on the open market. Based on the number of C-MAC common shares outstanding on \_\_, 2001, immediately following completion of the transaction, the former holders of C-MAC common shares will hold an aggregate of approximately \_\_ million exchangeable shares and

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shares of Solectron common stock (which does not include shares of Solectron common stock issuable to holders of C-MAC options upon exercise of C-MAC options after they are exchanged for options to purchase shares of Solectron common stock). Assuming all C-MAC common shares are exchanged for Solectron common stock and based upon the number of shares of Solectron common stock and C-MAC common shares outstanding as of \_\_, 2001, immediately following completion of the transaction existing C-MAC shareholders would hold approximately \_\_% of the outstanding Solectron common stock. See Pro Forma Capitalization of Solectron.

The exchangeable shares will be issued by Exchangeco and their holders will be entitled to dividend and other rights that are substantially economically equivalent to those of holders of Solectron common stock, and, through a voting trust, to vote at meetings of Solectron stockholders. See Description of Exchangeable Shares Voting, Dividend and Liquidation Rights .

Holders of exchangeable shares will have the right at any time to exchange each exchangeable share for one share of Solectron common stock. At any time on or after the seventh anniversary of the effective date of the arrangement (subject to acceleration if, (i) at any time after the fifth anniversary of the effective date of the arrangement, there are then outstanding exchangeable shares constituting fewer than 30% of the actual number of exchangeable shares issuable as determined at the election deadline for the arrangement; (ii) if at any time there are then outstanding exchangeable shares constituting fewer than 10% of the actual number of exchangeable shares issuable as determined at the election deadline for the arrangement; (iii) if at any time a merger, amalgamation, arrangement, tender offer, material sale of rights or similar transaction involving Solectron occurs and the board of directors of Exchangeco determines it is necessary to the transaction for the redemption to occur; or (iv) in certain other circumstances), Exchangeco will have the right, but not the obligation, to redeem all outstanding exchangeable shares (other than those held by Solectron and its affiliates) for an equal number of shares of Solectron common stock and an amount equal to all declared and unpaid dividends.

Solectron will also have the right, but not the obligation, to acquire (or cause Calco to acquire) all outstanding exchangeable shares (other than those held by Solectron and its affiliates) for an equal number of shares of Solectron common stock and an amount equal to all declared and unpaid dividends in the event of a change in Canadian federal and Québec tax legislation that allows holders of exchangeable shares who are Canadian residents to make such exchange on a tax deferred basis. See Description of Exchangeable Shares Mandatory Redemption by Exchangeco Solectron Call Right .

The combination agreement also provides that if, in the opinion of counsel to C-MAC, a change in tax law is enacted and becomes effective prior to the effective date of the arrangement pursuant to which beneficial holders of C-MAC common shares who are Canadian residents and who hold their shares as capital property for purposes of the *Income Tax Act* (Canada) (and any applicable Québec provincial legislation) may exchange their C-MAC common shares for shares of Solectron common stock on a tax-deferred basis for purposes of the *Income Tax Act* (Canada) (and any applicable Québec provincial legislation) then, at the option of Solectron, no exchangeable shares will be issued and the plan of arrangement will be amended accordingly.

C-MAC shareholders who properly exercise their dissent rights will be entitled to be paid the fair value of their C-MAC common shares. Dissenters appraisal rights under the Delaware General Corporation Law are not available to Solectron stockholders in connection with the transaction. See Dissenting Shareholder Rights .

## **Background of the Transaction**

In the first quarter of 2001, representatives of Banc of America Securities, C-MAC's financial advisor, met with Dennis Wood, Chairman of the Board, President and Chief Executive Officer of C-MAC, on several occasions to discuss industry dynamics, potential acquisition opportunities and other possible transactions. During these conversations, a potential transaction with Solectron was discussed and Mr. Wood informed Banc of America Securities that a transaction with Solectron would need to be considered if a proposal were made.

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On May 25, 2001, representatives of Banc of America Securities contacted Susan Wang, at the time Senior Vice President, Chief Financial Officer and Secretary of Solectron, and, effective September 1, 2001, Senior Vice President of Business Development and Secretary of Solectron, to discuss industry trends and, during such meeting, discussed acquisition opportunities, including a potential transaction with C-MAC. Ms. Wang informed Banc of America Securities that Solectron was interested in pursuing discussions regarding a potential transaction with C-MAC.

On June 4, 2001, representatives of Merrill Lynch, Pierce, Fenner and Smith Incorporated, Solectron's financial advisor, met with Koichi Nishimura, Chairman, Chief Executive Officer and President of Solectron, and Ms. Wang to discuss various acquisition opportunities available to Solectron, one of which was a potential transaction with C-MAC.

Subsequent to such discussions, an introductory meeting was held on June 7, 2001 in Monterey, California between Dr. Nishimura and Mr. Wood. At this meeting, Dr. Nishimura and Mr. Wood discussed current industry dynamics and the merits of a potential combination of the two companies.

Between June 7 and June 15, 2001, Dr. Nishimura and Mr. Wood had several informal discussions regarding a possible business combination of Solectron and C-MAC.

On June 15, 2001, Mr. Wood informed the C-MAC board of directors as to his discussions with Dr. Nishimura and as to the proposed meetings scheduled to take place on June 19, 2001.

On June 19, 2001, Solectron and C-MAC entered into a mutual non-disclosure agreement. On the same date, C-MAC retained Banc of America Securities as its financial advisor in connection with a potential transaction involving C-MAC and Solectron.

On June 19 and 20, 2001, at the offices of Banc of America Securities in Palo Alto, California, executive management of Solectron, including Dr. Nishimura, Ms. Wang, Saeed Zohouri, Senior Vice President and Chief Operating Officer of Solectron, and Dan Perez, Senior Vice President of Worldwide Account Management and Marketing of Solectron, met with executive management of C-MAC, including Mr. Wood, Claude Michaud, Vice President and Chief Financial Officer of C-MAC, Suzanne Gunther, Vice President, Strategic Development of C-MAC, John Naismith, Executive Vice President, Global Supply Chain Management of C-MAC, and Rick Rollinson, Vice President and President of Electronics Manufacturing Services of C-MAC. At these meetings, the parties engaged in more detailed discussions relating to the potential benefits of a business combination of Solectron and C-MAC and commenced the exchange of information. No financial advisors were present at these discussions.

Between June 20 and June 27, 2001, management and advisors of Solectron continued to exchange preliminary due diligence information and had discussions with management and advisors of C-MAC. On June 27, 2001, Solectron management and representatives of Merrill Lynch were provided an on-site due diligence tour at C-MAC's facility in Creedmoor, North Carolina. Following the tour, Solectron executive management and C-MAC executive management, together with representatives of Merrill Lynch and Banc of America Securities, held meetings in Creedmoor at which they further discussed the potential for a business combination, exchanged additional information and discussed setting up a formal due diligence process.

On June 28, 2001, a meeting of Solectron's board of directors was convened at which Merrill Lynch and Solectron management briefed the board on the discussions with C-MAC and the results of due diligence to date. Following a discussion of the merits and risks of a potential acquisition of C-MAC, the Solectron board of directors authorized management to proceed with a non-binding preliminary proposal to acquire C-MAC.

On June 29, 2001, Solectron management, including Dr. Nishimura, Ms. Wang and Onye Uzoukwu, Director, Business Development, and executive management of C-MAC, including Mr. Wood, Ms. Gunther and Mr. Michaud, and representatives of Merrill Lynch and Banc of America Securities held a meeting in Montreal at C-MAC's offices at which Solectron presented its broad outline of the terms on

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which a potential transaction could be premised, which was followed by discussions among the parties regarding the pricing terms of that proposal.

On July 5, 2001, a meeting of C-MAC's board of directors was convened at which Banc of America Securities and C-MAC management briefed the board of directors about the discussions with Solectron and the potential transaction. Following discussion about the general framework of such a transaction and the associated benefits and risks, the C-MAC board of directors authorized management and C-MAC's advisors to explore further the proposed transaction with Solectron. At the meeting, the C-MAC board of directors decided to form an ad hoc committee of independent directors to study the proposed transaction and report back to the C-MAC board of directors. The ad hoc committee's mandate included reviewing the proposed transaction, including the transaction documents, and reporting to the board of directors on its due diligence meetings with management of C-MAC and as to whether the board of directors could rely on a fairness opinion to be rendered by Banc of America Securities. The ad hoc committee is comprised of Messrs. Ronald T. Riley (as Chairman), Richard Royer and C. Wesley Scott.

On July 6, 2001, the parties amended their mutual non-disclosure agreement to include non-solicitation provisions and a standstill undertaking.

On July 6, 2001, a meeting of the Solectron board of directors was convened at which Solectron management and representatives of Merrill Lynch updated the board of directors on the status of discussions with, and the potential business combination with C-MAC. Following discussion about the general framework of such a transaction and the associated benefits and risks, Solectron's board of directors authorized management and Solectron's advisors to proceed with a more detailed due diligence review of C-MAC.

Between July 9 and July 12, 2001, representatives of Solectron, together with Solectron's advisors, conducted detailed due diligence on C-MAC at the offices of Stikeman Elliott, C-MAC's Canadian legal advisors, in Montreal, Québec, which included numerous meetings and discussions between representatives of Solectron and C-MAC and their respective advisors.

On July 16, 2001, Solectron delivered to C-MAC the initial draft of the combination agreement and on July 17 delivered the initial draft of the plan of arrangement in connection with the proposed transaction.

Between July 16 and July 19, 2001, C-MAC, together with its advisors, conducted due diligence on Solectron at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, Solectron's U.S. legal advisors, in Palo Alto, California, which included meetings and discussions between representatives of Solectron and C-MAC and their advisors.

On July 20, 2001 Solectron formally executed its engagement letter with Merrill Lynch outlining Merrill Lynch's role as exclusive financial advisor to Solectron with regard to a potential transaction with C-MAC.

Between July 16 and July 23, 2001 Solectron and C-MAC and their respective advisors continued to conduct due diligence. During this period, on each of July 18 and July 22, 2001, the Solectron board of directors met to discuss the progress of Solectron's due diligence review, negotiations regarding the definitive agreements, terms of the definitive agreements and the transaction process. At these meetings, representatives of Wilson Sonsini Goodrich & Rosati, with advice as to Canadian legal matters from Osler Hoskin & Harcourt LLP, Canadian counsel to Solectron, updated the board on the status of negotiations with C-MAC, including key issues under discussion and the relative positions of the parties with respect to such issues, and changes in the terms of the agreements since the last Solectron board meeting. At the July 22, 2001 board meeting, Wilson Sonsini Goodrich & Rosati, advised the Solectron board regarding its duties to the stockholders of Solectron.

Between July 16 and July 23, 2001, Solectron and C-MAC and their respective legal and financial advisors negotiated the terms of the definitive agreements in connection with the transaction, including the

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combination agreement, the plan of arrangement and all the exhibits to those agreements. These negotiations involved numerous calls between the parties involved in the negotiations.



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The ad hoc committee of C-MAC's board of directors met for the first time on July 19, 2001 with Mr. Dennis Wood. Mr. Wood discussed with the members of the ad hoc committee the terms of the proposed transaction, the rationale for creating the ad hoc committee and the ad hoc committee's mandate.

On July 20, 2001 the ad hoc committee decided to retain Ogilvy Renault as legal advisors to advise it in connection with its mandate and RBC Dominion Securities as its financial advisor. Also on July 20, 2001, the C-MAC board of directors decided to retain RBC Dominion Securities to provide financial advice in connection with the proposed transaction and to review the proposed transaction.

On July 20, 2001, a meeting of C-MAC's board of directors was convened at which representatives of Banc of America Securities presented to the board of directors the general framework of the proposed transaction with Solectron and the associated benefits and risks and Stikeman Elliott and Davis Polk & Wardwell, U.S. counsel to C-MAC, updated the board on the negotiations of the transaction agreements. During such meeting, Stikeman Elliott advised the C-MAC board of directors as to their duties to the C-MAC shareholders.

The members of the ad hoc committee discussed with its legal advisors the principal terms and features of the proposed transaction and determined that the proposed transaction was not made in circumstances which required the formation of a special or independent committee required by applicable Canadian securities laws. The ad hoc committee agreed that it would be made clear to management and the board of directors of C-MAC that the ad hoc committee would not make a recommendation to the board of directors as to the fairness of the proposed arrangement, such decision being left to the full board of directors. Rather, the ad hoc committee's report to the board of directors would be limited to the due diligence conducted, to its examination of the legal documentation and, based on the advice of its financial advisors and legal advisors, to whether members of the board of directors, subject to consideration of their respective duties and the relevant information available to them, could rely on the fairness opinion of Banc of America Securities in their consideration of the fairness of the proposed arrangement to shareholders of C-MAC.

On July 22, July 23, August 2 and August 6, 2001 the ad hoc committee of the C-MAC board of directors held meetings at which management of C-MAC and C-MAC's advisors provided more detailed summaries of the proposed transaction and, at each such meeting, presented management's recommendation that C-MAC continue to move forward with the transaction. At various times between July 22 and August 6, 2001, the ad hoc committee had discussions with RBC Dominion Securities to review the proposed transaction.

Also on July 22, 2001, a meeting of C-MAC's board of directors was convened at which Banc of America Securities provided additional details regarding the framework of the proposed transaction to the board of directors.

On July 23, 2001, Solectron management determined to suspend negotiations with C-MAC in order to evaluate market reaction to C-MAC's earnings announcement for the second quarter of 2001 to be issued the following day. In response, representatives of C-MAC informed Solectron that due diligence would be suspended pending the reinstatement of negotiations.

On July 24, 2001, C-MAC issued its earnings announcement in a press release and analyst conference call.

On July 27, 2001, representatives of Solectron and C-MAC discussed the market reaction to C-MAC's earnings announcement on July 24, and C-MAC management provided additional financial information.

On August 2, 2001, after extended discussions between the parties, C-MAC management determined to reinstate due diligence by Solectron. The parties conducted due diligence through August 6, 2001.

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On August 4, 2001, Solectron's board of directors held a meeting at which management, representatives of Merrill Lynch and Solectron's legal advisors informed the board of C-MAC's earnings announcement and other C-MAC financial information, as well as the results of due diligence to date. After extensive discussions of the merits of the proposed transaction, the board authorized management to reengage in negotiations with C-MAC.

On August 4, 2001, Solectron and C-MAC and their respective legal and financial advisors reinstated the negotiations of the terms of the definitive agreements in connection with the transactions, which continued through August 8, 2001.

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On August 6, 2001, a meeting of the Solectron board of directors was convened at which Solectron management, representatives of Merrill Lynch and Solectron's legal advisors updated the board on the negotiations, the results of the ongoing due diligence process, the result of negotiations with C-MAC about the exchange ratio and the status of the transaction. Representatives of Solectron's legal advisors updated the board on the status of negotiations with C-MAC, including key issues still under discussion and the relative positions of the parties with respect to such issues.

On August 6, 2001, the ad hoc committee of the C-MAC board of directors met to receive an update from representatives of Banc of America Securities, Stikeman Elliott and Ogilvy Renault regarding the results of negotiations with Solectron with respect to the exchange ratio and the status of the transaction. Banc of America Securities reviewed with the ad hoc committee its preliminary conclusions, which had incorporated the changes that had occurred over the previous weeks and, in particular, since C-MAC's earnings announcement of July 24, 2001. At various times between July 23 and August 6, members of C-MAC's management together with C-MAC's financial and legal advisors had informal discussions with members of the board and the ad hoc committee to update them as to the status of discussions.

Following the meeting of the C-MAC's board of directors, members of Solectron and C-MAC management, together with their respective legal and financial advisors, continued to negotiate the terms of the definitive agreements.

On August 7, 2001 Banc of America Securities discussed with the ad hoc committee a draft of its board presentation and fairness opinion. Subsequently, the ad hoc committee met with Ogilvy Renault and RBC Dominion Securities to review and discuss Banc of America Securities draft board presentation and fairness opinion to be delivered to C-MAC's board of directors. After an extensive review and thorough discussion of a number of facts and issues, the ad hoc committee concluded unanimously that it was appropriate for the board of directors of C-MAC to rely, when delivered, on the fairness opinion of Banc of America Securities. It was also agreed by the members of the ad hoc committee that, notwithstanding the scope of the mandate of the ad hoc committee, their respective individual opinions that the proposed arrangement was fair, from a financial point of view, to the shareholders of C-MAC and was in C-MAC's best interest would be communicated to the C-MAC board of directors. On the same day, a meeting of the C-MAC board of directors was convened at which C-MAC management and representatives of Banc of America Securities, Stikeman Elliott and Davis Polk & Wardwell updated the board of directors on the negotiations, including key issues still under discussion, the status of negotiations with Solectron about the exchange ratio and the transaction generally.

On August 8, 2001, a meeting of the Solectron board of directors was convened at which Solectron management and their advisors discussed with the board the fully negotiated terms of the transaction as agreed to with C-MAC. Solectron's legal counsel reviewed for the board the changes to the terms of the definitive agreements since the last board meeting. Solectron's advisors updated the board on the results of their ongoing due diligence review of C-MAC. Wilson Sonsini Goodrich & Rosati advised the board again regarding its duties to the stockholders of Solectron. Merrill Lynch delivered its oral opinion to the board of directors, subsequently confirmed in writing, that, as of that date, the exchange ratio was fair, from a financial point of view, to Solectron. The Solectron board of directors considered the results of the due diligence investigation, the terms of the definitive agreements, and the potential advantages and risks associated with the transaction, and after discussing and considering the analysis and opinion of Merrill Lynch, unanimously approved the combination agreement and the transactions contemplated by the

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combination agreement and authorized management to enter into the combination agreement and the related agreements.

Also on August 8, 2001, a meeting of the C-MAC board of directors was convened at which C-MAC management and representatives of Banc of America Securities and C-MAC's legal advisors provided a final update to the board of directors on the results of negotiations with Solectron. At the meeting, Banc of America Securities delivered its opinion to the board of directors that, as of that date, the exchange ratio was fair, from a financial point of view, to the shareholders of C-MAC. The board of directors then approved the combination agreement and the transactions contemplated by the combination agreement.

Before the open of the market on August 9, 2001, Solectron and C-MAC issued a joint press release publicly announcing the transaction.

On August 24, 2001, Solectron proposed a modified transaction structure in order to ensure obtaining the desired tax treatment. On the same day, Solectron's and C-MAC's respective legal advisors had discussions regarding the proposed structure and mechanics of the transaction and potential alternative structures. After reaching agreement on the terms of an alternative structure, the C-MAC board of directors met on September 6, 2001 to approve the revised terms of the combination agreement and Solectron and C-MAC executed an amendment to the combination agreement on September 7, 2001.

## Joint Reasons for the Transaction

The following discussion of Solectron's and C-MAC's reasons for the transaction contains a number of forward-looking statements that reflect the current views of Solectron and C-MAC with respect to future events that may have an effect on the combined company's future financial performance. Forward-looking statements are subject to risks and uncertainties. Actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Cautionary statements that identify important factors that could cause or contribute to differences in results and outcomes include those discussed in the sections of this document entitled "Cautionary Statements Regarding Forward-Looking Statements in this Document" and "Risk Factors".

The boards of directors of Solectron and C-MAC approved the combination agreement and the transactions contemplated by the combination agreement because they determined that the combined company would have the potential to realize a stronger competitive position and improved long-term operating and financial results. In particular, the boards of directors believe that the transaction will allow the combined companies the opportunity to:

selectively vertically integrate a variety of services across the supply chain, from microtechnology and electronic components to electro-mechanical components (PCB, backplane and enclosures);

complement Solectron's diversified contract manufacturing business through the addition of C-MAC's design and engineering, systems integration and test capabilities;

capitalize on the strength of some industries served by C-MAC, including the automotive electronics industry;

benefit from combining established customer and supplier relationships of both companies and cross-selling products and services into each other's installed customer base;

leverage manufacturing and production resources and technology; and

reduce costs through broader-based manufacturing activities and vertical integration.

The boards of directors of Solectron and C-MAC also believe that the transaction will contribute to the success of the combined companies because:

the transaction offers the opportunity to better serve the needs of existing and new customers who desire a more complete supply chain solution from contract manufacturers;

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the transaction affords C-MAC the scalability and the technology to take on larger, complex systems programs and to have the manufacturing expertise to produce most of the content of the systems in-house, where it makes economic sense to do so;

the transaction will allow each of Solectron and C-MAC to leverage each other's existing customer relationships, technology and manufacturing expertise in industries previously not part of their respective core business, including, with respect to Solectron, microtechnology manufacturing for the automobile industry; and

the transaction will further strengthen Solectron's pool of sales and engineering talent.

## **Recommendation of Solectron's Board of Directors**

Solectron's board of directors consulted with senior management and Solectron's financial and legal advisors and considered a number of factors, including those set forth below, in reaching its decision to approve the combination agreement and the transactions contemplated by the combination agreement, and to recommend that Solectron's stockholders vote **FOR** approval of the Solectron share issuance. The factors considered by Solectron's board of directors include:

the trading prices of the C-MAC common shares and Solectron common stock prior to August 8, 2001;

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the fairness opinion of Solectron's financial advisor, Merrill Lynch, Pierce, Fenner & Smith Incorporated to the effect that, as of the date of the opinion, the exchange ratio was fair, from a financial point of view, to Solectron;

historical information concerning the businesses, prospects, financial performance and condition, operations, technology, management and competitive position of Solectron and C-MAC and industry trends;

the anticipated financial condition, results of operations and businesses of Solectron and C-MAC after giving effect to the transaction;

current financial market conditions and historical market prices, volatility and trading information with respect to Solectron common stock;

the possible effect of the transaction on Solectron's employees, customers and current facilities;

the opportunity afforded by the transaction for Solectron to combine its operations with those of C-MAC;

the structure of the transaction;

the terms and conditions of the combination agreement generally, including the parties' representations, warranties and covenants, the circumstances in which a termination fee is payable to Solectron, and the terms of the combination agreement restricting C-MAC from soliciting, or subject to certain conditions, entering into a competing acquisition transaction; and

the results of due diligence investigations by management, legal and financial advisors and environmental consultants.

In considering the transaction, the Solectron board of directors recognized that there were certain risks associated with the transaction, including the risk that the potential benefits set forth above may not be realized, that there may be higher than anticipated costs associated with realizing such benefits, the potential dilutive effects of the issuance of Solectron common stock and the factors as set forth in this document under the heading "Risk Factors".

The foregoing discussion of the information and factors considered by Solectron's board of directors, while not exhaustive, includes the material factors considered by the Solectron board of directors. In view of the variety of factors considered in connection with its evaluation of the transaction, Solectron's board

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of directors did not find it practicable to, and did not, quantify or otherwise assign relative or specific weight or values to any of these factors, and individual directors may have given different weights to different factors.

After careful consideration, Solectron's board of directors deemed it advisable that the combination agreement and all of the transactions contemplated thereby be approved, and has approved the combination agreement and the transactions contemplated by the combination agreement, including the issuance of shares of Solectron common stock, and recommends that Solectron stockholders vote FOR approval of the Solectron share issuance.

### **Opinion of Solectron's Financial Advisor**

Solectron retained Merrill Lynch to act as its financial advisor with respect to the transaction. In connection with that engagement, Solectron requested that Merrill Lynch evaluate the fairness, from a financial point of view, to Solectron of the exchange ratio in the arrangement. At the meeting of the board of directors of Solectron on August 8, 2001, Merrill Lynch rendered its oral opinion to the board of directors of Solectron, subsequently confirmed in writing, that as of August 8, 2001, based upon the assumptions made, matters considered and limits of such review, as set forth in its opinion, the exchange ratio was fair to Solectron from a financial point of view.

**The full text of Merrill Lynch's opinion, which sets forth material information relating to Merrill Lynch's opinion that the exchange ratio was fair, from a financial point of view, to Solectron, including the assumptions made, matters considered and qualifications and limitations on the scope of review undertaken by Merrill Lynch, is attached as Annex G and is incorporated into this document by reference in its entirety. This description of Merrill Lynch's opinion should be reviewed together with the full text of the opinion, and**

**you are urged to read the opinion and consider it carefully. Merrill Lynch's opinion is addressed to Solectron's board of directors and addresses only the fairness, from a financial point of view, of the exchange ratio to Solectron. The terms of the arrangement, including the exchange ratio, were determined through negotiations between Solectron and C-MAC and were not determined or recommended by Merrill Lynch. Merrill Lynch's opinion does not address the merits of the underlying decision of Solectron to engage in the transaction and does not constitute, nor should it be construed as, a recommendation to any stockholder of Solectron or securityholder of C-MAC as to how to vote on the Solectron share issuance or any matter related to the arrangement.**

In arriving at its opinion, Merrill Lynch, among other things:

reviewed certain publicly available business and financial information relating to Solectron and C-MAC that Merrill Lynch deemed to be relevant;

reviewed certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities and prospects of Solectron and C-MAC, as well as the amount and timing of the cost savings and related expenses and synergies expected to result from the arrangement (referred to in this document as the "expected synergies"), furnished to it by Solectron and C-MAC, respectively;

conducted discussions with members of senior management of Solectron and C-MAC concerning the matters described above, as well as their respective businesses and prospects before and after giving effect to the arrangement and the expected synergies;

reviewed the historical market prices and valuation multiples for Solectron common stock and C-MAC common shares and compared them with those of certain publicly traded companies that Merrill Lynch deemed to be relevant;

reviewed the results of operations of Solectron and C-MAC and compared them with those of certain publicly traded companies which Merrill Lynch deemed to be relevant;

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compared the proposed financial terms of the transaction with the financial terms of certain other transactions that Merrill Lynch deemed to be relevant;

participated in certain discussions and negotiations among representatives of Solectron and C-MAC and their financial and legal advisors;

reviewed the potential pro forma impact of the transaction;

reviewed a draft of the combination agreement dated August 8, 2001; and

reviewed such other financial studies and analyses and took into account such other matters as Merrill Lynch deemed necessary, including its assessment of general economic, market and monetary conditions.

In preparing its opinion, Merrill Lynch assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to it, discussed with or reviewed by or for it, or publicly available, and Merrill Lynch did not assume any responsibility for independently verifying such information or undertake an independent evaluation or appraisal of any of the assets or liabilities of C-MAC or Solectron, nor was Merrill Lynch furnished with any such evaluation or appraisal. In addition, Merrill Lynch did not assume any obligation to conduct any physical inspection of the properties or facilities of C-MAC or Solectron. With respect to the financial forecast information and the expected synergies furnished to or discussed with Merrill Lynch by C-MAC or Solectron, it assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of C-MAC's or Solectron's management as to the expected future financial performance of C-MAC or Solectron, as the case may be, and the expected synergies. Merrill Lynch also assumed that the final form of the combination agreement would be substantially similar to the last draft reviewed by Merrill Lynch.

Merrill Lynch's opinion was necessarily based upon market, economic and other conditions as they existed and could be evaluated on the date of the opinion, and upon the information made available to Merrill Lynch as of the date of the opinion. Merrill Lynch assumed that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the arrangement, no restrictions, including any divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the transaction. Merrill Lynch also assumed that the arrangement will be consummated in accordance with the terms of the combination agreement without waiver of any material condition.

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According to the terms of its engagement by Solectron, Merrill Lynch has no obligation to update its opinion to take into account events occurring after the date that its opinion was delivered to Solectron's board of directors. As a result, circumstances could develop prior to consummation of the arrangement that, if known at the time Merrill Lynch rendered its opinion, would have altered such opinion. Merrill Lynch expresses no opinion as to the prices at which shares of Solectron common stock or C-MAC common shares will trade following the announcement or consummation of the transaction.

The matters considered by Merrill Lynch in arriving at its opinion are based on numerous macroeconomic, operating and financial assumptions with respect to industry performance, general business and economic conditions, many of which are beyond the control of C-MAC and Solectron, and involve the application of complex methodologies and educated judgment. Any estimates incorporated in the analyses performed by Merrill Lynch are not necessarily indicative of actual past or future results or values, which may be significantly more or less favorable than these estimates. Estimated values do not purport to be appraisals and do not necessarily reflect the prices at which businesses or companies may be sold in the future.

At the meeting of Solectron's board of directors held on August 8, 2001, Merrill Lynch presented certain financial analyses accompanied by written materials in connection with the delivery of its oral opinion at that meeting and its subsequent written opinion. The following is a summary of certain material financial analyses performed by Merrill Lynch in arriving at its opinion.

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#### Premiums and Synergies

**Premium to Historical Stock Price and Exchange Ratio.** Merrill Lynch reviewed, over various periods, both the average closing stock price of C-MAC common shares as well as the average historical exchange ratio of the C-MAC common share price to that of the Solectron common stock price. Merrill Lynch then reviewed the premiums represented by the implied transaction offer price (\$30.19) to the average closing share prices of C-MAC and the premiums represented by the transaction exchange ratio (1.755x) to the average historical exchange ratios over such periods. Merrill Lynch then reviewed the premiums paid in comparable electronics manufacturing services (EMS) transactions and similar sized (\$2-5 billion) technology transactions:

Period Prior to the Transaction Announcement Date	Period Average C-MAC Share Price	Premium Represented by the Implied Offer Price	Mean Implied Offer Price Premium in Comparable Transactions	
			Selected EMS Transactions	Selected Technology Transactions \$2-5 Bn
1 Day	\$22.67	33.2%	44.4%	40.9%
1 Month Average				
\$23.59 28.0% 54.0% 55.0%				
3 Month Average				
\$27.03 11.7% 63.7% 61.3%				

Period Prior to the Transaction Announcement Date	Period Average C-MAC Exchange Ratio	Premium Represented by the Transaction Exchange Ratio	Mean Transaction Exchange Ratio Premium in Comparable Transactions	
			Selected EMS Transactions	Selected Technology Transactions \$2-5 Bn
1 Day	1.3180x	33.2%	40.2%	39.8%
1 Month Average				

1.4254x 23.1% 44.7% 52.5%  
 3 Month Average  
 1.3768x 27.5% 50.3% 58.6%

Merrill Lynch observed that the implied offer price premium and the transaction exchange ratio premium was below the mean statistic of premiums paid for all of the one day, one month and three month means of both comparable EMS transactions and similar sized technology transactions.

**Synergy Analysis.** Merrill Lynch considered the effects of potential synergies on the estimated pro forma results of operations of the combined company after the transaction. This analysis was based solely upon the estimates of the management of Solectron of the synergies that the combined company may be able to achieve following completion of the transaction. The actual synergies achieved by the combined company after the transaction may vary from the potential synergies estimated by Solectron's management and the variations may be material. Based upon the estimates of Solectron's management, Merrill Lynch noted that the combined company could achieve annual pretax synergies approximating \$60 to \$120 million.

**C-MAC**

**Trading Analysis.** Merrill Lynch reviewed the recent trading performance of the common shares of C-MAC. The per share closing price trading data for various periods prior to announcement on August 9, 2001 are summarized in the table below:

Period	Low (\$)	High (\$)
12 Months	\$ 18.01	\$ 74.69
6 Months	18.01	46.88
3 Months	20.17	38.62
1 Month	21.00	26.77
10 Trading Days	22.67	24.68

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Merrill Lynch observed that the implied offer price for C-MAC was in the range of the twelve, six and three month trading ranges and above the one month and ten trading day performance of the C-MAC common shares.

**Comparable Public Trading Multiples Analysis.** Using publicly available Wall Street equity analyst projections and other information, Merrill Lynch compared selected financial data of C-MAC with similar data for selected publicly traded companies engaged in businesses that Merrill Lynch judged to be reasonably comparable to those of C-MAC. These companies were:

Tier I	Tier II
Celestica Inc.	Benchmark Electronics Inc.
Flextronics International Ltd.	Elcoteq Network Corporation
Jabil Circuit, Inc.	Manufacturers Services Ltd.
Sanmina Corporation	Plexus Corporation
SCI Systems, Inc.	Viasystems Group, Inc.
Solectron Corporation	

Merrill Lynch selected these companies because they engage in businesses reasonably comparable to those of C-MAC. Merrill Lynch used publicly available financial projections by equity analysts covering each comparable company to determine the ratio of price to projected calendar year earnings per share for 2001 and 2002 for each of these companies as well as other comparable multiple statistics. The following

table presents a summary of the range of price to earnings per share multiples of the comparable companies.

	Tier I		Tier II	
	2001	2002	2001	2002
Maximum Multiple	42.8x	30.7x	36.9x	28.4x
Minimum Multiple	29.6x	24.0x	11.7x	6.6x

Merrill Lynch observed that the implied multiples of the price being paid by Solectron to the 2001 and 2002 projected earnings of C-MAC based on published research analyst reports were in the range of the comparable company price to projected earnings multiples for each of 2001 and 2002.

It should be noted that no company utilized in the analysis above is identical to C-MAC. In evaluating companies identified by Merrill Lynch as comparable to C-MAC, Merrill Lynch made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of C-MAC, such as the impact of competition on the business of C-MAC and the industry generally, industry growth and the absence of any material change in the financial condition and prospects of C-MAC or the industry or in the financial markets in general. A complete analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading values of such comparable companies to which they are being compared; mathematical analysis is not in itself a meaningful method of using selected company data.

**Comparable Transaction Analysis.** Using publicly available Wall Street equity research analyst projections and other information, Merrill Lynch examined the following transactions that Merrill Lynch deemed to be relevant to determine the multiple of transaction value to last twelve months (or LTM) EBITDA where transaction value is generally defined as the sum of the per share offer price for the target company multiplied by the number of target company shares outstanding and the number of target company options outstanding, net of option proceeds, plus the preferred equity at liquidation, if any, the short-term debt, the long-term debt and any minority interests, less cash, marketable securities and exercisable option proceeds. EBITDA is generally defined as earnings before interest, taxes, depreciation,

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amortization and any non-recurring charges. Merrill Lynch also calculated the multiple of price to LTM earnings per share (or EPS) paid in such transactions. The transactions are:

Acquiror	Target
Sanmina Corporation	SCI Systems, Inc.
Celestica Inc.	Omni Industries Ltd.
Sanmina Corporation	AB Segerstrom & Svenson
Solectron Corporation	NatSteel Electronics
Flextronics International Ltd.	JIT Holdings
Flextronics International Ltd.	Chatham Technologies
Sanmina Corporation	Hadco Corporation
Flextronics International Ltd.	DII Group, Inc.
Solectron Corporation	Smart Modular Technologies, Inc.

All calculations of multiples paid for the selected transactions were based on public information available at the time of public announcement, and Merrill Lynch's analysis did not take into account different market and other conditions during the period in which the selected transactions occurred. The comparable transaction analysis yielded the following mean and median multiples:

Mean	Median
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## Edgar Filing: SOLECTRON CORP - Form S-4

Transaction Offer Value/ LTM EBITDA	17.9x	18.7x
Implied Offer Price/ LTM EPS		
35.3x 37.2x		

Merrill Lynch observed that the implied transaction offer value to LTM EBITDA multiple for C-MAC as well as the implied offer price to the LTM EPS multiple for C-MAC was below both the mean and median of the comparable transactions.

It should be noted that no transaction utilized in the analysis above is identical to the proposed Solectron-C-MAC transaction. A complete analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved in these transactions and other factors that could affect the transaction multiples or premiums paid in such comparable transactions to which the transaction is being compared; mathematical analysis (such as determining the mean or the median) is not in itself a meaningful method of using selected transaction data.

**Discounted Cash Flow Analysis.** Merrill Lynch performed a discounted cash flow analysis of C-MAC, without giving effect to the transaction, for the fiscal years 2002 through 2006 based on published research analyst reports and First Call estimates. Merrill Lynch calculated a range of equity values per share for C-MAC based upon the sum of the discounted net present value of C-MAC's five-year stream of projected unlevered free cash flows plus the discounted net present value of the terminal value based on a range of multiples of its projected 2006 EBITDA.

Using discount rates ranging from 18.0% to 20.0% and terminal value multiples of estimated 2006 EBITDA ranging from 9.0x to 15.0x, Merrill Lynch calculated the following range of implied equity values per common share of C-MAC:

	Low (\$)	High (\$)
Implied Equity Value Per Common Share of C-MAC	24.18	41.19

Merrill Lynch observed that the implied offer price for C-MAC was within the range of the implied equity value per share of C-MAC common shares as determined by the discounted cash flow analysis.

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#### SOLECTRON

**Trading Analysis.** Merrill Lynch reviewed the recent trading performance of shares of Solectron common stock. The per share closing price trading data for various periods prior to announcement on August 9, 2001 are summarized in the table below:

Period	Low (\$)	High (\$)
12 months	14.79	52.00
6 Months	14.79	34.20
3 Months	14.79	27.13
1 Month	14.79	18.62
10 Trading Days	17.11	18.62

Merrill Lynch observed that the Solectron share price one day prior to the transaction announcement date was in the range of the twelve, six, three and one month and ten day trading performance of the Solectron stock.

## Edgar Filing: SOLECTRON CORP - Form S-4

**Comparable Public Trading Multiples Analysis.** Using publicly available Wall Street equity analyst projections and other information, Merrill Lynch compared selected financial data of Solectron with similar data for selected publicly traded companies engaged in businesses that Merrill Lynch judged to be reasonably comparable to those of Solectron. These companies were:

Celestica Inc.  
Flextronics International Ltd.  
Jabil Circuit, Inc.  
C-MAC Industries Inc.  
Sanmina Corporation  
SCI Systems, Inc.

Merrill Lynch selected these companies because they engage in businesses reasonably comparable to those of Solectron. Merrill Lynch used publicly available financial projections by equity analysts covering each comparable company to determine the ratio of price to projected earnings per share for calendar years 2001 and 2002 for each of these companies. The following table presents a summary of the range of price to projected earnings per share multiples of the comparable companies.

	<u>2001</u>	<u>2002</u>
Maximum Multiple	42.8x	30.7x
Minimum Multiple		
25.9x 20.0x		

Merrill Lynch observed that the trading multiple of Solectron based on published research analyst reports was in the range of the comparable company price to projected earnings per share multiples for each of 2001 and 2002.

It should be noted that no company utilized in the analysis above is identical to Solectron. In evaluating companies identified by Merrill Lynch as comparable to Solectron, Merrill Lynch made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Solectron, such as the impact of competition on the business of Solectron and the industry generally, industry growth and the absence of any material change in the financial condition and prospects of Solectron or the industry or in the financial markets in general. A complete analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading values of such comparable companies to which they are being compared; mathematical analysis is not in itself a meaningful method of using selected company data.

**Discounted Cash Flow Analysis.** Merrill Lynch performed a discounted cash flow analysis of Solectron, without giving effect to the transaction, for the fiscal years 2002 through 2006 based on published research analyst reports and First Call estimates. Merrill Lynch calculated a range of equity

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values per share for Solectron based upon the sum of the discounted net present value of Solectron's five-year stream of projected unlevered free cash flows plus the discounted net present value of the terminal value based on a range of multiples of its projected 2006 EBITDA.

Using discount rates ranging from 18.0% to 20.0% and terminal value multiples of estimated 2006 EBITDA ranging from 9.0x to 15.0x, Merrill Lynch calculated the following range of implied equity values per share for Solectron common stock:

	<u>Low (\$)</u>	<u>High (\$)</u>
Implied Equity Value Per Share of Solectron Common Stock	12.84	25.25

Merrill Lynch observed that the Solectron share price, on the day prior to the day of the transaction announcement, was within the range of the implied equity value per share of Solectron common stock as determined by the discounted cash flow analysis.

**Relative Valuation Analysis**

**Historical Exchange Ratio Analysis.** Merrill Lynch reviewed the historical stock prices of Solectron common stock and C-MAC common shares and the implied market exchange ratios determined by dividing the closing price per C-MAC common share by the price per share of Solectron common stock. The implied exchange ratios for the various periods prior to announcement on August 9, 2001 are summarized in the table below:

Period	Low	High
12 Months	0.7810x	1.8058x
6 Months	0.7810x	1.7260x
3 Months	1.1938x	1.7260x
1 Month	1.2507x	1.7260x

Merrill Lynch observed that the offer exchange ratio of 1.755 shares of Solectron common stock per C-MAC common share was in the range of the historical market exchange ratios determined by dividing the price per C-MAC common share by the price per share of Solectron common stock for the twelve month period, and exceeded the historical exchange ratio for six, three and one month periods.

**Relative Comparable Company Analysis.** Merrill Lynch, utilizing the comparable public trading multiples analyses (as described herein) calculated the implied exchange ratio by the division of the implied equity value per common share of C-MAC by the equity value per share of Solectron common stock. Based upon this analysis, Merrill Lynch calculated the following implied exchange ratio range:

	Low	High
Relative Public Comparables Exchange Ratio	1.0279x	2.4800x

Merrill Lynch observed that the offer exchange ratio of 1.755 shares of Solectron common stock per C-MAC common share was in the range of the relative public comparables exchange ratios.

**Relative Discounted Cash Flow Analysis.** Merrill Lynch, utilizing the standalone discounted cash flow analyses (as described herein) calculated the implied exchange ratio by the division of the discounted cash flow equity value per common share of C-MAC by the discounted cash flow equity value per share of Solectron common stock. Based upon this analysis, Merrill Lynch calculated the following implied exchange ratio range:

	Low	High
Relative Discounted Cash Flow Analysis Exchange Ratio	0.9576x	3.2079x

Merrill Lynch observed that the offer exchange ratio was in the range of the relative discounted cash flow exchange ratios.

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**Other Items**

The summary set forth above does not purport to be a complete description of the analyses performed by Merrill Lynch in arriving at its opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description, and taking portions of the analyses set out above, without considering the analysis as a

whole, would, in the view of Merrill Lynch, create an incomplete and misleading picture of the processes underlying the analyses considered in rendering Merrill Lynch's opinion. In arriving at its opinion, Merrill Lynch did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Merrill Lynch believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all factors and analyses, could create a misleading view of the analyses underlying Merrill Lynch's opinion.

Solectron retained Merrill Lynch based upon Merrill Lynch's experience and expertise. Merrill Lynch is an internationally recognized investment banking firm with substantial experience in transactions similar to the proposed Solectron/ C-MAC transaction. Merrill Lynch, as part of its investment banking business, is continually engaged in the valuation of businesses and securities in connection with business combinations and acquisitions and for other purposes and has substantial experience in transactions similar to the proposed Solectron/ C-MAC transaction.

Under the terms of the engagement letter between Merrill Lynch and Solectron, Merrill Lynch provided financial advisory services and the financial fairness opinion in connection with the transaction, and Solectron agreed to pay Merrill Lynch a customary fee, a significant portion of which is contingent upon consummation of the transaction. In addition, Solectron has agreed to indemnify Merrill Lynch and its affiliates, their respective directors, officers, agents, employees and controlling persons against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Merrill Lynch's engagement.

In the ordinary course of its business, Merrill Lynch may actively trade in the securities of Solectron and C-MAC, for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

#### **Recommendation of C-MAC's Board of Directors**

**The C-MAC board of directors believes that the terms of the arrangement are fair to C-MAC's securityholders and in the best interests of C-MAC and its shareholders. Accordingly, the C-MAC board of directors has unanimously approved the combination agreement and recommends that C-MAC's securityholders vote FOR the C-MAC arrangement resolution.**

Each of the directors of C-MAC has advised C-MAC that he or she will vote the C-MAC common shares and/ or options to purchase C-MAC common shares held by him or her, directly or indirectly, in favor of the C-MAC arrangement resolution approving the arrangement.

In approving the combination agreement, the C-MAC board of directors considered a number of factors, including:

the fairness opinion of C-MAC's financial advisor, Banc of America Securities to the effect that, as of the date of the opinion, the exchange ratio was fair, from a financial point of view to C-MAC shareholders;

historical information concerning the businesses, prospects, financial performance and condition, operations, technology, management and competitive position of C-MAC and Solectron and industry trends;

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the anticipated financial condition, results of operations and businesses of C-MAC and Solectron after giving effect to the transaction;

current financial market conditions and historical market prices, volatility and trading information with respect to C-MAC common shares;

the possible effect of the transaction on C-MAC's employees, customers and current facilities;

the opportunity afforded by the transaction for C-MAC to combine its operations with the operations of Solectron to become part of an entity with greater financial and business resources than C-MAC alone, which should enhance the competitive position of the combined businesses and increase its ability to create value;

the current industry and market trends affecting C-MAC, including with respect to OEM outsourcing opportunities;

the risks and the potential rewards associated with, as an alternative to the transaction, continuing to execute C-MAC's strategic plan as an independent entity operating in a highly competitive environment;

the fact that C-MAC shareholders will receive shares of Solectron common stock that are more liquid than their C-MAC common shares under the transaction, given the larger market capitalization and liquidity of Solectron common stock;

the historical trading prices of the Solectron common stock and the C-MAC common shares;

the structure of the transaction which effectively permits Canadian resident C-MAC shareholders to receive exchangeable shares (and certain ancillary rights), generally (upon filing the required tax election) without realizing a gain for Canadian federal income tax purposes at the time of the arrangement and permits C-MAC shareholders that are registered pension plans or trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans governed by Canadian law to hold such exchangeable shares without regard to limitations on holding foreign property;

the terms and conditions of the combination agreement generally, including the amount of and the circumstances in which the C-MAC termination fee is payable, and the fact that the terms of the combination agreement do not prevent C-MAC from accepting a superior proposal;

the fairness opinion of Banc of America Securities, its financial advisor, to the effect that, as of August 8, 2001, the 1.755 exchange ratio was fair, from a financial point of view, to C-MAC shareholders, as described below;

the report of the ad hoc committee, as described below; and

other factors that the C-MAC board of directors deemed relevant in order to make its decision.

In considering the transaction, the C-MAC board of directors recognized that there were certain risks associated with the transaction, including the risks that the potential benefits set forth above may not be realized and that there may be higher than anticipated costs associated with realizing such benefits. The C-MAC board of directors also considered the factors set forth in this document under the heading Risk Factors .

The foregoing discussion of the information and factors considered by C-MAC's board of directors, while not exhaustive, includes the material factors considered by the C-MAC board of directors. In view of the variety of factors considered in connection with its evaluation of the transaction, C-MAC's board of directors did not find it practicable to, and did not, quantify or otherwise assign relative or specific weight or values to any of these factors, and individual directors may have given different weights to different factors.

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### **Conclusion of the Ad Hoc Committee of C-MAC's Board of Directors**

The ad hoc committee of the board of directors of C-MAC, after an extensive review and thorough discussion of a number of facts and issues, as set out under The Transaction Background of the Transaction concluded unanimously on August 7, 2001 that it was appropriate for the board of directors of C-MAC to rely, when delivered, on the fairness opinion of Banc of America Securities for purposes of evaluating the fairness from a financial point of view of the exchange ratio to C-MAC shareholders. It was also agreed by the members of the ad hoc committee that, notwithstanding the scope of the mandate of the ad hoc committee, their respective individual opinions that the proposed arrangement was fair, from a financial point of view, to the shareholders of C-MAC and was in C-MAC's best interest would be communicated to the board of directors of C-MAC.

In arriving at its conclusion, the ad hoc committee considered the advice of its legal and financial advisors and had discussions with the management of C-MAC and representatives of Banc of America Securities and C-MAC's legal advisors. In particular, the ad hoc committee report indicates that they considered the following items:

the fairness opinion to be delivered by Banc of America Securities to the effect that on the date of such opinion, the exchange ratio pursuant to the proposed arrangement is fair, from a financial point of view, to the shareholders of C-MAC;

the report of RBC Dominion Securities to the ad hoc committee that, in its view, (a) the scope of methodologies and analysis undertaken and the assumptions used by Banc of America Securities in preparing its fairness opinion are appropriate in the circumstances of the proposed arrangement and its conclusions therein are reasonable; (b) it is appropriate for the ad hoc committee to recommend to the board

of directors of C-MAC that it may rely on the advice provided by Banc of America Securities as to the fairness of the exchange ratio to C-MAC's shareholders from a financial point of view, subject to consideration by the members of each of the ad hoc committee and the board of directors of C-MAC of their respective duties and the relevant information that is or may be available to them; and (c) the proposed arrangement has merit to C-MAC's shareholders and the board of directors should take the normal steps necessary to make it available to the C-MAC shareholders for their consideration;

the fact that no realistic alternative transaction has been presented to the senior management or the board of directors of C-MAC during the preceding several months;

the current economic, industry and market trends affecting C-MAC, including trends which favour the concentration of business in the hands of a small number of large suppliers of electronic manufacturing services to the original equipment manufacturing market;

the level of diversification to C-MAC's customer base that Solectron would bring;

the fact that Solectron will, after the proposed arrangement, be a stronger corporation with the addition of C-MAC's senior management, expertise and selective vertical integration strategy, as well as the fact that there seems to be a reasonable prospect that the views of C-MAC's senior management would command attention in the combined companies;

the fact that the shareholders of C-MAC will receive highly liquid shares of Solectron common stock in consideration for their C-MAC common shares under the transaction given Solectron's relatively large float and trading volume;

the ability of the shareholders of C-MAC to continue to participate in future earnings and growth of Solectron after completion of the proposed arrangement through their ownership of shares of Solectron common stock or exchangeable shares of Exchangeco;

the fact that the proposed arrangement may, for certain Canadian resident C-MAC shareholders, be a tax deferred transaction for Canadian federal income tax purposes;

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the terms and conditions of the proposed arrangement and the other provisions included in the combination agreement;

the terms of the combination agreement, which should not preclude a third party from submitting an unsolicited superior proposal;

the approval process for the proposed arrangement, including the requirement for necessary approvals by the securityholders of C-MAC and the requirement for the Superior Court of Québec to approve the proposed arrangement and to issue a final order in connection therewith; and

the ad hoc committee's view that the proposed arrangement represents a better strategic opportunity for C-MAC than trying to continue on independently.

In reaching its conclusion, the ad hoc committee did not find it practical to and did not assign any relative or specific weights to the foregoing factors which were considered, and individual members of the ad hoc committee may have given differing weights to different factors.

## **Opinion of C-MAC's Financial Advisor**

C-MAC retained Banc of America Securities to act as its financial advisor in connection with a proposed transaction involving business opportunities acceptable to C-MAC whereby C-MAC may be combined with Solectron. Banc of America Securities is a nationally recognized investment banking firm in Canada and the United States. Banc of America Securities is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. C-MAC selected Banc of America Securities to act as its financial advisor on the basis of Banc of America Securities' experience and expertise in transactions similar to the arrangement, its reputation in the electronics manufacturing services industry and investment community and its historical investment banking relationship with C-MAC.

On August 8, 2001, Banc of America Securities delivered its written opinion to C-MAC's board of directors, based upon and subject to the various assumptions and limitations set forth therein, that the exchange ratio under the combination agreement was fair from a financial point of view to C-MAC's shareholders as of that date. The exchange ratio was determined by negotiations between C-MAC and Solectron and was not

based on recommendations from Banc of America Securities.

**The full text of Banc of America Securities' written opinion to C-MAC's board of directors is attached to this document as Annex H, which is incorporated into this document in its entirety. You should read this opinion carefully and in its entirety in connection with this document. However, the following summary of Banc of America Securities' opinion has also been included, which is qualified in its entirety by reference to the full text of the opinion.**

**Banc of America Securities' opinion is directed to C-MAC's board of directors. It does not constitute a recommendation to securityholders of C-MAC on how to vote with respect to the C-MAC arrangement resolution. The opinion addresses only the fairness of the exchange ratio from a financial point of view to C-MAC's shareholders as of the date of the opinion. The opinion does not address the relative merits of the arrangement or any alternatives to the arrangement, the underlying decision of C-MAC's board of directors to proceed with or effect the arrangement or any other aspect of the arrangement. In furnishing its opinion, Banc of America Securities did not admit that it is an expert within the meaning of the term "expert" as used in the United States Securities Act of 1933, nor did it admit that its opinion constitutes a report or valuation within the meaning of the Securities Act. Statements to that effect are included in the Banc of America Securities opinion.**

For the purposes of its opinion, Banc of America Securities:

reviewed publicly available financial statements and other business and financial information of C-MAC and Solectron;

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reviewed selected internal financial statements and other financial and operating data concerning C-MAC and Solectron;

analyzed financial forecasts, reports and other information regarding C-MAC and Solectron published by research analysts from selected investment banking firms and discussed this information with representatives of management of C-MAC and Solectron;

participated in meetings and discussions with representatives of the management of C-MAC and Solectron to discuss the business, operations, historical financial data and certain other financial and operating data of the respective companies;

reviewed and discussed with senior executives of C-MAC and Solectron information relating to strategic, financial and operational benefits anticipated (including the costs required to achieve the anticipated benefits) from the arrangement, prepared by management of C-MAC and Solectron;

considered the possible accretion and dilution effects that the transaction would have on the forward cash earnings per share of Solectron based on average projections by research analysts from selected investment banking firms;

reviewed the reported prices and trading history for C-MAC common shares and shares of Solectron common stock as compared to the reported prices and histories of other comparable companies Banc of America Securities deemed relevant;

compared the financial performance of C-MAC and Solectron with that of certain other publicly traded companies Banc of America Securities deemed relevant;

compared each of C-MAC and Solectron as stand alone entities from a financial point of view with selected public companies Banc of America Securities deemed relevant;

compared financial terms of the arrangement to corresponding financial terms, to the extent publicly available, of selected recent business combination transactions Banc of America Securities deemed relevant, including the "sunset clauses" attaching to the mandatory conversion of the exchangeable shares;

considered the excess in purchase price (including that derived from exchange ratios) over the stock price of companies from transactions that Banc of America Securities deemed relevant, in whole or in part, to the contemplated transaction;

considered the contribution of several income statement items by C-MAC and Solectron on a percentage basis in comparison to the percentage ownership by each company's respective shareholders of the combined company;

participated in discussions and negotiations among representatives of C-MAC and Solectron and their financial and legal advisors;

reviewed the August 8, 2001 draft of the combination agreement and related documents;

considered the general tax treatment which will be afforded C-MAC shareholders who are resident in Canada or the United States under the combination agreement, as described to Banc of America Securities by C-MAC's and Solectron's tax advisors; and

performed such other financial studies, analyses and investigations and considered such other factors as Banc of America Securities deemed relevant.

Banc of America Securities assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information reviewed by Banc of America Securities for the purposes of its opinion. Banc of America Securities also made the following assumptions with the consent of C-MAC's board of directors:

with respect to the financial and other information, including financial forecasts published by research analysts from selected investment banking firms and information relating to strategic,

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financial and operational benefits anticipated from the arrangement, that they were reasonably prepared on bases reflecting the best available estimates at the time of their preparation and good faith judgments of the future financial performance of C-MAC and Solectron;

that the arrangement will be consummated as contemplated in the August 8, 2001 draft of the combination agreement, with full satisfaction of all covenants and conditions and without any waivers; and

that the rights, terms and other privileges of the exchangeable shares are equivalent in all material respects to those of Solectron common stock.

Banc of America Securities relied upon, without any independent verification, the assessment by the management of C-MAC and Solectron of their respective technology, products and services, and the integration of C-MAC's technology, products and services with Solectron's technology, products and services and the timing of introduction of future products incorporating such technology, products and services and C-MAC's ability to retain key managers.

C-MAC and Solectron do not publicly disclose internal management forecasts of the type provided to Banc of America Securities by the management of C-MAC and Solectron in connection with Banc of America Securities' review of the arrangement. The forecasts were not prepared with a view toward public disclosure. In addition, the forecasts were based on numerous variables and assumptions that are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from the results set forth in the forecasts. Banc of America Securities has assumed no liability for the forecasts.

For purposes of its opinion, Banc of America Securities did not make any independent valuation or appraisal of any of the assets or liabilities of C-MAC, nor did Banc of America Securities receive any such appraisals. In addition, Banc of America Securities was not requested to and did not solicit any expressions of interest from any other parties with respect to the sale of all or any part of C-MAC or any other alternative transaction. Consequently, no opinion is expressed as to whether any alternative transaction might produce consideration for C-MAC's shareholders in an amount in excess of that contemplated in the combination agreement.

Banc of America Securities' opinion was based on economic, market and other conditions as they existed on the date of its opinion and on information made available to it as of the date of its opinion. According to the terms of its engagement by C-MAC, Banc of America Securities has no obligation to update, revise or reaffirm its opinion to take into account events occurring after the date that its opinion was delivered to C-MAC's board of directors. As a result, circumstances could develop after the date of its opinion and prior to consummation of the arrangement that, if known at the time Banc of America Securities rendered its opinion, would have altered such opinion.

The following represents a brief summary of the material financial analyses performed by Banc of America Securities in connection with providing its opinion to C-MAC's board of directors. Some of the summaries of financial analyses performed by Banc of America Securities include information presented in tabular format. In order to fully understand the financial analyses performed by Banc of America Securities, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the



methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Banc of America Securities.

**Valuation Analyses Regarding C-MAC**

All references to C-MAC's share prices are expressed in U.S. dollars and are as quoted on the New York Stock Exchange.

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**Comparable Company Analysis.** Based on public and other available information, Banc of America Securities calculated the multiples of enterprise value to calendar year 2002 projected net sales and equity value to calendar year 2002 projected cash net income for five companies in the electronics manufacturing services industry in addition to Solectron that Banc of America Securities deemed to be comparable to C-MAC.

Banc of America Securities defined enterprise value to mean:

equity value, defined as the product of the number of shares of common stock outstanding for a company multiplied by its stock price; plus  
 outstanding funded debt and minority interest; less  
 cash and cash equivalents.

The following table sets forth multiples indicated by this analysis for these five companies:

	<u>Range of Multiples</u>	<u>Median</u>	<u>Mean</u>
<b>Enterprise Value to:</b>			
CY2002 net sales	0.72x to 1.95x	0.91x	1.11x
<b>Equity Value to:</b>			
CY2002 cash net income	22.1x to 29.7x	26.0x	26.3x

The comparable company analysis compared C-MAC to selected companies in the electronics manufacturing services industry on the basis that the selected companies were deemed to be the most relevant given the factors set forth above. Consequently, Banc of America Securities did not include every company that could be deemed to be a participant in the same industry.

Based on the foregoing and other factors that Banc of America Securities deemed to be relevant, Banc of America Securities concluded that appropriate reference ranges for C-MAC would be an enterprise value to calendar year 2002 projected net sales multiple of 0.8x to 1.0x and an equity value to calendar year 2002 projected cash net income multiple of 24.0x to 30.0x.

Banc of America Securities noted that the enterprise value implied by the arrangement resulted in an enterprise value to calendar year 2002 projected net sales multiple of 1.29x, and the equity value implied by the arrangement resulted in an equity value to calendar year 2002 projected cash net income multiple of 24.9x.

No company used in the comparable company analysis is identical to C-MAC. Accordingly, an analysis of the foregoing results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading value of the companies to which C-MAC is being compared.

**Comparable Transactions Analysis.** Based on public and other available information, Banc of America Securities calculated the multiples of enterprise value to the latest twelve months net sales and equity value to the latest twelve months cash net income for the acquired company implied in 16 selected acquisitions of electronics manufacturing services companies that have been announced since January 1, 1998.

## Edgar Filing: SOLECTRON CORP - Form S-4

The following table sets forth the multiples indicated by this analysis for these 16 acquisitions:

	Range of Multiples	Median	Mean
<b>Enterprise Value to:</b>			
Latest twelve months net sales			
0.27x to 2.54x	1.09x		1.24x
<b>Equity Value to:</b>			
Latest twelve months cash net income			
8.4x to 45.6x	21.7x		26.0x

The comparable transactions analysis compared the arrangement to selected acquisitions of electronics manufacturing services companies on the basis that the selected transactions were deemed to be the most

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relevant given the factors set forth above. Consequently, Banc of America Securities did not include every transaction that could be deemed to have occurred in the relevant industries.

Based on the foregoing and other factors that Banc of America Securities deemed to be relevant, Banc of America Securities concluded that appropriate reference ranges for C-MAC would be an enterprise value to latest twelve months net sales multiple of 1.0x to 1.5x and an equity value to latest twelve months cash net income multiple of 20.0x to 30.0x.

Banc of America Securities noted that the enterprise value implied by the arrangement resulted in an enterprise value to latest twelve months net sales multiple of 1.35x and the equity value implied by the arrangement resulted in an equity value to latest twelve months cash net income multiple of 23.7x. The latest twelve months financial information for C-MAC was calculated as of June 30, 2001.

No transaction used in the comparable transaction analysis is identical to the arrangement. Accordingly, an analysis of the foregoing results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in the business and operations of the companies being acquired and other factors that could affect the multiples paid in the transactions to which the arrangement is being compared.

**Premiums Paid Analysis.** Based on public and other available information, Banc of America Securities reviewed the prices paid or offered in two categories of transactions with values over \$1 billion and calculated the premiums of the aforementioned prices over the stock prices one day and one month prior to announcement for the companies in question. The two categories consisted of (a) stock-for-stock merger and acquisition transactions announced since January 1, 1995, January 1, 2000 and July 1, 2000; and (b) selected technology merger and acquisition transactions announced since January 1, 2000 and July 1, 2000.

This analysis indicated the following median and mean premiums:

	Premium One Day Before Announcement		Premium One Month Before Announcement	
	Median	Mean	Median	Mean
<b>Stock-for-Stock Transactions:</b>				
Since January 1, 1995				
24.7%	32.1%	34.7%	44.2%	
Since January 1, 2000				
25.2%	33.4%	42.7%	47.0%	
Since July 1, 2000				

22.4% 29.9% 36.1% 39.5%

**Selected Technology Transactions:**

Since January 1, 2000

35.7% 39.7% 53.0% 59.0%

Since July 1, 2000

34.9% 39.4% 53.0% 57.0%

The premiums paid analysis compared the arrangement to selected stock-for-stock transactions and technology transactions on the basis that the selected transactions were deemed to be the most relevant given the factors set forth above. Consequently, Banc of America Securities did not include every transaction that could be deemed to have occurred in the relevant industries.

Based on the foregoing and other factors that Banc of America Securities deemed to be relevant, Banc of America Securities concluded that appropriate reference ranges for C-MAC would be 20.0% to 40.0% over the share price one day prior and 30.0% to 55.0% over the one month prior share price.

Banc of America Securities noted that the per share value of the Solectron common stock consideration to be received by C-MAC shareholders in connection with the arrangement resulted in a premium of 33.2% over C-MAC's closing share price on August 8, 2001 and a premium of 31.3% over C-MAC's one month prior share price.

No transaction used in the premiums paid analysis is identical to the arrangement. Accordingly, an analysis of the foregoing results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in the business and operations of the companies being acquired and other

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factors that could affect the premiums paid in the transactions to which the arrangement is being compared.

**Exchange Ratio Premiums Analysis.** Based on public and other available information, Banc of America Securities reviewed the exchange ratios in selected electronics manufacturing services stock-for-stock transactions and calculated the premiums of the aforementioned exchange ratios over the one day, one month average and three month average exchange ratios of the companies in question.

This analysis indicated the following premiums:

Period Prior to Announcement	Premium to Historical Exchange Ratio			
	Low	High	Median	Mean
One Day	6.3%	72.7%	27.3%	34.6%
One Month Average	12.9%	86.7%	43.0%	48.6%
Three Month Average	13.6%	84.0%	54.5%	49.1%

The exchange ratio premiums analysis compared the arrangement to selected electronics manufacturing services transactions on the basis that the selected transactions were deemed to be the most relevant given the factors set forth above. Consequently, Banc of America Securities did not include every transaction that could be deemed to have occurred in the relevant industries.

Based on the foregoing and other factors that Banc of America Securities deemed to be relevant, Banc of America Securities concluded that appropriate reference ranges for C-MAC would be 20.0% to 30.0% over the exchange ratio one day prior, 28.0% to 45.0% over the one month average exchange ratio and 30.0% to 55.0% over the three month average exchange ratio.

## Edgar Filing: SOLECTRON CORP - Form S-4

Banc of America Securities noted that the 1.755 exchange ratio implied by the stock consideration to be received by C-MAC shareholders in connection with the arrangement resulted in a premium of 33.2%, 23.1% and 27.4% over the one day, one month average and three month average exchange ratio, respectively, based on C-MAC's closing share price on August 8, 2001.

No transaction used in the exchange ratio premiums analysis is identical to the arrangement. Accordingly, an analysis of the foregoing results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in the business and operations of the companies being acquired and other factors that could affect the exchange ratio premiums in the transactions to which the arrangement is being compared.

**Exchange Ratio Analysis.** Banc of America Securities reviewed the historical ratio of the closing price per C-MAC common share to that of the price per share of Solectron common stock for several time periods during the one-year period from August 9, 2000 through August 8, 2001. During this period, the historical exchange ratio calculated on a daily basis ranged from a low of 0.78x on March 13, 2001 to a high of 1.81x on December 18, 2000.

This analysis indicated the following exchange ratios for the selected time periods shown since August 9, 2000:

Period Prior to August 9, 2001	Mean Exchange Ratio
One Day	1.318x
1 Month Average 1.425x	
3 Month Average 1.377x	
6 Month Average 1.238x	
Average Since August 9, 2000 1.323x	

Banc of America Securities noted that the exchange ratio offered in the arrangement was 1.755x which compared favorably to the exchange ratios for each period reviewed and that the exchange ratio

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offered in the arrangement was greater than the historical exchange ratio between C-MAC and Solectron for all but two days since C-MAC's U.S. listing on the New York Stock Exchange on August 9, 2000.

**Contribution Analysis.** Banc of America Securities used the estimates for C-MAC and Solectron prepared by research analysts from selected investment banking firms to review the estimated contribution of each company to certain pro forma operating statistics for estimated calendar years 2001 and 2002. This analysis did not take into account any potential synergies resulting from the arrangement and was performed as if the transaction were consummated at the beginning of each calendar year.

This analysis indicated the following contribution percentages:

C-MAC's Contribution to:	On an Estimated Calendar Year 2001 Basis	On an Estimated Calendar Year 2002 Basis
Net Sales	10.4%	10.8%
Gross Profit 19.6% 19.9%		
EBITA 21.7% 21.0%		

EBIT	27.5%	25.5%
Cash Net Income (before adjusting for LYONs add-back)	18.2%	19.2%
Cash Net Income (after adjusting for LYONs add-back)	15.2%	16.4%

Banc of America Securities then compared the contributions to the pro forma share ownership of the combined company to be owned by each company's shareholders, assuming the arrangement was consummated under the terms of the August 8, 2001 draft combination agreement. On a pro forma basis, C-MAC shareholders would own approximately 18.8% of the combined company on a fully diluted basis before adjusting for the effect of the additional shares issuable on account of the conversion of Solectron's outstanding LYONs and approximately 16.8% of the combined company on a fully diluted basis after adjusting for the effect of the additional shares issuable on account of the conversion of Solectron's outstanding LYONs.

**Accretion/ Dilution Analysis.** Banc of America Securities used the estimates for C-MAC and Solectron prepared by research analysts from selected investment banking firms to calculate the pro forma effects of the arrangement, including a comparison of estimated earnings per share on a stand alone basis for Solectron to the estimated earnings per share of the combined company, for Solectron's fiscal year ending August 31, 2002.

Banc of America Securities noted that, assuming completion of the arrangement under the terms of the August 8, 2001 draft of the combination agreement and without taking into account any potential synergies resulting from the transaction, the dilution to Solectron's fiscal year 2002 earnings per share would be (0.9)% and that \$7.3 million of pre-tax synergies would need to be realized in fiscal year 2002 for the transaction to be non-dilutive.

**Historical Stock Price Analysis.** Banc of America Securities reviewed the performance of the per share market price and trading volume of C-MAC common shares for the period between August 9, 2000 through August 8, 2001 based on the U.S. listing on the New York Stock Exchange. The analysis indicated that the closing market price per C-MAC common share during this period ranged from \$18.01 to \$74.69.

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Banc of America Securities also reviewed the average closing price for C-MAC common shares over a number of periods:

<u>Period Prior to August 9, 2001</u>	<u>Average Closing Price per C-MAC Common Share</u>
1 week	\$23.12
1 month	
\$23.59	
3 months	
\$26.89	
6 months	
\$26.94	

Banc of America Securities noted that the equity value per share to C-MAC shareholders based on the terms of the arrangement and the closing price of shares of Solectron common stock on August 8, 2001 was \$30.19, which compared favorably to the average closing price of C-MAC common shares for each period reviewed.

The discussion above is merely a summary of the analyses and examinations that Banc of America Securities considered to be material to its opinion. It is not a comprehensive description of all analyses and examinations actually conducted by Banc of America Securities. The preparation of a fairness opinion is not susceptible to partial analysis or summary description. Banc of America Securities believes that its analyses and the summary above must be considered as a whole. Banc of America Securities further believes that selecting portions of its analyses and the factors considered, without considering all analyses and factors, would create an incomplete view of the process underlying the analyses set forth in its presentation to C-MAC's board of directors. Banc of America Securities did not assign any specific weight to any of the analyses described above. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that such

analysis was given greater weight than any other analysis. Accordingly, the ranges of valuations resulting from any particular analysis described above should not be taken to be Banc of America Securities' view of the actual value of C-MAC.

In performing its analyses, Banc of America Securities made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of C-MAC and Solectron. The analyses performed by Banc of America Securities are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by these analyses. These analyses were prepared solely as part of Banc of America Securities' analysis of the fairness of the exchange ratio from a financial point of view to shareholders of C-MAC and were provided to C-MAC's board of directors in connection with the delivery of Banc of America Securities' opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities have traded or may trade at any time in the future.

As described above, Banc of America Securities' opinion and presentation to C-MAC's board of directors were among the many factors taken into consideration by C-MAC's board of directors in making its determination to approve, and to recommend that C-MAC's securityholders approve, the combination agreement.

C-MAC agreed to pay Banc of America Securities as compensation for its services under this engagement a customary fee, a significant portion of which is contingent upon consummation of the transaction. C-MAC's board of directors was aware of this fee structure and took it into account in considering Banc of America Securities' fairness opinion and in approving the arrangement. The engagement letter calls for C-MAC to reimburse Banc of America Securities for its reasonable out-of-pocket expenses, and C-MAC has agreed to indemnify Banc of America Securities, its controlling persons, and their respective directors, officers, employees, agents, affiliates and representatives against particular liabilities, including liabilities under the United States federal securities laws.

In the past, Banc of America Securities or its affiliates have provided financial advisory and financing services for C-MAC and Solectron and have received fees for the rendering of these services, and there is presently debt outstanding from C-MAC and Solectron to one or more of such affiliates. In the ordinary

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course of their businesses, Banc of America Securities and its affiliates may actively trade the debt and equity securities of C-MAC and Solectron for their own account or for the accounts of customers. Accordingly, Banc of America Securities or its affiliates may at any time hold long or short positions in those securities.

### **Interests of Certain Persons in the Transaction**

In considering the recommendation of C-MAC's board of directors with respect to the transaction, you should be aware that some of the directors and executive officers of C-MAC have interests in the transaction and participate in arrangements that may present them with actual or potential conflicts of interest in connection with the transaction. The C-MAC board of directors was aware of these interests and considered them, among other matters, when it approved the arrangement. These interests include the following:

as of the close of business on \_\_\_, 2001, directors and officers of C-MAC (and their respective affiliates) collectively owned or exercised control over approximately \_\_\_% of the outstanding C-MAC common shares entitled to vote at the special meeting. This does not include \_\_\_ C-MAC common shares underlying presently exercisable options which these directors and officers beneficially own. If all of these stock options had been exercised prior to \_\_\_, 2001, the directors and officers of C-MAC (and their respective affiliates) would collectively own or exercise control over approximately \_\_\_% of the outstanding C-MAC common shares entitled to vote at the C-MAC special meeting;

C-MAC has purchased directors' and officers' liability insurance covering liability, including defense costs, of directors and officers of C-MAC incurred as a result of acting as such directors or officers, provided they acted honestly and in good faith with the view to the best interests of C-MAC;

officers and directors of C-MAC are indemnified by C-MAC to the fullest extent permitted by the *Canada Business Corporations Act*;

each of Dennis Wood, Brian Antell, Anthony Byk, Frederik Rollinson, Claude Michaud, John Naismith, Suzanne Gunther, Peter Kielstra, Donna Pasteris, Roch Asselin, and Denis Marchand have entered into letter agreements with C-MAC providing for benefits to be paid

upon termination of employment, including for good reason but excluding for cause, generally within 12 months following a change of control in C-MAC (which includes the arrangement). For all the above persons except for Mr. Wood, the agreements generally provide for a lump sum payment to be made equal to 24 months of salary and bonus. The agreement entered with Mr. Wood generally provides for a lump sum payment to be made equal to 36 months of Mr. Wood's salary and bonus. In addition, the vesting schedule of options granted to these persons may be accelerated in certain circumstances, including in the event of termination without cause following completion of the arrangement;

following the effective time of the arrangement, Dennis Wood, Chairman, President and Chief Executive Officer and President of C-MAC, and C. Wesley M. Scott, both current directors of C-MAC, will become members of the board of directors of Solectron. At that time, two of the eleven members of Solectron's board of directors will consist of former C-MAC directors;

the combination agreement provides that all rights to indemnification for officers and directors of C-MAC as provided in the articles of incorporation of C-MAC, the bylaws of C-MAC or the articles and bylaws of any successor of C-MAC, in effect on the effective date of the arrangement, will survive the arrangement for a period not less than six years from the effective date of the arrangement, and Solectron will assume, effective upon consummation of the arrangement, all such liability in respect of these matters arising prior to the effective date of the arrangement. The combination agreement also provides that, for not less than six years from the effective date of the arrangement, Solectron will maintain in effect coverage equivalent to that in effect under current policies of the directors and officers liability insurance and fiduciary liability insurance maintained

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by C-MAC on terms comparable to those applicable to the current directors and officers of C-MAC, provided that in no event will Solectron or a successor of C-MAC be required to expend in any one year an amount in excess of 200% of the annual premiums currently paid by C-MAC for such insurance; and

Jean Pierre Ouellet, a director of C-MAC, is Vice Chairman of RBC Dominion Securities Inc., which was retained as financial advisor to the ad hoc committee of C-MAC's board of directors and to render other services to C-MAC in connection with the transaction.

### **Court Approval of the Arrangement and Completion of the Transaction**

Under the *Canada Business Corporations Act*, the arrangement requires court approval. Prior to the mailing of this document, C-MAC obtained an interim order from the Superior Court of Justice (Québec) providing for the calling and holding of the C-MAC special meeting and other procedural matters. A copy of each of the interim order and the notice of application for a final order is attached hereto as Annex B.

Subject to the approval of the C-MAC arrangement resolution by the C-MAC shareholders and optionholders at the C-MAC special meeting and the approval of the Solectron share issuance by the Solectron stockholders at the Solectron special meeting, the hearing in respect of a final court order is expected to take place on or about, \_\_, 2001 at \_ (Montreal time) in room \_ at the Montreal courthouse at 1 Notre Dame Street East, Montreal, Québec.

Any C-MAC securityholder who wishes to appear or be represented and to present evidence or arguments must serve and file a notice of appearance as set out in the notice of application for the final order and satisfy any other requirements of the court. The court will consider, among other things, the fairness and reasonableness of the arrangement. The court may approve the arrangement in any manner the court may direct, subject to compliance with such terms and conditions, if any, as the court deems fit.

Assuming the final order is granted and the other conditions to closing contained in the combination agreement are satisfied or waived, it is anticipated that the following will occur substantially simultaneously:

articles of arrangement for C-MAC will be filed with the director under the *Canada Business Corporations Act* to give effect to the arrangement;

the voting and exchange trust agreement and the exchangeable share support agreement (attached hereto as Annexes E and D, respectively) will be executed and delivered; and

the various other documents necessary to consummate the transactions contemplated under the combination agreement will be executed and delivered.

Subject to the foregoing, it is expected that the effective time of the arrangement will occur as soon as practicable after the requisite C-MAC shareholder and optionholder approval and Solectron stockholder approval have been obtained.

## Accounting Treatment

The transaction will be accounted for by Solectron under the purchase method of accounting as defined by recently issued SFAS No. 141, *Business Combinations*, which is effective for all business combinations consummated after June 30, 2001. Under the purchase method, the estimated market value of Solectron common stock and the exchangeable shares issued in the transaction, the fair value of the Solectron stock options issued and the amount of Solectron's direct transaction costs will be recorded as the cost of acquiring the business of C-MAC. That cost will be allocated to the individual assets acquired and liabilities assumed, including intangible assets arising due to contractual or legal rights, or capable of being separated, based on their respective fair values. The excess of the purchase cost over the fair value of the net assets will be allocated to goodwill. According to recently issued SFAS No. 142, *Goodwill and Other Intangible Assets*, which became effective for Solectron on September 1, 2001, goodwill will not be amortized but will be periodically reviewed for impairment. Certain identifiable intangible assets will be

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amortized over their estimated useful lives. As described in the Solectron unaudited pro forma financial statements, the amount of purchase cost allocated to goodwill is estimated to be approximately \$1.46 billion. The preliminary allocation for this transaction does not include any identifiable intangibles. C-MAC's results of operations will be included in Solectron's consolidated results of operations after the completion of the transaction.

## Stock Exchange Listings

Solectron has agreed to:

cause the shares of Solectron common stock to be issued on the arrangement to be approved for listing on the New York Stock Exchange before the completion of the arrangement, subject to official notice of issuance;

cause the shares of Solectron common stock to be issued upon exchange of the exchangeable shares and upon exercise of replacement options to purchase Solectron common stock to be approved for listing on the New York Stock Exchange before completion of the arrangement, subject to official notice of issuance; and

cause the exchangeable shares of Exchangeco to be issued on the arrangement to be conditionally approved for listing on The Toronto Stock Exchange before the completion of the arrangement, subject to filing of the required documentation.

The Solectron common stock will be listed on the New York Stock Exchange under the symbol *SLR*. Exchangeco intends to apply to The Toronto Stock Exchange to list the exchangeable shares, such listing to be effective prior to the effective date of the arrangement. There is no current intention to list the exchangeable shares on any other stock exchange.

## Eligibility for Investment in Canada

On the date of issue, the exchangeable shares and exchangeable share rights will not be precluded as eligible investments under the following statutes (and, where applicable, the regulations thereunder):

*Insurance Companies Act* (Canada);

*Pension Benefits Standards Act, 1985* (Canada);

*Trust and Loan Companies Act* (Canada);

*Loan and Trust Corporations Act* (Ontario);

*Pension Benefits Act* (Ontario);

*An Act respecting insurance* (Québec), for an insurer, as defined therein, incorporated under the laws of the Province of Québec, other than a guarantee fund;



*An Act respecting trust companies and savings companies (Québec)*, for a trust company or savings company, as defined therein, which invests its own funds and funds received as deposits except for a trust company with respect to funds, other than deposits, which it administers for other persons;

*Supplemental Pension Plans Act (Québec)*, for an insured plan as defined therein;

*Insurance Act (Alberta)*;

*Employment Pension Plans Act (Alberta)*;

*Loan and Trust Corporations Act (Alberta)*;

*The Insurance Act (Manitoba)*;

*The Trustee Act (Manitoba)*;

*Pension Benefits Act (Manitoba)*;

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*Financial Institutions Act (British Columbia)*; and

*Pension Benefits Standards Act (British Columbia)*;

subject to compliance with the prudent investment standards and general investment provisions and restrictions of the statutes referred to above (and, where applicable, the regulations thereunder) and, in certain cases, subject to the satisfaction of additional requirements relating to investment or lending policies or goals and, in certain cases, the filing of such policies or goals.

For investment eligibility considerations under the *Income Tax Act (Canada)* for certain deferred income plans and a discussion of whether the exchangeable shares, exchangeable share rights and ancillary rights are foreign property for purposes of Part XI of the *Income Tax Act (Canada)*, see [Tax Considerations for C-MAC Securityholders](#) [Canadian Tax Considerations for C-MAC Shareholders](#) [Eligibility for Investment in Canada](#) .

## **Regulatory Matters**

Except as described in this document, neither Solectron nor C-MAC is aware of any material approval or other action by any federal, provincial, state or foreign government or any administrative or regulatory agency that would be required to be obtained prior to completion of the transaction other than compliance with the applicable corporate laws of Delaware and Canada.

### *Investment Canada Act*

Under the *Investment Canada Act*, certain transactions involving the acquisition of control of a Canadian business by a non-Canadian are subject to review and cannot be implemented unless the Minister responsible for the *Investment Canada Act* is satisfied that the transaction is likely to be of net benefit to Canada. If a transaction is subject to the review requirement, an application for review must be filed with the Investment Review Division of Industry Canada prior to the implementation of the reviewable transaction. The Minister is then required to determine whether the reviewable transaction is likely to be of net benefit to Canada taking into account, among other things, certain factors specified in the *Investment Canada Act* and any written undertakings that may have been given by the applicant. The *Investment Canada Act* contemplates an initial review period of 45 days after filing; however, if the Minister has not completed the review by that date, the Minister may unilaterally extend the review period by up to 30 days (or a longer period, if agreed to by the applicant) to permit completion of the review.

The prescribed factors of assessment to be considered by the Minister include, among other things, the effect of the investment on the level and nature of economic activity in Canada (including the effect on employment and utilization of Canadian products and services and exports), the degree and significance of participation by Canadians in the acquired business, the effect of the investment on productivity, industrial

efficiency, technological development, product innovation and product variety in Canada, the effect of the investment on competition within any industry in Canada, the compatibility of the investment with national industrial, economic and cultural policies (taking into consideration corresponding provincial policies) and the contribution of the investment to Canada's ability to compete in world markets. If the Minister determines that he is not satisfied that a reviewable transaction is likely to be of net benefit to Canada, the reviewable transaction may not be implemented.

As the acquisition of control of C-MAC contemplated by the transaction is a reviewable transaction, Solectron plans to file an application for review under the *Investment Canada Act*.

In order to secure the Minister's approval under the *Investment Canada Act*, it may be necessary for Solectron to enter into written commitments with respect to such matters as the way in which C-MAC will be integrated with Solectron, employment, capital expenditures, research and development and other matters relating to the impact of the transaction in Canada.

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### *Hart-Scott-Rodino (U.S.)*

The transaction is subject to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, under which a transaction cannot be completed until required information and materials are furnished to the Antitrust Division of the Department of Justice and the Federal Trade Commission and the waiting periods expire or are terminated. On \_\_\_, 2001, Solectron and C-MAC made the required filings with the Department of Justice and the Federal Trade Commission.

However, the Antitrust Division of the Department of Justice or the Federal Trade Commission may challenge the transaction on antitrust grounds after termination of the mandatory waiting period. Accordingly, at any time before or after the completion of the transaction, either the Antitrust Division of the Department of Justice or the Federal Trade Commission could take action under the antitrust laws as it deems necessary or desirable in the public interest. Other persons, including any state or private person, could also take action under applicable antitrust laws, including seeking to enjoin the transaction or seeking divestiture by Solectron or C-MAC. There can be no assurance that a challenge to the transaction will not be made or that, if a challenge is made, Solectron and C-MAC will prevail or would not be required to accept certain conditions, possibly including certain divestitures, in order to consummate the transaction.

### *Competition Act*

The *Competition Act* (Canada) requires the parties to certain proposed merger transactions which exceed specified size thresholds to provide the Commissioner of Competition appointed under the *Competition Act* with prior notice of and information relating to the transactions and the parties thereto, and to await the expiration of a prescribed waiting period prior to completing the transaction. The waiting period may be 14 or 42 days from the time a complete pre-merger notification is provided to the Commissioner, depending on whether a short-form or a more detailed long-form filing is provided to the Commissioner.

Solectron and C-MAC have made a short-form pre-merger notification filing with the Commissioner pursuant to the provisions of the *Competition Act* and the applicable waiting period will expire 14 days after the date on which the Commissioner certifies that the complete filing was received unless, prior to the expiry of the 14 day period, the Commissioner informs Solectron and C-MAC that a long-form filing is required. In that case, the waiting period will be extended to 42 days from the time such further filing is certified to be received by the Commissioner.

The merger provisions of the *Competition Act* also permit the Commissioner to apply to the Competition Tribunal to seek relief in respect of merger transactions which are likely to prevent or lessen competition substantially. The relief that may be ordered by the Competition Tribunal includes, in the case of a proposed merger transaction, prohibiting completion of the transaction and, in the case of a completed merger, the dissolution of the merger or the divestiture of the assets or shares. Proceedings under the merger provisions of the *Competition Act* may be instituted for a period of three years after a merger transaction has been substantially completed.

### *Additional Regulatory Approvals*

The transaction is also subject to various foreign antitrust laws, some of which, including those of the European Union and Brazil, require us to make filings with foreign antitrust authorities. Solectron and C-MAC intend to make required foreign antitrust filings. Solectron and

C-MAC will not be permitted to complete the transaction until all waiting periods under applicable foreign antitrust laws have expired or been terminated, and until they have obtained any approvals governmental entities without which the consummation of the arrangement would be prohibited.

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### **Resale of Exchangeable Shares and Shares of Solectron Common Stock**

#### *United States*

The shares of Solectron common stock to be issued in connection with the transaction have been registered under the United States Securities Act of 1933 and will be freely transferable under the Securities Act, except for shares of Solectron common stock issued to any person who is deemed to be an affiliate (as defined in the Securities Act) of C-MAC. Persons who may be deemed to be affiliates include individuals or entities that control, are controlled by, or are under common control of C-MAC and may include some of the officers and directors of C-MAC, as well as C-MAC's principal shareholders. Affiliates may not sell their shares of Solectron common stock acquired in the transaction except pursuant to:

an effective registration statement under the United States Securities Act of 1933 covering the resale of those shares;

an exemption under paragraph (d) of Rule 145 under the United States Securities Act of 1933; or

any other applicable exemption under the United States Securities Act of 1933.

The exchangeable shares to be issued to C-MAC shareholders in the transaction will not be registered under the United States Securities Act of 1933. Those shares will instead be issued in reliance upon the exemption provided by Section 3(a)(10) of the Securities Act. Section 3(a)(10) exempts only securities issued in exchange for one or more *bona fide* outstanding securities from the general requirement of registration where the terms and conditions of the issuance and exchange of such securities have been approved by any court of competent jurisdiction, after a hearing upon the fairness of the terms and conditions of the issuance and exchange at which all persons to whom such securities will be issued have the right to appear. The Superior Court of Justice (Québec) is authorized to conduct a hearing to determine the fairness of the terms and conditions of the arrangement, including the proposed issuance of securities in exchange for other outstanding securities. Subject to the approval of C-MAC arrangement resolution by the C-MAC securityholders, a hearing on the fairness of the arrangement will be held on or about \_\_\_ 2001 by the court. See The Transaction Court Approval of the Arrangement and Completion of the Transaction .

The exchangeable shares to be issued in connection with the transaction will be freely transferable under the Securities Act, except for exchangeable shares issued to any person who is deemed to be an affiliate (as defined in the Securities Act) of either Solectron or C-MAC, which will be subject to the same restrictions as shares of Solectron common stock issued to affiliates.

Solectron will file a registration statement on Form S-3 with the U.S. Securities and Exchange Commission to be effective at or prior to the effective time of the arrangement which will provide for the free transfer of shares of Solectron common stock issued upon exchange of exchangeable shares. The same restrictions that apply to affiliates of Solectron or C-MAC who receive Solectron common stock or exchangeable shares in the transaction will apply to the shares of Solectron common stock received by affiliates of Solectron or C-MAC on exchange of exchangeable shares.

C-MAC has agreed to use its reasonable best efforts to cause those persons whom C-MAC reasonably believes may be deemed to be affiliates of C-MAC within the meaning of Rule 145 promulgated under the United States Securities Act of 1933 to enter into affiliate agreements with Solectron. Under the terms of the affiliate agreements, Solectron will be entitled to place appropriate legends on the certificates evidencing any Solectron common stock or exchangeable shares to be received by these persons. Additionally, these persons will acknowledge the resale restrictions imposed by Rule 145 under the Securities Act on shares of Solectron common stock and exchangeable shares to be received by them in the transaction and on shares of Solectron common stock to be received upon exchange of exchangeable shares.

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### *Canada*

Solectron and Exchangeco applied on \_\_, 2001 for rulings or orders of certain securities regulatory authorities in Canada to permit the issuance of the exchangeable shares and the Solectron common stock issuable under the arrangement, upon exchange of exchangeable shares and upon exercise of replacement options for C-MAC options. Application has also been made to permit resale of those shares in various jurisdictions without restriction by persons other than a control person, provided that no unusual effort is made to prepare the market for any such resale or to create a demand for the securities which are the subject of any such resale and no extraordinary commission or consideration is paid in respect thereof. The consummation of the transaction is conditional upon receipt of these rulings or orders.

### **Delisting and Deregistration of C-MAC Common Shares After the Transaction**

When the transaction is completed, C-MAC common shares will be delisted from The Toronto Stock Exchange and the New York Stock Exchange and will be deregistered under the United States Securities Exchange Act of 1934.

### **Ongoing Canadian Reporting Obligations**

Upon completion of the arrangement, C-MAC will be an indirect wholly-owned subsidiary of Solectron. Accordingly, after the effective date of the arrangement, C-MAC will apply to the securities regulatory authorities in Canada to cease to be a reporting issuer, so as to no longer be subject to statutory financial and reporting requirements under securities laws in Canada.

Upon completion of the arrangement, Exchangeco will be subject to Canadian statutory financial and reporting requirements. Statutory insiders of Exchangeco will be subject to Canadian insider trading reporting requirements. Application has been made for certain exemptions from the requirements relating to timely disclosure, filing and sending of financial statements, the preparation and sending of management information circulars, the preparation of an annual information form and from the insider trading reporting requirements. The exemptions are expected to be conditional upon Solectron filing with the relevant Canadian securities regulatory authorities copies of all documents required to be filed with the U.S. Securities and Exchange Commission, holders of exchangeable shares receiving all disclosure materials furnished to holders of Solectron common stock under the laws of the United States, including copies of its annual financial statements and all proxy solicitation materials, Solectron complying with the New York Stock Exchange timely disclosure requirements and disseminating relevant press releases in Canada and Exchangeco complying with Canadian timely disclosure requirements in respect of events that would be material to its shareholders but would not be material to holders of Solectron common stock.

If these exemptions are obtained, after the completion of the arrangement:

holders of exchangeable shares will receive annual financial statements of Solectron prepared in accordance with U.S. generally accepted accounting principles and any interim financial statements of Solectron prepared in accordance with U.S. generally accepted accounting principles that are provided to holders of Solectron common stock, in lieu of financial statements of Exchangeco;

Exchangeco will be exempt from certain Canadian disclosure and reporting requirements applicable to a reporting issuer; and

statutory insiders of Exchangeco will be exempt from insider trading reporting requirements with respect to the shares of Exchangeco.

### **Treatment of Stock Options**

On August 7, 2001, there were outstanding options to purchase C-MAC common shares which, when vested, would be exercisable to acquire a total of approximately 3,234,795 C-MAC common shares at prices between Cdn\$2.63 to Cdn.\$109.75 with various expiration dates to 2010.

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At the effective time of the arrangement, each C-MAC option will be exchanged for an option to purchase Solectron common stock. Each replacement option will constitute an option to purchase a number of shares of Solectron common stock equal to the product of the exchange ratio 1.755, and the number of C-MAC common shares subject to that C-MAC option. Each replacement option will provide for an exercise

price per share of Solectron common stock equal to the exercise price per share of the C-MAC option immediately prior to the effective time of the arrangement divided by 1.755. If the foregoing calculation results in a holder's replacement options being exercisable for a number of shares of Solectron common stock that includes a fraction of a share of Solectron common stock, then the total number of shares of Solectron common stock subject to a particular holder's total replacement options shall be rounded down to the next whole number of shares of Solectron common stock and the total exercise price for the replacement options will be reduced by the exercise price of the fractional share of Solectron common stock. Except as noted under "The Transaction - Interests of Certain Persons in the Transaction," the term to expiration, conditions to and manner of exercising and all other terms and conditions of replacement options will otherwise be unchanged from those of the C-MAC options for which they were exchanged. Any document or agreement previously evidencing C-MAC options shall thereafter evidence and be deemed to evidence options to purchase Solectron common stock. As of \_\_\_, 2001, options to purchase approximately \_\_\_ C-MAC common shares were outstanding.

Solectron will file a registration statement on Form S-8 for the shares of Solectron common stock issuable upon the exercise of C-MAC stock options replaced by options to acquire Solectron common stock within 10 days after the effective time of the arrangement.

C-MAC optionholders who wish to conditionally exercise their C-MAC options, whether or not conditional upon consummation of the arrangement, must complete and deliver the grey letter of transmittal and election form for C-MAC optionholders to C-MAC Industries Inc. c/o General Trust of Canada, 1100 University Street, 9th Floor, Montreal, Québec, Canada H3B 2G7 or 121 King Street West, Suite 600, Toronto, Ontario, Canada M5H 3T9, facsimile numbers (514) 871-7506 or (416) 865-7610 on or before 5 p.m. (Montreal time) on or before the election deadline.

### **Future Issuances of Shares**

Prior to the effective time of the arrangement, the articles of incorporation of Exchangeco will be amended to authorize the issuance of an unlimited number of exchangeable shares. The exchangeable shares may be issued, without approval of holders of exchangeable shares, at such time or times, to such persons and for such consideration as Exchangeco may determine, except as may otherwise be required by applicable laws, regulations or stock exchange requirements, and subject to all dividends on the outstanding exchangeable shares corresponding to dividends declared and paid on the outstanding shares of Solectron common stock having been declared and paid at the relevant times. The Toronto Stock Exchange, on which it is anticipated that the exchangeable shares will trade, currently requires shareholder approval of certain transactions resulting in the issuance of shares, including transactions where the issuance could increase the number of outstanding shares by 25% or more. Exchangeable shares may also be issued under the exchangeable share rights plan to be entered into by Exchangeco.

### **Expenses**

The combined estimated fees, costs and expenses of Solectron and C-MAC in connection with the transaction including, without limitation, financial advisors' fees, filing fees, legal and accounting fees, soliciting fees, dealer fees and printing and mailing costs are anticipated to be approximately \$32 million.

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### **REPORTING CURRENCIES AND ACCOUNTING PRINCIPLES**

The financial information regarding C-MAC, including the C-MAC audited financial statements, the C-MAC unaudited financial statements and the summaries thereof contained in this document are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles, or Canadian GAAP and, except as indicated in note 15 of the C-MAC audited consolidated financial statements attached to this document as Annex K, are in all material respects in accordance with accounting principles generally accepted in the United States.

The C-MAC unaudited pro forma statement of earnings contained in this document are reported in Canadian dollars and have been prepared in accordance with Canadian GAAP.

The DY 4 Systems Inc. audited consolidated financial statements contained in this document are reported in Canadian dollars and have been prepared in accordance with Canadian GAAP.

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The A-Plus Manufacturing Corp. and the Consolidated Kavlico Corporation audited financial statements contained in this document are reported in U.S. dollars and have been prepared in accordance with U.S. GAAP, which, as applied to these companies, does not differ materially from Canadian GAAP.

The financial information regarding Solectron, including the Solectron audited financial statements, the Solectron unaudited financial statements and the summaries thereof contained in this document are reported in U.S. dollars and have been prepared in accordance with U.S. GAAP.

The Solectron unaudited pro forma financial statements contained in this document are reported in U.S. dollars and have been prepared in accordance with U.S. GAAP.

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#### EXCHANGE RATES

The following table sets forth, for each period indicated, the high and low exchange rates for one Canadian dollar expressed in U.S. dollars, the average of such exchange rates during such period, and the exchange rate at the end of such period, based upon the Bank of Canada Noon Rate and generally reflecting the exchange rates for transactions of U.S.\$1 million or more:

	<b>Six Months Ended June 30, 2001</b>	<b>Year Ended December 31,</b>				
		<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
High	0.6695	0.6973	0.6929	0.7105	0.7489	0.7515
Low	0.6334	0.6413	0.6537	0.6343	0.6948	0.7215
Average	0.6517	0.6733	0.6731	0.6741	0.7223	0.7334
Period End	0.6589	0.6666	0.6929	0.6534	0.6997	0.7301

On August 8, 2001, the last trading day prior to the announcement of the transaction, the exchange rate for one Canadian dollar expressed in U.S. dollars based on the Bank of Canada Noon Rate was \$0.6521. On September 4, 2001, the exchange rate for one Canadian dollar expressed in U.S. dollars based on the Bank of Canada Noon Rate was \$0.6440.

The following table sets forth, for each period indicated, the high and low exchange rates for one U.S. dollar expressed in Canadian dollars, the average of such exchange rates during such period, and the exchange rate at the end of such period, based upon the Bank of Canada Noon Rate and generally reflecting the exchange rates for transactions of Cdn.\$1 million or more:

	<b>Nine Months Ended May 31, 2001</b>	<b>Year Ended August 31,</b>				
		<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
High	1.5789	1.5081	1.5578	1.5765	1.3995	1.3860
Low	1.4735	1.4341	1.4505	1.3714	1.3306	1.3282
Average	1.5275	1.4715	1.5066	1.4388	1.3686	1.3635
Period End						

1.5457 1.4722 1.4958 1.5722 1.3885 1.3684

On August 8, 2001, the last trading day prior to the announcement of the transaction, the exchange rate for one U.S. dollar expressed in Canadian dollars was Cdn.\$1.5334, based on the Bank of Canada Noon Rate. On September 4, 2001, the exchange rate for one U.S. dollar expressed in Canadian dollars based on the Bank of Canada Noon Rate was Cdn.\$1.5528.

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**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA****Solectron Selected Consolidated Financial Data**

The following consolidated statement of income data for each of the three fiscal years ended August 31, 2000 and the consolidated balance sheet data as of August 31, 2000 and 1999 set forth below, are derived from Solectron's audited consolidated financial statements. The consolidated statement of income data for each of the two fiscal years ended August 31, 1997 and the consolidated balance sheet data as of August 31, 1998, 1997 and 1996 are derived from Solectron's unaudited selected financial data.

When you read the following summary historical data, it is important that you read it along with the historical consolidated financial statements and related notes attached to this document as Annex J as well as the section of this document entitled "Solectron Management's Discussion and Analysis of Financial Condition and Results of Operations" (in millions, except per-share data).

	Nine Months Ended May 31,		Fiscal Year Ended August 31,				
	2001	2000	2000	1999	1998	1997	1996
Net Sales	\$ 15,097.4	\$ 9,401.3	\$ 14,137.5	\$ 9,669.2	\$ 6,102.2	\$ 4,408.5	\$ 3,231.8
Operating Income	214.4	461.2	704.2	516.1	368.6	303.2	213.6
Income before income taxes and cumulative effect of change in accounting principle	182.3	488.0	739.5	514.5	375.5	307.5	213.2
Net income	126.8	326.2	497.2	350.3	251.3	203.7	139.6
Basic net income per share(1)	0.20	0.54	0.83	0.65	0.49	0.42	0.31
Diluted net income per share(1)	0.19	0.52	0.80	0.61	0.47	0.40	0.30
	As of May 31,		As of August 31,				
	2001	2000	2000	1999	1998	1997	1996
Working capital	\$ 6,233.6	\$ 5,738.2	\$ 5,411.4	\$ 3,162.7	\$ 1,278.1	\$ 1,137.5	\$ 860.9
Total assets	13,292.5	9,221.4	10,375.6	5,420.5	2,843.7	2,209.9	1,627.9
Long-term debt	4,977.2	3,295.8	3,319.5	922.7	386.8	386.2	388.3
Stockholders' equity	5,410.0	3,584.6	3,802.1	3,166.9	1,475.4	1,150.2	787.8

(1) All net income per share amounts have been adjusted to reflect stock splits to date

Operating results for the nine-month period ending May 31, 2001 are not necessarily indicative of the results that may be expected for the entire fiscal year ending August 31, 2001.

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### Solectron Supplementary Financial Data

Unaudited quarterly financial information for each of the first three fiscal quarters of 2001 and each fiscal quarter during the fiscal years ended August 31, 2000 and 1999 (in millions, except percentages and per share data):

2001	First Quarter	Second Quarter	Third Quarter	
Net sales	\$5,695.5	\$5,418.5	\$3,983.4	
Gross profit				
\$484.7 \$488.2 \$305.7				
Gross margin				
8.5% 9.0% 7.7%				
Operating income				
\$276.4 \$192.5 \$(254.5)				
Operating margin				
4.9% 3.6% (6.4%)				
Net income				
\$190.6 \$121.9 \$(185.7)				
Basic net income per share				
\$0.31 \$0.19 \$(0.28)				
Diluted net income per share				
\$0.29 \$0.18 \$(0.28)				
2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$2,834.6	\$2,912.7	\$3,645.0	\$4,736.2
Gross profit				
\$277.0 \$279.9 \$305.5 \$412.9				
Gross margin				
9.8% 9.6% 8.4% 8.7%				
Operating income				
\$155.3 \$135.7 \$170.2 \$243.0				
Operating margin				
5.5% 4.6% 4.7% 5.1%				
Income before cumulative effect of change in accounting principle				
\$113.3 \$96.7 \$119.7 \$171.0				
Cumulative effect of change in accounting principle, net of income tax benefit				
\$(3.5) \$ \$ \$				
Net income				
\$109.8 \$96.7 \$119.7 \$171.0				
Basic net income per share:(1)				
Income before cumulative effect of change in accounting principle				
\$0.19 \$0.16 \$0.20 \$0.28				



Cumulative effect of change in accounting principle  
 \$(0.01) \$ \$ \$  
 Net income  
 \$0.18 \$0.16 \$0.20 \$0.28  
 Diluted net income per share:(1)

Income before cumulative effect of change in accounting principle  
 \$0.18 \$0.16 \$0.19 \$0.27  
 Cumulative effect of change in accounting principle  
 \$(0.01) \$ \$ \$  
 Net income  
 \$0.17 \$0.16 \$0.19 \$0.27

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$2,272.0	\$2,249.3	\$2,440.4	\$2,707.5
Gross profit				
\$211.7 \$216.9 \$240.8 \$266.9				
Gross margin				
9.3% 9.6% 9.9% 9.9%				
Operating income				
\$115.1 \$117.0 \$134.0 \$150.0				
Operating margin				
5.1% 5.2% 5.5% 5.5%				
Net income				
\$77.5 \$78.4 \$90.9 \$103.5				
Basic net income per share(1)				
\$0.15 \$0.15 \$0.16 \$0.18				
Diluted net income per share(1)				
\$0.14 \$0.14 \$0.16 \$0.17				

(1) Adjusted to reflect two-for-one stock splits through March 8, 2000.

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**C-MAC Selected Consolidated Financial Data**

The following table presents selected historical financial data for the periods indicated in Canadian dollars. The selected financial data as of and for each of the years in the five-year period ended December 31, 2000 are derived from C-MAC's audited consolidated financial statements, and the financial data as of and for each of the twenty-six week periods ended July 1, 2000 and June 30, 2001 are derived from C-MAC's unaudited interim consolidated financial statements, which in the opinion of management include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial information for such periods. Historical results are not necessarily indicative of the results that may be expected for any future period or for a full year. The selected historical financial data should be read in conjunction with C-MAC's consolidated financial statements and the notes thereto attached to this document as Annex K together with C-MAC Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this document.

Twenty-six week  
 periods ended  
 \_\_\_\_\_ Years ended December 31,  
 June 30/July 1, \_\_\_\_\_

2001 2000 2000 1999 1998 1997 1996

(unaudited)  
(in thousands of Canadian dollars,  
except earnings per share data)

**Consolidated Statement of Earnings Data:**

**Canadian GAAP:**

Revenue

\$1,491,678 \$993,953 \$2,552,839 \$1,169,097 \$642,983 \$413,055 \$316,219

Operating expenses:

Cost of goods sold

1,228,970 831,641 2,115,505 970,701 525,504 334,553 258,666

Selling and administrative

74,096 46,419 113,969 67,482 44,620 27,820 19,948

Research and development

36,246 13,420 41,463 17,196 12,852 7,669 4,660

Amortization of capital and other assets

36,751 17,076 44,070 22,844 11,841 8,671 8,258

Earnings from operations

115,615 85,397 237,832 90,874 48,166 34,342 24,687

Financial expenses

6,195 12,094 9,187 13,589 6,099 1,237 683

Income taxes

37,931 27,020 79,779 27,399 15,307 12,739 9,266

Non-controlling interest

120 190 386 854

Net earnings before goodwill amortization

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71,369	46,093	148,480	49,032	26,760	20,366	14,738
Goodwill amortization, net of income taxes						
18,841	5,169	15,722	3,860	1,342	114	44

Net earnings						
\$52,528	\$40,924	\$132,758	\$45,172	\$25,418	\$20,252	\$14,694

Earnings before goodwill amortization per share

Basic						
\$0.83	\$0.68	\$1.99	\$0.82	\$0.51	\$0.39	\$0.29
Diluted						
\$0.81	\$0.66	\$1.94	\$0.80	\$0.50	\$0.38	\$0.29
Earnings per share						

Basic						
\$0.61	\$0.60	\$1.78	\$0.76	\$0.49	\$0.39	\$0.29
Diluted						
\$0.60	\$0.58	\$1.73	\$0.74	\$0.47	\$0.38	\$0.28
Weighted average number of outstanding common shares						

Basic						
86,282	68,133	74,558	59,830	52,082	51,594	51,524
Diluted						
87,813	70,238	76,524	61,424	53,519	53,081	51,558
<b>U.S. GAAP</b>						

Net earnings						
\$55,023	\$39,610	\$131,839	\$49,675	\$19,522	\$20,588	\$14,199
Earnings per share						

Basic  
 \$0.64 \$0.58 \$1.77 \$0.83 \$0.37 \$0.40 \$0.28  
 Diluted  
 \$0.63 \$0.56 \$1.72 \$0.81 \$0.36 \$0.39 \$0.28

**Consolidated Cash Flow Data:****Canadian GAAP:**

Cash flows from (used in) operating activities  
 \$140,715 \$(84,486) \$(184,238) \$13,148 \$37,073 \$30,323 \$24,767  
 Cash flows from (used by) financing activities  
 16,715 278,084 1,260,803 180,363 196,794 14,993 (21,875)  
 Cash flows used by investing activities  
 (79,156) (246,436) (1,056,081) (172,550) (138,994) (31,153) (14,097)

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June 30, 2001	December 31,	
	2000	1999
(unaudited)		
(in thousands of Canadian dollars)		

**Consolidated Balance Sheet Data:****Canadian GAAP:**

Cash and cash equivalents  
 \$271,900 \$203,242 \$160,773  
 Working capital  
 970,627 941,235 324,907  
 Capital assets  
 417,601 395,477 188,030  
 Total assets  
 2,884,179 3,029,968 1,061,503  
 Long-term debt, including current portion  
 320,631 306,014 213,361  
 Shareholders' equity  
 2,202,637 2,152,478 527,251

**U.S. GAAP:**

Cash and cash equivalents  
 \$271,900 \$203,242 \$160,773  
 Working capital  
 970,627 940,831 324,839  
 Capital assets  
 417,601 395,477 188,030  
 Total assets  
 2,884,202 3,027,496 1,059,951  
 Long-term debt, including current portion  
 320,631 306,014 213,361  
 Shareholders' equity  
 2,202,660 2,150,006 525,699

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**SOLECTRON UNAUDITED PRO FORMA COMBINED  
CONDENSED FINANCIAL STATEMENTS**

The following unaudited pro forma combined condensed financial statements are presented for illustrative purposes only and are not necessarily indicative of the combined results of operations for future periods or the results of operations that actually would have been realized had Solectron Corporation (Solectron), C-MAC Industries Inc. (C-MAC), and NatSteel Electronics Ltd. been combined during the periods specified. The unaudited pro forma combined condensed financial statements and the related notes should be read in conjunction with the historical financial statements of Solectron, C-MAC and Natsteel, included in this document in Annexes J and K, and pro forma information for C-MAC and its acquired subsidiaries included in this document in Annex K.

On January 5, 2001, Solectron completed its acquisition of NatSteel, by acquiring 99 percent of the issued share capital and the outstanding principal amount of convertible bonds of NatSteel for approximately \$2.3 billion in cash. During February 2001, NatSteel became a wholly owned subsidiary of Solectron when Solectron acquired the remaining shares and principal amount of NatSteel's convertible bonds through compulsory acquisition under Singapore law. For financial reporting purposes, the acquisition of Natsteel was deemed to have occurred on January 1, 2001. The pro forma adjustments that are reflected in the accompanying unaudited pro forma combined condensed income statements for the year ended August 31, 2000 and the nine-month period ended May 31, 2001 are based on the fair value of the tangible and intangible assets acquired by Solectron as well as management's estimates of the useful lives of those acquired assets.

In August 2001, Solectron entered into an agreement to acquire C-MAC in a transaction to be accounted for as a purchase. The final purchase price will be based upon the closing price of Solectron's common stock upon consummation of the transaction. The estimated purchase price, which is subject to adjustment, is approximately \$2.186 billion, consisting of Solectron common stock valued at approximately \$2.113 billion, Solectron stock options valued at approximately \$57 million, and direct acquisition costs estimated at approximately \$16 million.

On March 27, 2000, C-MAC completed its acquisition of A-Plus Manufacturing Corp. (A-Plus); on November 20, 2000, C-MAC completed its acquisition of Kavlico Corporation (Kavlico); and on November 24, 2000, C-MAC completed its acquisition of DY 4 Systems Inc. (DY 4); collectively, (the C-MAC acquisitions). The unaudited pro forma combined condensed financial statements of Solectron include the pro forma impact of the C-MAC acquisitions for the periods specified below.

The unaudited pro forma combined condensed balance sheet gives effect to the C-MAC acquisition as if it had taken place on May 31, 2001, and combines Solectron's unaudited historical consolidated balance sheet as of May 31, 2001 and C-MAC's unaudited consolidated balance sheet as of June 30, 2001. The Solectron acquisition of NatSteel is reflected in Solectron's unaudited historical consolidated balance sheet as of May 31, 2001. The C-MAC acquisitions are reflected in the C-MAC unaudited consolidated balance sheet as of June 30, 2001.

The unaudited pro forma combined condensed income statement for the nine-month period ended May 31, 2001 gives effect to the Solectron acquisition of C-MAC and NatSteel as if they had taken place on September 1, 2000; and to the C-MAC acquisitions of Kavlico and DY 4 as if they had taken place on October 1, 2000. The unaudited pro forma combined condensed income statement for the nine-month period ended May 31, 2001 combines Solectron's unaudited historical consolidated statement of income for the nine-month period ended May 31, 2001; the NatSteel unaudited historical consolidated income and loss account for the four-month period ended December 31, 2000; and the pro forma C-MAC unaudited consolidated statement of earnings for the nine-month period ended June 30, 2001. The pro forma C-MAC unaudited consolidated statement of earnings for the nine-month period ended June 30, 2001 includes the Kavlico unaudited historical consolidated statement of income and retained earnings for the 51 day period ended November 20, 2000 (date of acquisition); and the DY 4 unaudited consolidated statements of earnings for the 55 day period ended November 24, 2000 (date of acquisition). Results of operations for NatSteel are included in the historical results of operations of Solectron from January 1,

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2001 to May 31, 2001. Results of operations of Kavlico and DY 4 are included in the historical results of operations of C-MAC from their dates of acquisition to June 30, 2001.

The unaudited pro forma combined condensed income statement for the year ended August 31, 2000 gives effect to the arrangement and acquisition of NatSteel as if they had taken place on September 1, 1999; and to the C-MAC acquisitions of A-Plus, Kavlico, and DY 4 as if they had taken place on October 1, 1999. The unaudited pro forma combined condensed income statement for the year ended August 31, 2000 combines Solectron's unaudited historical consolidated statement of income for the year ended August 31, 2000; the Natsteel unaudited historical consolidated income and loss account for the year ended June 30, 2000; and the pro forma C-MAC unaudited consolidated statement of earnings for the year ended September 30, 2000. The pro forma C-MAC unaudited consolidated statement of earnings for the year ended September 30, 2000 includes the A-Plus unaudited statement of income for the six-month period ended March 27, 2000; the Kavlico unaudited historical consolidated statement of income and retained earnings for the year ended September 30, 2000; and the DY 4 unaudited consolidated statement of earnings and retained earnings for the year ended September 30, 2000. Results of operations of A-Plus are included in the historical results of operations of C-MAC from its date of acquisition to September 30, 2000.

The unaudited pro forma combined condensed financial statements have been prepared on the basis of assumptions described in the related notes and include assumptions relating to the allocation of consideration paid for the assets and liabilities of C-MAC based on preliminary estimates of their respective fair values. The purchase price reflected in the unaudited pro forma combined condensed financial statements is preliminary and is subject to adjustment as defined in the combination agreement. The final allocation of the consideration paid for C-MAC may differ from that reflected in the unaudited pro forma combined condensed financial statements upon completion of the arrangement when the final purchase price is known and the final valuation and purchase price allocation have been performed. In the opinion of management, all adjustments necessary to present fairly such unaudited pro forma combined condensed financial statements have been made on the proposed terms and structure of the C-MAC acquisition.

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**Table of Contents****SOLECTRON UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET**

(In millions)

	Solectron Historical		C-MAC	Pro Forma	
	As of	As of	As of	As of	As of
	May	June	June	June	June
	31,	30,	30,	30,	30,
	2001	2001	2001	2001	2001
			Adjustment	Combined	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents and short-term investments	\$2,175.9	\$183.4	\$	\$2,359.3	
Accounts receivable, net	2,391.4	352.0	(8.1)(a)	2,735.3	
Inventories	4,201.7	291.3	6.4 (b)	4,499.4	
Prepaid expenses and other current assets	312.7	36.5		349.2	

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Total current assets	9,081.7	863.2	9,943.2
Net property plant and equipment	1,381.1	275.8	1,656.9
Goodwill, net	1,985.2	719.1	745.0 (c) 3,449.3
Other assets	844.5	47.0	891.5

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Total assets	\$13,292.5	\$1,905.1	\$15,940.9
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**LIABILITIES AND STOCKHOLDERS EQUITY**

Current liabilities:

Short-term debt	\$337.6	\$	\$	\$337.6		
Accounts payable and accrued liabilities	2,364.2	193.2	(8.1)(a)	2,573.3	16.0 (c)	8.0 (d)
Other current liabilities	146.3	26.3	172.6			

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Total current liabilities	2,848.1	219.5	3,083.5
Long-term debt	4,977.2	208.1	5,185.3
Other long-term liabilities	57.2	22.3	79.5

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Total liabilities	7,882.5	449.9	8,348.3
Commitments			

Stockholders equity:

Common stock	0.7	1,242.3	(1,242.3)(e)	0.8	0.1 (e)
Additional paid-in capital	3,847.9	2,185.7	e	6,033.6	
Retained earnings	1,781.9	211.8	(211.8)(e)	1,781.9	
Accumulated other comprehensive income	(220.5)	1.1	(1.1)(e)	(220.5)	
Deferred compensation	(3.2)(f)	(3.2)			

Total stockholders' equity	5,410.0	1,455.2		7,592.6	
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Total liabilities and stockholders' equity	\$13,292.5	\$1,905.1		\$15,940.9	
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**SOLELECTRON UNAUDITED PRO FORMA COMBINED CONDENSED**

**STATEMENTS OF INCOME  
(In millions)**

SOLECTRON  
 Historical Form  
 Pro Forma  
 Nine Months Ended  
 May 31, 2000  
 Pro Forma  
 Adjustments  
 Four Months Ended  
 June 30, 2000  
 Combined  
 Nine Months Ended  
 May 31, 2000  
 Combined  
 Nine Months Ended  
 May 31, 2000

Net sales	\$15,097.4	\$1,558.5	1,042.4	\$(17.4)(a)	\$17,680.9
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Cost of Sales

13,818.8 1,307.3 1,006.4 (17.4)(a) 16,115.1

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Gross Profit

1,278.6 251.2 36.0 1,565.8

Operating expenses:

Selling, general and administrative

580.8 84.2 94.0 0.7 (f) 0.1 (l) 757.8 (1.6)(i) (0.4)(j)

Research and development

55.8 36.5 0.3 92.6

Goodwill amortization expense

87.8 23.4 11.5 (23.4)(c) 49.8 (h) 149.1

Acquisition costs

29.5 29.5

Restructuring and impairment

310.3 310.3

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Operating income (loss)

214.4 107.1 (69.8) 226.5

Equity in income of equity affiliates

(1.0) (1.0)

Interest income

95.9 16.0 1.2 113.1

Interest expense

(128.0) (14.9) (12.3) (11.4)(l) (160.7) 5.9 (j)

Other income

(3.5) (3.5)

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Income (loss) before income taxes

182.3 108.2 (85.4) 174.4

Income tax expense

55.5 39.1 1.2 2.8 (g) (13.5)(m) 85.1

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Income (loss) before minority interests

126.8 69.1 (86.6) 89.3

Minority interests

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Net income (loss)

\$126.8 \$69.1 (86.6) \$89.3

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Basic net income per share

\$0.20 \$0.11

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Diluted net income per share

\$0.19 \$0.11

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Shares used to compute net income per share:

Basic

636.9 151.4 8.9 (k) 797.2

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Diluted

653.1 152.7 8.9 (k) 814.7

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me of equity affiliates

1.0			
4.0	120.8		
(21.0)	(49.9)	(152.1)	13.1 (j)
(expense)			
0.1			

income taxes

44.2	706.0		
3.5	3.3 (g)	(61.4)(m)	234.8
minority interests and cumulative effect of change in accounting principle			
40.7	471.2		
(1.8)			

before cumulative effect of change in accounting principle

38.9	469.4		
effect of change in accounting principle			
(3.5)			

\$38.9      \$465.9

me per share:

cumulative effect	
\$0.60	
effect	
(0.01)	

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\$0.59

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Income per share:  
Cumulative effect  
\$0.58  
Effect  
(0.01)

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\$0.57

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compute net income per share:

151.5 35.0 (k) 785.9

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152.7 35.0 (k) 811.2

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**Table of Contents**

**NOTES TO SOLECTRON UNAUDITED PRO FORMA COMBINED CONDENSED**

**FINANCIAL STATEMENTS**  
(in millions)

**Note 1 C-MAC Acquisition**

The pro forma information related to the proposed C-MAC acquisition has been prepared in accordance with SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*, both which will be effective for Solectron prior to the expected consummation date of this transaction.

The C-MAC acquisition will be accounted for as a purchase. According to the purchase method, the market value of Solectron common stock to be issued, the fair value of Solectron options to be issued and the amount of direct acquisition costs incurred will be recorded as the cost of acquiring C-MAC, or the purchase price. That purchase price will be allocated to individual assets acquired and liabilities assumed based on their respective fair values. The excess of the purchase price over the fair value of the net assets will be allocated to goodwill. In addition and pursuant to SFAS No. 142, goodwill will not be amortized but will be reviewed periodically for impairment.

The following table represents the estimated purchase price and the preliminary purchase price allocation. The final purchase price allocation will depend upon the actual purchase price and final valuation of the assets acquired and the liabilities assumed upon closing of the transaction. Consequently, the actual allocation of the purchase price could differ from that presented below.

**Calculation of purchase price:**

Value of securities issued:

Common shares	\$2,113.0
Stock options	56.7
Acquisition costs	16.0
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Total purchase price	\$2,185.7
<hr/>	

**Allocation of purchase price:**

Assets:

Carrying value of C-MAC's historical assets	\$1,905.0
Inventory fair value in excess of historical	6.4
Goodwill write-up	745.0
Deferred stock-based compensation	3.2

Liabilities:

Carrying value of C-MAC's historical liabilities	
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(449.9)  
 Acquisition costs  
 (16.0)  
 Additional employee  
 compensation  
 liability  
 (8.0)

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Total purchase price  
 \$2,185.7

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The calculation of the purchase price assumes that Solectron will issue approximately 151,472,000 shares of its common stock, valued at \$13.95 per share (the average closing market price per share during the five trading days ended August 29, 2001) and that Solectron will issue approximately 5,446,000 options in exchange for all outstanding C-MAC stock options. C-MAC common shares and options outstanding as of June 30, 2001 were used for purposes of the pro forma purchase price calculation.

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**NOTES TO SOLECTRON UNAUDITED PRO FORMA COMBINED CONDENSED  
 FINANCIAL STATEMENTS (continued)  
 (in millions)**

The following adjustments have been reflected in the C-MAC column of the Solectron unaudited pro forma combined condensed consolidated balance sheet and income statements:

- (a) Represents the elimination of sales, cost of sales, accounts payable and accounts receivable related to sales between Solectron and C-MAC.
- (b) Represents the fair value of inventory in excess of the historical book value of such inventory.
- (c) Represents the allocation of the excess of total consideration over the net assets acquired to goodwill, the elimination of C-MAC historical amortization recorded, and the accrual of Solectron's direct acquisition costs.
- (d) Represents the increase recorded to employee compensation liabilities for the fair value in excess of the historical book value of such liabilities due to change in control provisions.
- (e) Represents the elimination of C-MAC's historical equity and the issuance of Solectron common stock.
- (f) Represents deferred stock-based compensation related to the intrinsic value attributed to unvested C-MAC stock options exchanged for Solectron options and related amortization.
- (g) Represents the income tax effects of the pro forma adjustments related to the C-MAC acquisition.

**Note 2 Natsteel Acquisition**

Solectron acquired Natsteel in January 2001 for \$2.3 billion in cash. The purchase price was allocated to the assets acquired and the liabilities assumed based on their relative fair value. The purchase price in excess of the net assets acquired was allocated to goodwill.

The allocation of the purchase price to the net assets acquired is presented below.

Total purchase price  
 paid in cash  
 \$2,322.4  
 Acquisition costs  
 9.9

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Total purchase price  
 \$2,332.3

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**Allocation of the  
 Purchase Price:**

Assets:

Carrying value of  
 NatSteel's historical  
 assets  
 \$1,317.9  
 Inventory write-down  
 (2.9)  
 Investment in equity  
 affiliates write-up  
 12.7  
 Property and  
 equipment  
 (47.9)  
 Goodwill write-up  
 1,831.3  
 Other assets write-up  
 28.2  
 Liabilities and  
 Stockholders' Equity:

Carrying value of  
 NatSteel's historical  
 liabilities  
 (807.0)

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Total purchase price  
 \$2,332.3

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**NOTES TO SOLECTRON UNAUDITED PRO FORMA COMBINED CONDENSED  
 FINANCIAL STATEMENTS (continued)  
 (in millions)**

The following adjustments have been reflected in the NatSteel column of the Solectron unaudited pro forma combined condensed income statements:

(h)



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Represents an adjustment to remove the amortization of historical goodwill and other intangible assets previously recorded by NatSteel and to record the amortization of goodwill and intangible assets resulting from the allocation of the purchase price. The pro forma adjustments assume goodwill and identifiable intangibles are amortized on a straight-line basis over the following estimated lives:

Goodwill	10.0 years
Intangible assets	3.0 years

- (i) Represents an adjustment to depreciation expense resulting from the step-down in the value of the property and equipment acquired.
- (j) Represents the elimination of NatSteel's interest expense and amortization of capitalized debt issuance costs resulting from the purchase of its convertible bonds by Solectron as a part of the acquisition.
- (k) To reflect the increase in the weighted average shares due to the issuance of additional shares of Solectron's common stock during November 2000 as a result of the acquisition.
- (l) Represents a net increase in interest expense and amortization of capitalized debt issuance costs resulting from the Liquid Yield Option Notes (LYONs) issued by Solectron in November 2000 to fund the acquisition.
- (m) Represents the tax effects of the pro forma adjustments.

The pro forma income statement for the year ended August 31, 2000, includes the Natsteel results of operations for the year ended June 30, 2000. The pro forma income statement for the nine-month period ended May 31, 2001, includes the Natsteel results of operations for the four-month period ended December 31, 2000. The Solectron historical income statement for the nine-month period ended May 31, 2001, includes the Natsteel results of operations for the five-month period ended May 31, 2001. The two-month period ended August 31, 2000, not included above, is summarized as follows:

Sales	\$479.1
Expenses and minority interest	479.0
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Net	\$ .1
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### Note 3 C-MAC Pro Forma Nine Months Ended June 30, 2001

The following table presents the historical C-MAC unaudited historical consolidated statement of earnings for the nine month period ended June 30, 2001, and its acquired subsidiaries. Pro Forma adjustments include amortization of goodwill of \$2.2 million, its related benefit of \$0.7 million, and the recording of an additional tax provision for Kavlico of \$0.7 million.

	C-MAC Historical Nine Months Ended June 30, 2001	Kavlico 51 days Ended November 20, 2000	DY 4 55 days Ended November 24, 2000	Adjustments	C-MAC Proforma Nine Months Ended June 30, 2001
Net sales	1,532.7	22.6	3.2		1,558.5
Cost of sales	1,286.4 18.4 2.5 1,307.3				
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**NOTES TO SOLECTRON UNAUDITED PRO FORMA COMBINED CONDENSED  
FINANCIAL STATEMENTS (continued)**  
(in millions)

	C-MAC Historical Nine Months Ended June 30, 2001	Kavlico 51 days Ended November 20, 2000	DY 4 55 days Ended November 24, 2000	Adjustments	C-MAC Proforma Nine Months Ended June 30, 2001
Gross Profit	246.3	4.2	0.7		251.2
Operating expenses:					
Selling, general and administrative	79.2	2.3	2.7		84.2
Research and development	35.5	0.2	0.8		36.5
Goodwill amortization expense	21.2		2.2		23.4
Operating income	110.4	1.7	(2.8)	(2.2)	107.1
Interest income	15.7	0.1	0.2		16.0
Interest expense	(14.7)	(0.1)	(0.1)		(14.9)

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Income before income taxes  
 111.4 1.7 (2.7) (2.2) 108.2

Income taxes  
 39.1 39.1

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Net income  
 72.3 1.7 (2.7) (2.2) 69.1

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**Note 4 C-MAC Pro Forma Twelve Months Ended September 30, 2000**

The following table presents the historical C-MAC unaudited historical consolidated statement of earnings for the twelve month period ended September 30, 2000, and its acquired subsidiaries. Pro Forma adjustments include amortization of goodwill of \$18.4 million, its related tax benefit of \$4.9 million, and the recording of an additional tax provision for Kavlico of \$8.6 million.

	<b>C-MAC Historical</b>	<b>Kavlico</b>	<b>DY 4</b>	<b>A-Plus Six Months</b>	<b>C-MAC Proforma</b>
	<b>Twelve Months Ended September 30, 2000</b>	<b>Twelve Months Ended September 30, 2000</b>	<b>Twelve Months Ended September 30, 2000</b>	<b>Twelve Months Ended March 27, 2000 Adjustments</b>	<b>Twelve Months Ended September 30, 2000</b>
Net sales	1,418.5	162.8	58.7	68.0	1,708.0
Cost of sales	1,199.8	124.6	29.8	54.2	1,408.4

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Gross Profit

218.7 38.2 28.9 13.8 299.6

Operating expenses:

Selling, general and administrative

70.7 14.6 13.2 4.8 103.3

Research and development

20.4 1.9 6.8 29.1

Goodwill amortization expense

8.7 18.4 27.1

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Operating income

118.9 21.7 8.9 9.0 (18.4) 140.1

Interest income

8.6 0.3 1.0 9.9

Interest expense

(21.0) (1.2) (0.1) (0.4) (22.7)

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Income before income taxes

106.5 20.8 9.8 8.6 (18.4) 127.3

Income taxes

41.3 2.7 2.9 3.7 50.6

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Net income

65.2 20.8 7.1 5.7 (22.1) 76.7

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**PRO FORMA CAPITALIZATION OF SOLECTRON**

The following table sets forth the capitalization of Solectron as at May 31, 2001 on the basis of the assumptions set forth in the Solectron unaudited pro forma financial statements. This table should be read in conjunction with the Solectron unaudited pro forma financial statements included elsewhere herein.

	Solectron as of May 31, 2001	As Adjusted Solectron as of May 31, 2001(1)
	(in millions)	
Stockholders Equity		
Preferred Stock, \$.001 par value, 1.2 million authorized shares; no shares issued	\$	\$
Common Stock, \$.001 par value, 1,600 million shares authorized; 656.2 million shares issued and outstanding as of May 31, 2001; and 807.7 shares as adjusted as of May 31, 2001	0.7	0.8
Additional Paid-In Capital	3,847.9	6,033.6
Retained Earnings	1,781.9	1,781.9
Accumulated other comprehensive income		

(220.5) (220.5)  
 Deferred compensation  
 (3.2)

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TOTAL STOCKHOLDERS EQUITY  
 \$5,410.0 \$7,592.6

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TOTAL CAPITALIZATION  
 \$5,410.0 \$7,592.6

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- (1) Assumes that all exchangeable shares have been exchanged for shares of Solectron common stock and that, accordingly, the special voting share is cancelled. Excludes 45.6 million shares of Solectron common stock issuable upon the exercise of Solectron stock options outstanding at May 31, 2001 and 5.4 million shares of Solectron common stock issuable upon the exercise of replacement options based on the C-MAC options outstanding at August 8, 2001.

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**THE COMBINATION AGREEMENT**

The following summary of the combination agreement, as amended (referred to in this document as the combination agreement) is qualified by reference to the complete text of the combination agreement. The combination agreement and the amendment are incorporated by reference into this document and attached as Annexes A-1 and A-2 respectively.

**Structure of the Arrangement**

Under the terms of the combination agreement, C-MAC will enter into a plan of arrangement under the *Canada Business Corporations Act*, as a result of which C-MAC will become an indirect, wholly-owned subsidiary of Solectron (other than exchangeable shares).

**Completion and Effectiveness of the Arrangement**

Solectron and C-MAC will complete the transaction after all of the conditions to completion of the arrangement contained in the combination agreement have been satisfied or waived. The arrangement will become effective upon the issuance of a certificate of arrangement, issued pursuant to subsection 192(7) of the *Canada Business Corporations Act* after the articles of arrangement have been filed.

Solectron and C-MAC are working toward satisfying the conditions and completing the arrangement as quickly as possible. Solectron and C-MAC currently plan to complete the arrangement by the end of the fourth calendar quarter of 2001. Because the combination is subject to governmental and regulatory approvals and other conditions, some of which are beyond Solectron and C-MAC's control, the exact timing cannot be predicted.

**Exchange of Shares on the Arrangement**

Under the arrangement, Solectron Global Services Canada Inc. (an indirect wholly owned subsidiary of Solectron, referred to in this document as Exchangeco) will acquire all of the outstanding common shares of C-MAC (other than those of dissenting C-MAC shareholders who ultimately receive from C-MAC the fair value of their C-MAC common shares and those held by Solectron or its affiliates), in exchange for shares of Solectron common stock or, at the option of validly-electing Canadian resident C-MAC shareholders, exchangeable shares and certain ancillary rights or a combination of shares of Solectron common stock and exchangeable shares (and certain ancillary rights). The exchangeable shares will be securities issued by Exchangeco that are exchangeable on a one-for-one basis for shares of Solectron common stock. Holders of the exchangeable shares will be entitled to dividend and other rights that are substantially economically equivalent to those of the holders of Solectron common stock. Through a voting trust arrangement, holders of the exchangeable shares will be entitled to vote at meetings of Solectron stockholders.

Persons owning C-MAC common shares through a holding company at the time of the transaction and meeting certain conditions may participate in the transaction by having Exchangeco acquire all of the shares of their holding company instead of the C-MAC common shares held by such holding company, in exchange for the same consideration otherwise receivable for such C-MAC common shares. This holding company alternative involves a complex series of transactions and is described in greater detail in *Transaction Mechanics Holding Company Alternative*.

The combination agreement also provides that if, in the opinion of counsel to C-MAC, a change in tax law is enacted and becomes effective prior to the effective date of the arrangement pursuant to which beneficial holders of C-MAC common shares who are Canadian residents and who hold their shares as capital property for purposes of the *Income Tax Act* (Canada)(and any applicable Québec provincial legislation) may exchange their C-MAC common shares for shares of Solectron common stock on a tax-deferred basis for purposes of the *Income Tax Act* (Canada)(and any applicable Québec provincial legislation) then, at the option of Solectron, no exchangeable shares will be issued and the plan of arrangement will be amended accordingly.

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### **Fractional Shares**

No certificates representing fractional exchangeable shares or fractional shares of Solectron common stock shall be issued upon the surrender for exchange of certificates representing C-MAC common shares. In lieu of any such fractional securities, each person otherwise entitled to a fractional interest in an exchangeable share or share of Solectron common stock will be entitled to receive a cash payment based on such person's pro rata portion of the net proceeds after expenses received by the depository, General Trust of Canada upon the sale of whole shares representing an accumulation of all fractional interests in exchangeable shares or shares of Solectron common stock, respectively, as the case may be, to which all such persons would otherwise be entitled.

### **C-MAC's Representations and Warranties**

C-MAC made a number of customary representations and warranties to Solectron in the combination agreement regarding aspects of its business, financial condition, structure and other facts pertinent to the combination. These representations and warranties include representations, as of August 8, 2001, as to:

the corporate organization and qualification to do business of C-MAC and its subsidiaries;

the articles of incorporation and bylaws of C-MAC and its subsidiaries;

C-MAC's capitalization;

authorization of the combination agreement by C-MAC;

the absence of conflicts in connection with C-MAC's performance under the combination agreement;

regulatory and third party approvals required by C-MAC to complete the arrangement;

the filing and consent obligations of C-MAC under applicable laws in connection with the arrangement;

compliance with applicable laws and certain contracts by C-MAC and its subsidiaries;

the absence of government investigation or review of C-MAC or its subsidiaries;

C-MAC's filings and reports with Canadian securities regulatory authorities and The Toronto Stock Exchange;

C-MAC's financial statements;

C-MAC's books and records;

C-MAC's liabilities;

changes in C-MAC's business since June 30, 2001 and actions taken by C-MAC since June 30, 2001;

litigation involving C-MAC or its subsidiaries;

C-MAC's and its subsidiaries' employee benefit plans;

C-MAC's and its subsidiaries' labor relations;

the absence of restrictions on the conduct of C-MAC's business;

title to the properties C-MAC and its subsidiaries own and validity of C-MAC's and its subsidiaries' leases;

tax matters pertaining to C-MAC and its subsidiaries;

environmental matters pertaining to C-MAC and its subsidiaries;

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payments required to be made by C-MAC to brokers and agents in connection with the arrangement;

intellectual property matters pertaining to C-MAC and its subsidiaries;

C-MAC's and its subsidiaries' material contracts and commitments;

C-MAC's and its subsidiaries' insurance coverage;

the fairness opinion received by C-MAC from Banc of America Securities;

approvals and recommendations by the C-MAC board of directors in connection with the arrangement; and

the vote of C-MAC securityholders required to adopt and approve the combination agreement and approve the arrangement.

Many of the representations and warranties are qualified by thresholds of materiality or to a level of a material adverse effect, and all such representations and warranties expire upon completion of the arrangement.

The representations and warranties contained in the combination agreement are complicated and not easily summarized. You are urged to carefully read Article III of the combination agreement entitled "Representations and Warranties of Company".



**Solectron's Representations and Warranties**

Solectron and Exchangeco have made a number of customary representations and warranties to C-MAC in the combination agreement regarding aspects of Solectron's business, financial condition, structure and other facts pertinent to the arrangement. These representations and warranties include representations as to:

the corporate organization and qualification to do business of Solectron and its subsidiaries;

the certificate of incorporation and bylaws of Solectron and its subsidiaries;

Solectron's capitalization;

authorization of the combination agreement by Solectron and Exchangeco;

authorization of the exchangeable share support agreement and the voting and exchange trust agreement by Solectron and Exchangeco;

the absence of conflicts in connection with Solectron's and Exchangeco's obligations under the combination agreement, the exchangeable share support agreement and the voting and exchange trust agreement;

regulatory and third party approvals required by Solectron and Exchangeco to complete the combination;

the filing and consent obligations of Solectron under applicable laws and certain contracts in connection with the combination;

compliance with applicable laws and certain contracts by Solectron and its subsidiaries;

Solectron's filings and reports with the Securities and Exchange Commission;

Solectron's financial statements;

Solectron's liabilities;

changes in Solectron's business since May 31, 2001 and actions taken by Solectron since May 31, 2001;

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litigation involving Solectron and its subsidiaries;

intellectual property matters pertaining to Solectron and its subsidiaries;

tax matters pertaining to Solectron and its subsidiaries;

payments required to be made by Solectron to brokers and agents in connection with the arrangement;

the fairness opinion received by Solectron from Merrill Lynch;

approvals and recommendations by Solectron's board of directors in connection with the arrangement;

the vote of Solectron stockholders required to approve the issuance of Solectron common stock in connection with the arrangement;

Exchangeco's issuance of exchangeable shares;

Solectron's issuance of common stock in connection with the arrangement; and

the status of Exchangeeco.

Many of the representations and warranties are qualified by thresholds of materiality or to a level of a material adverse effect, and all such representations and warranties expire upon completion of the arrangement.

The representations and warranties contained in the combination agreement are complicated and not easily summarized. You are urged to carefully read Article IV of the combination agreement entitled "Representations and Warranties of the Parent Parties".

#### **C-MAC's Conduct of Business Before Completion of the Arrangement**

Under the terms of the combination agreement, C-MAC agreed that, until the earlier of the completion of the arrangement or termination of the combination agreement, C-MAC and its subsidiaries, except to the extent Solectron consents in writing, will:

carry on its business in the ordinary course, consistent with past practice and in compliance with applicable laws in all material respects;

pay or perform its material obligations when due; and

use its commercially reasonable efforts consistent with past practices and policies to:

preserve intact its present business organization;

keep available the services of its present officers and employees; and

preserve its relationships with customers, suppliers, distributors, licensors, licensees and others with which it has significant business dealings.

Under the terms of the combination agreement, C-MAC also agreed that, subject to certain exceptions, until the earlier of the completion of the arrangement or termination of the combination agreement, or unless Solectron consents in writing, C-MAC will comply with certain specific restrictions relating to the operation of its business, including restrictions relating to the following:

changes with respect to C-MAC restricted shares and stock options;

granting or amending severance and termination payments;

declaring or paying dividends or other distributions on shares of C-MAC;

purchasing, redeeming or otherwise acquiring shares of C-MAC;

issuing shares of C-MAC or securities convertible into shares of C-MAC;

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modifying the articles of incorporation or bylaws of C-MAC or its subsidiaries;

reorganizing or merging C-MAC or its subsidiaries, other than in connection with the combination agreement;

acquiring other business entities, subject to certain exceptions;

entering into joint ventures, strategic partnerships or alliances, subject to certain exceptions;

selling, leasing, licensing or disposing of material assets other than in the ordinary course of business;

granting loans or purchasing equity interests in other persons other than in the ordinary course of business;

incurring indebtedness other than in the ordinary course of business;

adopting or amending employee benefit plans;

entering into material employment contracts or collective bargaining agreements, paying special bonuses or materially increasing compensation rates;

paying or settling material litigation or liabilities outside the ordinary course of business or;

modifying material contracts or waiving material rights under material contracts other than in the ordinary course of business;

changing accounting policies and procedures; and

making certain tax elections.

The agreements related to the conduct of C-MAC's business in the combination agreement are complicated and not easily summarized. You are urged to carefully read Article V of the combination agreement entitled "Conduct Prior to the Effective Time".

#### **Solectron's Conduct of Business Before Completion of the Arrangement**

Under the terms of the combination agreement, Solectron agreed that, until the earlier of the completion of the arrangement or termination of the combination agreement, or unless C-MAC consents in writing, Solectron will comply with certain specific restrictions relating to the operation of its business, including restrictions relating to the following:

declaring or paying extraordinary dividends or other distributions on Solectron capital stock;

purchasing, redeeming or otherwise acquiring Solectron capital stock;

acquiring businesses or assets or disposing of assets that would delay the completion of the combination beyond February 8, 2002;

modifying the certificate of incorporation or bylaws of Solectron; and

changing accounting methods and practices.

The agreements related to the conduct of Solectron's business in the combination agreement are complicated and not easily summarized. You are urged to carefully read Article V of the combination agreement entitled "Conduct Prior to the Effective Time".

#### **Material Covenants**

##### *Solicitations by C-MAC; Withdrawal of Recommendation by C-MAC Board of Directors*

Under the terms of the combination agreement, C-MAC agreed to cease and terminate, as of the date of the combination agreement, any and all existing discussions with any parties other than Solectron with respect to any *Acquisition Proposal*.

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Under the terms of the combination agreement, an *Acquisition Proposal* is any offer or proposal relating to any transaction or series of related transactions involving any of the following:

any merger, amalgamation, arrangement, reorganization, share exchange, consolidation, recapitalization, liquidation, dissolution or other business combination or similar transaction involving C-MAC or the acquisition or purchase from C-MAC by any person or group of 20% or more of any class of equity securities of C-MAC;

any take-over bid, tender offer or exchange offer, including issuer bids and self-tenders, that if consummated would result in any person or entity beneficially owning 20% or more of any class of any equity securities of C-MAC; or

any sale, lease, license or other disposition of 20% or more of the book or market value of assets, including securities of any C-MAC subsidiaries, of C-MAC and its subsidiaries, taken as a whole.

Until the combination is completed or the combination agreement is terminated, under the terms of the combination agreement C-MAC further agreed that neither it nor any of its subsidiaries will (nor will they authorize or permit any of their respective officers, directors or employees, or any of their investment bankers, attorneys or other advisors or representatives to):

solicit, initiate, encourage or otherwise knowingly facilitate any *Acquisition Proposal* or any inquiries or proposals relating to an *Acquisition Proposal*;

subject to certain limited exceptions applicable upon receipt of a *Superior Proposal*, as described below, participate in any discussions or negotiations regarding, or furnish nonpublic information to any party other than Solectron with respect to, any *Acquisition Proposal*;

subject to certain limited exceptions in the event of a *Superior Proposal*, as discussed below, withhold, withdraw or modify, or publicly propose to do so, in a manner adverse to Solectron, or fail to make its recommendation to vote in favor of the arrangement or approve, endorse or recommend any *Acquisition Proposal*; or

subject to certain limited exceptions in the event of a *Superior Proposal*, as discussed below, accept or enter into, or publicly propose to accept or enter into, any letter of intent or similar document or any contract, agreement or commitment contemplating or otherwise relating to any *Acquisition Proposal*.

C-MAC also agreed that it will be responsible for any breach of these provisions by C-MAC and its subsidiaries and any of their respective officers, directors or employees, or any investment banker, attorney or other advisor or representative retained by any of them.

Under the terms of the combination agreement, C-MAC has agreed that after receipt of any *Acquisition Proposal*, it will promptly provide Solectron with a copy of any written *Acquisition Proposal* and the identity of the person making such *Acquisition Proposal*, and a written statement with respect to any non-written *Acquisition Proposal* received, which would include the identity of the person or entity making such *Acquisition Proposal* and a detailed description of the material terms. C-MAC further agreed to use reasonable efforts to keep Solectron informed of material modifications or proposed modifications of any *Acquisition Proposal*.

C-MAC is expressly permitted, however, in response to a *Superior Proposal* submitted by a person, and not withdrawn, to furnish nonpublic information regarding C-MAC and its subsidiaries, participate in negotiations regarding the *Acquisition Proposal*, enter into discussions or negotiations with such person or group, withhold, withdraw, modify or change in a manner adverse to Solectron, or fail to make its recommendation to vote in favor of the arrangement, or approve, endorse or recommend the *Acquisition*

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*Proposal*, or concurrently with the payment of the termination fee by C-MAC to Solectron, enter into a definitive agreement with respect to such *Acquisition Proposal* if all of the following conditions are met:

after August 8, 2001 and prior to the date of any securityholder approval of the C-MAC arrangement resolution, an unsolicited, bona fide written *Acquisition Proposal* is made to C-MAC and not withdrawn;

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the board of directors of C-MAC reasonably believes in good faith, after consultation with its financial advisor, that the *Acquisition Proposal*, if consummated as proposed, constitutes a *Superior Proposal*;

the board of directors of C-MAC reasonably believes in good faith, after consultation with its outside legal counsel, that not taking such action would be inconsistent with C-MAC's board of directors' fiduciary duties;

prior to furnishing any nonpublic information to, or entering into discussions or negotiations with, the person, C-MAC receives from such person an executed confidentiality agreement no less favorable to C-MAC than the confidentiality agreement it entered into with Solectron on June 19, 2001, as amended; and

contemporaneously with or prior to furnishing any nonpublic information to the person, C-MAC furnishes the same nonpublic information to Solectron, to the extent such nonpublic information has not been previously furnished by C-MAC to Solectron.

Under the terms of the combination agreement, a *Superior Proposal* is an offer or proposal to consummate any of the following transactions on terms that the board of directors of C-MAC reasonably believes in good faith, after consultation with C-MAC's financial advisor, to be superior to the C-MAC shareholders from a financial point of view than the terms of the arrangement and reasonably capable of being consummated:

a merger, amalgamation, arrangement, reorganization, share exchange, consolidation, recapitalization, liquidation, dissolution or other business combination involving C-MAC or the acquisition or purchase of 50% or more of any class of equity securities of C-MAC;

any take-over bid or tender offer, including issuer bids and self-tenders, or exchange offer that if consummated would result in any person or group beneficially owning 50% or more of any class of equity securities of C-MAC; or

a sale, lease, license or other disposition by C-MAC of 50% or more of the book or market value of assets, including securities of any C-MAC subsidiaries, of C-MAC and its subsidiaries, taken as a whole.

### **Employee Matters**

Under the terms of the combination agreement, Solectron agreed that for a period of one year from the completion of the arrangement it will, in its sole discretion:

maintain C-MAC's employment, severance or similar contracts or arrangements or any plans, policies, funds, programs or contracts as specified in the combination agreement to provide C-MAC employees who remain after the completion of the arrangement with substantially the same types and levels of benefits they received prior to the closing of the arrangement;

arrange for C-MAC employees who remain after the completion of the arrangement to participate in any similar plans of Solectron on terms no less favorable than those offered to similarly situated Solectron employees; or

a combination of the above.

Solectron further agreed that each C-MAC employee who remains after the completion of the arrangement, to the extent permitted by law and applicable tax qualification requirements, and subject to

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any generally applicable break in service or similar rule, will receive full credit for purposes of eligibility to participate in, vesting, severance and vacation under Solectron's benefit plans for years of service with C-MAC or its subsidiaries prior to the completion of the arrangement.

### **Other Covenants**

Under the terms of the combination agreement, each of Solectron and C-MAC have agreed to use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective in the most expeditious manner practicable the arrangement and transactions contemplated by the combination agreement and to assist and cooperate with each other in doing such things.

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C-MAC has agreed that it and its subsidiaries will perform all obligations under the combination agreement, cooperate with Solectron and do all things necessary or desirable to consummate and make effective the arrangement and the transactions contemplated in the combination agreement, as soon as reasonably practicable, and will:

use its reasonable best efforts to obtain the requisite approvals of C-MAC shareholders and holders of C-MAC options with respect to the C-MAC arrangement resolution, unless C-MAC's board of directors has properly withdrawn, modified or qualified its recommendation to securityholders;

advise Solectron, upon reasonable request, of the aggregate tally of the proxies and votes and matters to be considered at the C-MAC special meeting at which the C-MAC arrangement resolution will be considered;

use its reasonable efforts to obtain any regulatory approvals relating to C-MAC or its subsidiaries and keep Solectron informed of the status of proceedings;

use its reasonable best efforts to effect all necessary registrations, filings and submissions of information required by governmental entities relating to the arrangement;

use its reasonable best efforts to obtain all necessary waivers, consents and approvals required in connection with the arrangement from other parties to any material loan agreements, leases or other material contracts;

carry out the terms of the interim order and the final order and use reasonable best efforts to comply with all requirements of applicable laws imposed on C-MAC or its subsidiaries relating to the arrangement;

provide Solectron with a copy of any purported exercise of dissent rights and written communications regarding the same, and not settle or compromise any claim of present, former or purported holders of C-MAC securities in connection with the arrangement; and

promptly notify Solectron orally and, if requested, in writing, of:

any event occurring that would render any representation or warranty of C-MAC contained in the combination agreement if made on or as of the date of such event or the closing of the arrangement, untrue or inaccurate in any material respect;

any material adverse effect on C-MAC; and

any material breach of any covenant or agreement by C-MAC contained in the combination agreement.

Solectron has agreed to perform all obligations under the combination agreement, cooperate with C-MAC and do all things necessary or desirable to consummate and make effective the arrangement and the transactions contemplated in the combination agreement, as soon as reasonably practicable, and to:

use its reasonable best efforts to obtain the requisite approvals of Solectron stockholders in favor of the issuance of shares of Solectron common stock pursuant to the arrangement;

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use its reasonable efforts to obtain any regulatory approvals relating to Solectron and to keep C-MAC informed of the status of proceedings;

use its reasonable best efforts to effect all necessary registrations, filings and submissions of information required by governmental entities from Solectron relating to the arrangement;

in contemplation, and prior to the completion, of the arrangement, cause Exchangeco to purchase at least Cdn.\$1 million, but not more than Cdn.\$3 million, of C-MAC common shares on the open market;

carry out the terms of the interim order and the final order and use reasonable best efforts to comply with all requirements of applicable laws imposed on Solectron or its subsidiaries relating to the arrangement; and

promptly notify C-MAC orally and, if requested, in writing, of:

any event occurring that would render any representation or warranty of Solectron contained in the combination agreement if made on or as of the date of such event or the closing of the arrangement, untrue or inaccurate in any material respect;

any material adverse effect on Solectron; and

any material breach of any covenant or agreement by Solectron contained in the combination agreement.

Solectron has also agreed to use its reasonable best efforts to:

cause the exchangeable shares to be listed on The Toronto Stock Exchange prior to or at the closing of the arrangement, and to maintain such listing of the exchangeable shares if permitted under the rules of The Toronto Stock Exchange as long as exchangeable shares are outstanding, other than exchangeable shares held by Solectron or its affiliates;

ensure that Exchangeco remains a public corporation and cause Exchangeco to maintain a substantial presence in Canada, in each case for purposes of the *Income Tax Act* (Canada) as long as there are exchangeable shares outstanding, other than exchangeable shares held by Solectron or its affiliates; and

cause the listing on the New York Stock Exchange of the Solectron common stock to be issued upon the closing of the arrangement, upon exchange of the exchangeable shares and upon exercise of the replacement options.

The agreements related to the conduct of C-MAC and Solectron prior to the completion of the arrangement are complicated and not easily summarized. You are urged to carefully read Article VI of the combination agreement entitled *Additional Agreements*.

#### **Termination of C-MAC 401(k) Plans**

Upon Solectron's written notice, no later than 10 business days prior to completion of the arrangement, C-MAC's board of directors will take action to terminate all 401(k) plans of C-MAC and its subsidiaries if in Solectron's reasonable judgment it deems it to be necessary and appropriate. Upon termination by the board of directors, account balances in such plans will vest and C-MAC or its subsidiaries will allocate matching contributions to participant accounts. Solectron has agreed to make reasonable efforts to cause one or more Solectron 401(k) plans to accept rollover contributions by participants. Participants will be given full service credit for all service with C-MAC or its subsidiaries.

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### **Conditions to Completion of the Arrangement**

The obligations of Solectron and C-MAC to complete the arrangement and the other transactions contemplated by the combination agreement are subject to the satisfaction of each of the following conditions:

the issuance of Solectron common stock pursuant to the arrangement and the combination agreement must have been approved by the requisite vote of stockholders of Solectron;

the arrangement must have been approved by the requisite vote of shareholders of C-MAC common shares and the holders of options to purchase C-MAC common shares;

the interim order and the final order shall each have been obtained in form and on terms satisfactory to C-MAC and Solectron;

the requisite orders of the Canadian securities regulatory authorities shall have been obtained;

Solectron's registration statement on Form S-4 of which this document forms a part shall have been declared effective, and no stop order suspending its effectiveness shall have been issued by the United States Securities and Exchange Commission and the registration statement shall remain in effect;

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no judgment, order, decree, statute, law, ordinance, rule or regulation of any court or other governmental entity may have been entered, enacted, promulgated, enforced or issued which has the effect of preventing the consummation of the arrangement or making the arrangement illegal;

Solectron and C-MAC and their respective subsidiaries shall have obtained requisite approvals under the *Competition Act* (Canada) and the *Investment Canada Act*;

Solectron and C-MAC and their respective subsidiaries shall have obtained all approvals, waivers and consents from each governmental entity, the failure of which would cause consummation of the arrangement to be prohibited;

all applicable waiting periods under the Hart Scott Rodino Act and any other applicable foreign merger laws shall have expired or been terminated; and

the exchangeable shares issuable pursuant to the arrangement shall have been conditionally approved for listing on The Toronto Stock Exchange and the shares of Solectron common stock to be issued on the arrangement shall have been authorized for listing on the New York Stock Exchange, subject to notice of issuance.

C-MAC's obligations to complete the arrangement and the other transactions contemplated by the combination agreement are subject to the satisfaction or waiver, in writing, of each of the following additional conditions:

each of Solectron's and Exchangeco's representations and warranties shall have been true and correct as of August 8, 2001, and shall continue to be true and correct on and as of the date the arrangement is to be completed as if made on such date, in which case they must be true and correct only as of that date, other than any inaccuracies of such representations and breaches of such warranties which would not, in the aggregate, be reasonably expected to have a material adverse effect on Solectron;

Solectron and Exchangeco shall have performed or complied in all material respects with all of their agreements and covenants required by the combination agreement to be performed or complied with by Solectron and Exchangeco; and

the boards of directors of Solectron and Exchangeco shall have taken all necessary corporate action to permit the consummation of the arrangement and the issuance of the exchangeable shares and the Solectron common stock pursuant to the arrangement.

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Solectron's obligations to complete the arrangement and the other transactions contemplated by the combination agreement are subject to the satisfaction or waiver, in writing, of each of the following additional conditions:

each of C-MAC's representations and warranties shall have been true and correct as of August 8, 2001, and shall continue to be true and correct on and as of the date the arrangement is to be completed as if made on such date (except to the extent made only as of a particular date, in which case they must be true and correct only as of that date), other than any inaccuracies of such representations and breaches of such warranties which would not, in the aggregate, be reasonably expected to have a material adverse effect on C-MAC;

C-MAC shall have performed or complied in all material respects with all of its agreements and covenants required by the combination agreement to be performed or complied with by C-MAC;

the board of directors of C-MAC shall have taken all necessary corporate action to permit the consummation of the arrangement and shall have made and not modified or amended in any material respect, prior to the special meeting of C-MAC securityholders, an affirmative recommendation that the holders of C-MAC common shares and options approve the C-MAC arrangement resolution; and

the holders of no more than 10% of the issued and outstanding C-MAC common shares shall have exercised and not withdrawn their dissent rights with respect to the arrangement.

### **Termination of the Combination Agreement**

The combination agreement may be terminated at any time prior to completion of the arrangement, whether before or after the requisite approval of the securityholders of C-MAC or stockholders of Solectron:

by mutual written consent duly authorized by the boards of directors of Solectron and C-MAC;



by either Solectron or C-MAC, if the arrangement is not completed before February 8, 2002, except that:

if the arrangement is not completed before February 8, 2002 due to the failure to obtain any approval, waiver or consent from a governmental entity necessary for consummation of the arrangement, then such date shall be extended to April 8, 2002; and

either party's right to terminate the combination agreement under this provision will not be available to any party whose action or failure to act has been a principal cause of or resulted in the failure of the arrangement to occur on or before such date, and such action or failure to act constitutes a breach of the combination agreement;

by either Solectron or C-MAC, if any law has been passed or if a governmental authority has issued an order, decree or ruling or taken any other action, which permanently restrains, enjoins or otherwise prohibits the arrangement and which is final and nonappealable;

by either Solectron or C-MAC, if C-MAC's shareholders and optionholders fail to approve the C-MAC arrangement resolution at the C-MAC special meeting or at any adjournment or postponement of that meeting, except that such right to terminate the combination agreement shall not be available to C-MAC where the failure to obtain securityholder approval was caused by C-MAC's action or failure to act which constitutes a breach by C-MAC of the combination agreement;

by either Solectron or C-MAC, if Solectron's stockholders fail to approve the Solectron share issuance at the Solectron special meeting or at any adjournment or postponement of that meeting, except that such right to terminate the combination agreement shall not be available to Solectron where the failure to obtain stockholder approval was caused by Solectron's action or failure to act which constitutes a breach by Solectron of the combination agreement;

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by C-MAC, upon a breach of any representation, warranty, covenant or agreement on the part of Solectron in the combination agreement, or if any of Solectron's representations or warranties become untrue such that the condition to C-MAC's obligation to complete the arrangement relating to the continued accuracy of Solectron's representations and warranties would not be satisfied. However, if the breach or inaccuracy is curable by Solectron through the exercise of its commercially reasonable efforts, and Solectron continues to exercise such commercially reasonable efforts to cure the breach, C-MAC may not terminate the combination agreement for 30 days after delivery of written notice to Solectron of the breach. If the breach or inaccuracy is cured during those 30 days, C-MAC may not terminate the combination agreement under this provision;

by Solectron, upon a breach of any representation, warranty, covenant or agreement on the part of C-MAC set forth in the combination agreement, or if any of C-MAC's representations or warranties become untrue such that the condition to Solectron's obligation to complete the arrangement relating to the continued accuracy of C-MAC's representations and warranties would not be satisfied. However, if the breach or inaccuracy is curable by C-MAC through the exercise of its commercially reasonable efforts, and C-MAC continues to exercise such commercially reasonable efforts to cure the breach, Solectron may not terminate the combination agreement for 30 days after delivery of written notice to C-MAC of the breach. If the breach or inaccuracy is cured during those 30 days, Solectron may not terminate the combination agreement under this provision;

by C-MAC, prior to or concurrently with C-MAC's execution of a definitive agreement with respect to a *Superior Proposal*, provided that:

C-MAC has not breached the provisions of the combination agreement that prohibit the solicitation of, and restrict (subject to certain exceptions) discussions and negotiations with respect to, *Acquisition Proposals*;

the C-MAC board of directors has properly authorized C-MAC to enter into such definitive agreement for a transaction that constitutes a *Superior Proposal*;

C-MAC gives five business days written notice of its intention to terminate the agreement in order to enter into a definitive agreement with respect to a *Superior Proposal*, including the most current version of such definitive agreement and the identity of the person making such *Superior Proposal*; and

C-MAC pays a termination fee of \$75,000,000 to Solectron upon termination of the combination agreement; or

by Solectron, if a *Triggering Event* shall have occurred.

Under the terms of the combination agreement, a *Triggering Event* is deemed to have occurred if:

C-MAC's board of directors withdraws, amends or modifies in a manner adverse to Solectron, its recommendation to securityholders in favor of the adoption and approval of the combination agreement or the approval of the C-MAC arrangement resolution;

C-MAC's board of directors approves or recommends any *Acquisition Proposal*;

C-MAC enters into any letter of intent or similar agreement, contract or commitment accepting any *Acquisition Proposal*;

C-MAC intentionally breaches the non-solicitation provisions of the combination agreement; or

a tender or exchange offer relating to the securities of C-MAC is commenced by a person unaffiliated with Solectron, and C-MAC does not send to its securityholders within ten business days after such tender or exchange offer is first published, sent or given, a statement disclosing that C-MAC recommends rejection of such tender or exchange offer.

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### **Payment of Termination Fee**

Under the terms of the combination agreement, C-MAC must pay Solectron a termination fee of \$75,000,000 within one business day after demand by Solectron, if the combination agreement is terminated by Solectron upon the occurrence of a *Triggering Event*. C-MAC must also pay Solectron the termination fee of \$75,000,000 upon termination of the combination agreement by C-MAC if it executes a definitive agreement with respect to a *Superior Proposal*.

Further, under the terms of the combination agreement, C-MAC must pay to Solectron a termination fee of \$75,000,000 within one business day after demand by Solectron if the combination agreement is terminated by Solectron or C-MAC because C-MAC's securityholders do not approve the arrangement resolution at the C-MAC special meeting, and:

after August 8, 2001 and prior to the termination of the combination agreement, an *Acquisition Proposal* shall have been publicly announced or generally disclosed by C-MAC or the relevant third party and within nine months following the termination of the combination agreement, a *Company Acquisition* is consummated or C-MAC enters into an agreement or letter of intent with any party providing for a *Company Acquisition*; or

after August 8, 2001 and prior to the termination of the combination agreement, an *Acquisition Proposal* shall have been publicly announced or generally disclosed by C-MAC or the relevant third party and within twelve months following the termination of the combination agreement a *Company Acquisition* is consummated or C-MAC enters into an agreement or letter of intent providing for a *Company Acquisition* with such third party.

Under the terms of the combination agreement, a *Company Acquisition* consists of any of the following, other than transactions contemplated by the combination agreement:

a merger, amalgamation, arrangement, reorganization, share exchange, consolidation, recapitalization, liquidation, dissolution or other business combination involving C-MAC pursuant to which the shareholders of C-MAC immediately preceding such transaction hold less than 50% of the aggregate equity interests in the surviving or resulting entity of the transaction;

the acquisition or purchase by any person or group, including by way of a tender offer or an exchange offer or issuance by C-MAC of 50% or more of the equity securities of C-MAC, or the right to acquire such securities; or

the sale, lease, license or other disposition, by sale, merger or otherwise by C-MAC of assets representing 50% or more of the book or market value of the assets, including the assets of C-MAC's subsidiaries, of C-MAC and its subsidiaries, taken as a whole.

### **Extension, Waiver and Amendment of the Combination Agreement**

Solectron and C-MAC may amend the combination agreement before completion of the arrangement by mutual written consent. C-MAC agreed to amend the combination agreement and the plan of arrangement to ensure that the effect of such agreements is maintained following

any assignment of rights, interests and obligations of Exchangeco to a permitted Solectron subsidiary.

Prior to the completion of the arrangement, either Solectron or C-MAC may extend the other party's time for the performance of any of the obligations or other acts under the combination agreement, waive any inaccuracies in the other's representations and warranties and waive compliance by the other party with any of the agreements or conditions contained in the combination agreement. Such extensions and waivers must be set forth in a written instrument signed by the party granting such extension or waiver.

#### **Definition of Material Adverse Effect**

Under the terms of the combination agreement, a Material Adverse Effect with respect to either Solectron or C-MAC means, with respect to any party, any change, event, circumstance or effect that is or

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would reasonably be expected to be materially adverse to the business, assets (including intangible assets), financial condition, or results of operations of such party taken as a whole with its subsidiaries, other than any such change, event, circumstance or effect resulting from:

the announcement of the execution of the combination agreement or the consummation of the transactions contemplated by the combination agreement;

changes, circumstances or conditions generally affecting the industry in which such party operates and not having a disproportionate effect on such party;

changes in general economic conditions in the United States or Canada, not having a disproportionate effect on such party; or

changes in the trading price for such party's capital stock.

#### **Expenses**

Except with respect to the termination fee described above, all fees and expenses incurred in connection with the combination agreement and the transactions contemplated thereby will be paid by the party incurring such expenses whether or not the arrangement is consummated. However, Solectron and C-MAC will share equally all out-of-pocket expenses, other than the fees and expenses of attorneys, accountants, investment bankers and other advisors, incurred in the printing and filing of the C-MAC Management Information Circular and Solectron Proxy Statement/ Prospectus and the filing or registration with any governmental entity of any documents in connection with the arrangement or related transactions and any amendments or supplements, including registration and filing fees.

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### **TRANSACTION MECHANICS**

The following is a summary of the plan of arrangement. C-MAC securityholders and Solectron stockholders are urged to read the plan of arrangement in its entirety. The plan of arrangement is attached hereto as Annex C.

#### **The Arrangement**

Pursuant to the terms of the plan of arrangement and the voting and exchange trust agreement, commencing at the effective time of the arrangement, the following events will occur:

1. Each outstanding C-MAC common share held by a C-MAC shareholder other than:

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C-MAC common shares in respect of which the holder has exercised dissent rights and is ultimately entitled to be paid the fair value;

C-MAC common shares held by Solectron or an affiliate, and

C-MAC common shares held by holding companies to which the holding company alternative (described below) applies:

shall be transferred to Exchangeco in exchange for:

1.755 shares of Solectron common stock; or

1.755 exchangeable shares (and certain ancillary rights); or

a combination thereof.

2. All outstanding shares of a holding company to which the holding company alternative (described below) applies held by the shareholder(s) of such a holding company shall be transferred to Exchangeco in exchange for a number of shares of Solectron common stock, exchangeable shares (and certain ancillary rights) or a combination thereof, at the election of such shareholder(s), equal in the aggregate to the number of C-MAC common shares held by such holding company multiplied by 1.755.

3. Coincident with the share exchange set out in items 1 and 2 above, Solectron, Nova Scotia Company, Callco and Exchangeco shall execute the exchangeable share support agreement and Solectron and Exchangeco and the trustee under the voting and exchange trust agreement shall execute the voting and exchange trust agreement and Solectron shall issue to and deposit with the trustee the special voting share and all rights of holders of exchangeable shares under the voting and exchange trust agreement shall be received by them as part of the property receivable by them under items 1 and 2 above in exchange for their C-MAC common shares exchanged for exchangeable shares.

4. Each C-MAC option will be exchanged for an option to purchase a number of shares of Solectron common stock equal to the product of 1.755 multiplied by the number of C-MAC common shares subject to such C-MAC option. The replacement option will provide for an exercise price per share of Solectron common stock equal to the exercise price per share of such C-MAC option immediately prior to the effective time of the arrangement divided by 1.755. Except for the accelerated vesting of options granted to certain officers of C-MAC in the event of termination of their employment following the completion of the transaction, all other terms of each C-MAC option will remain unchanged by the arrangement.

**The right to elect to receive exchangeable shares will be available only to registered holders of C-MAC common shares that are Canadian residents for purposes of the *Income Tax Act* (Canada) who hold C-MAC common shares on their own behalf or persons who hold C-MAC common shares on behalf of one or more Canadian residents for purposes of the *Income Tax Act* (Canada). To exercise this right, such holder must submit the appropriate letter of transmittal and election form, properly completed and duly executed, and all other required documents, to the depositary at the appropriate**

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**address listed in the letter of transmittal and election form before 5:00 p.m., Montreal time, on \_\_, 2001, the date that is two business days before the date of the C-MAC meeting. Such a holder may exercise this right with respect to all or any portion of the holder's C-MAC common shares.**

Any Canadian resident C-MAC shareholder whose shares are registered in the name of a broker, investment dealer, bank, trust company or other intermediary and that wishes to receive exchangeable shares, should contact that intermediary for instruction and assistance in making an election and in delivering share certificates representing those C-MAC common shares.

Immediately following the effective time of the arrangement, C-MAC's outstanding capital will consist of approximately \_\_\_ common shares all of which will be held directly or indirectly by Exchangeco. Based on the 1.755 exchange ratio and the number of C-MAC common shares outstanding on \_\_, 2001, the former holders of C-MAC common shares will hold an aggregate of approximately \_\_\_ million exchangeable shares and shares of Solectron common stock. Assuming all C-MAC common shares are exchanged for Solectron common stock and that none of the C-MAC options are exercised prior to the completion of the transaction and based upon the number of C-MAC common shares and shares of

Solectron common stock outstanding as of \_\_, 2001, immediately following completion of the transaction, existing C-MAC shareholders would hold approximately \_\_% of the outstanding shares of Solectron common stock.

### **The Holding Company Alternative**

The plan of arrangement provides that C-MAC shareholders who hold C-MAC common shares indirectly through a holding company and who meet the conditions described below have the option of having Exchangeco acquire the shares of such holding company instead of the C-MAC common shares owned by such holding company. Under this holding company alternative and pursuant to the terms of the plan of arrangement, all the shares of the holding company held by the C-MAC shareholder will be transferred to Exchangeco in exchange for a number of exchangeable shares and certain ancillary rights and/ or shares of Solectron common stock, at the election of the C-MAC shareholder, equal in the aggregate to the number of C-MAC common shares held by the holding company multiplied by the exchange ratio (subject to adjustment for fractional shares). The shareholder(s) of the holding company will receive the identical consideration that would have been received by the holding company on the arrangement.

**The holding company alternative may require a C-MAC shareholder to implement a complex corporate structure through which to hold C-MAC common shares. The holding company alternative will have income tax consequences to a particular C-MAC shareholder which are not described herein. C-MAC shareholders wishing to avail themselves of the holding company alternative should consult their own tax and legal advisors.**

**The procedures for exchange of share certificates by C-MAC shareholders, described above, by means of a letter of transmittal and election form may not be used by C-MAC shareholders who hold C-MAC common shares indirectly through a holding company and who choose to participate in the arrangement through the holding company alternative.**

A C-MAC shareholder will be permitted to avail itself of the holding company alternative provided that all of the following terms and conditions are satisfied:

- (i) the C-MAC shareholder advises C-MAC in writing c/o General Trust of Canada, at or prior to 5:00 p.m. (Montreal time) not later than \_\_, 2001, that it wishes to avail itself of the holding company alternative;
- (ii) each shareholder of the holding company is a corporation that is a Canadian resident for purposes of the *Income Tax Act* (Canada) which holds its C-MAC common shares indirectly through a holding company that was incorporated under the *Canada Business Corporations Act* after August 8, 2001;

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- (iii) the C-MAC shareholder and its holding company enter into a holding company participation agreement (described below) with, among others, Exchangeco, in a form required by Solectron;
- (iv) the C-MAC shareholder properly completes and duly executes a holding company letter of transmittal and election form (in a form to be provided by Solectron) in respect of the holding company shares and the C-MAC common shares held by the holding company, together with the certificate(s) representing the holding company shares and the C-MAC common shares held by the holding company;
- (v) the C-MAC shareholder provides C-MAC, Solectron, Exchangeco and others with an indemnity and security satisfactory to Solectron in respect of the C-MAC shareholder's indemnification obligations under the holding company participation agreement;
- (vi) the C-MAC shareholder and its holding company agree that the rights and obligations of Exchangeco under the holding company participation agreement will terminate if the transaction is not completed in accordance with the combination agreement and the plan of arrangement; and
- (vii) the holding company does not declare or pay any dividends (other than stock dividends) or effect other redemptions or distributions, except that in the event that the holding company receives any dividend from C-MAC, the holding company will declare and pay a dividend and/or redeem shares in the same amount and form immediately following the receipt of the dividend by the holding company and prior to the effective date.

provided that the holding company participation agreement (referred to in (iii) above) and the holding company letter of transmittal and election form (referred to in (iv) above) together with any accompanying required documentation must be returned to General Trust of Canada at or prior

to 5:00 p.m. (Montreal time) on \_\_, 2001.

The C-MAC shareholder shall prepare and file, at its own cost and expense, all tax returns of the holding company in respect of all periods ending on or prior to the effective date, subject to Exchangeco's right to approve all such returns as to form and substance.

A holding company may have one or two shareholders. Where a holding company has two shareholders, the shareholders will jointly and severally make the representations and warranties, and provide the covenants and indemnities, as set out in the holding company participation agreement.

The form of holding company participation agreement referred to in paragraph (iii) above contains, in addition to the usual and customary representations and warranties, certain representations and warranties that a C-MAC shareholder (or both shareholders of a holding company, if it has two shareholders) must make in respect of its holding company, to the effect that the holding company (i) is a taxable Canadian corporation for all purposes of the *Income Tax Act* (Canada), (ii) is incorporated after August 8, 2001 and validly existing in good standing under the *Canada Business Corporations Act*, (iii) has one or two shareholders (provided that two or more shareholders holding shares of such holding company jointly shall be considered to be one shareholder for this purpose), (iv) has no assets other than C-MAC common shares and no liabilities of any kind (contingent or otherwise) and (v) is not a party to nor bound by any agreement, commitment or undertaking of any nature whatsoever other than as specifically provided.

The form of holding company participation agreement will also provide for:

the payment by the C-MAC shareholder of all costs and expenses incurred in connection with any transaction relating to the holding company alternative by C-MAC, Solectron, Nova Scotia Company, Callco, Exchangeco or any holding company;

an indemnity in favour of C-MAC, Solectron, Nova Scotia Company, Callco, Exchangeco, and any holding company from all claims, demands, proceedings, losses, damages, liabilities, deficiencies, taxes, costs and expenses suffered or incurred by C-MAC, Solectron, Nova Scotia Company,

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Callco, Exchangeco, or any holding company (and their directors, officers, employees and agents), in connection with the holding company alternative as a result of:

any breach by the C-MAC shareholder or vendor of holding company shares of any representation, warranty, obligation or covenant of the C-MAC shareholder or vendor of holding company shares;

any liability sustained, incurred, assumed or acquired by the holding company on or before the completion of the holding company alternative; and

any liability that would not have been sustained, suffered or incurred by C-MAC, Solectron, Nova Scotia Company, Callco or Exchangeco but for the completion of the holding company alternative;

a release of C-MAC, Solectron, Nova Scotia Company, Callco and Exchangeco (and their respective directors, officers, employees and agents and their advisors) from all liabilities suffered or incurred as a result of certain information provided by any of them to the C-MAC shareholder in connection with the holding company alternative;

such other terms and conditions as Solectron may reasonably require.

**C-MAC shareholders who wish to avail themselves of the holding company alternative may obtain copies of the holding company participation agreement and the holding company letter of transmittal and election form from General Trust of Canada at \_\_\_\_\_ upon request.**

## **Share Certificates**

At or promptly after the effective time of the arrangement, Exchangeco shall deposit with the depository, for the benefit of C-MAC shareholders who will receive Solectron common stock in connection with the arrangement, certificates representing the Solectron common stock issued pursuant to the plan of arrangement in exchange for the C-MAC common shares or holding company shares, if any, of such

C-MAC shareholders. Upon surrender to the depositary of a certificate which, immediately prior to the effective time of the arrangement, represented one or more C-MAC common shares or holding company shares that were exchanged for Solectron common stock under the arrangement, together with other required documents, a C-MAC shareholder will be entitled to receive a certificate representing that number of shares of Solectron common stock which such C-MAC shareholder has the right to receive.

At or promptly after the effective time of the arrangement, Exchangeco shall deposit with the depositary, for the benefit of C-MAC shareholders who will receive exchangeable shares in connection with the arrangement, certificates representing the exchangeable shares issued pursuant to the plan of arrangement in exchange for the C-MAC common shares or holding company shares, if any, of such C-MAC shareholders. Upon surrender to the depositary of a certificate which, immediately prior to the effective time of the arrangement, represented one or more C-MAC common shares or holding company shares that were exchanged for exchangeable shares under the arrangement, together with other required documents, a C-MAC shareholder will be entitled to receive a certificate representing that number of exchangeable shares which such C-MAC shareholder has the right to receive.

C-MAC shareholders are advised to review carefully the information under the heading "Procedures for Exchange of Share Certificates by Shareholders" in the enclosed supplement to this document for a more detailed description of the procedures to be followed by C-MAC shareholders in order to obtain certificates representing the exchangeable shares or the shares of Solectron common stock issuable in the arrangement.

C-MAC shareholders whose C-MAC common shares are registered in the name of a broker, investment dealer, bank, trust company or other nominee should contact that nominee for instructions and assistance in delivering those C-MAC common shares.

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### **Fractional Shares**

No fractional exchangeable shares or fractional shares of Solectron common stock will be delivered pursuant to the arrangement. In lieu of any such fractional securities:

each C-MAC shareholder otherwise entitled to a fractional interest in an exchangeable share will receive a cash payment equal to such C-MAC shareholder's *pro rata* portion of the net proceeds after expenses received by the depositary upon the sale of whole shares representing an accumulation of all fractional interests in exchangeable shares to which all such C-MAC shareholders would otherwise be entitled. The depositary will sell such exchangeable shares by private sale (including by way of sale through the facilities of The Toronto Stock Exchange) as soon as reasonably practicable following the effective date of the arrangement. The aggregate net proceeds after expenses of such sale will be distributed by the depositary, *pro rata* in relation to the respective fractions, among the C-MAC shareholders otherwise entitled to receive fractional interests in exchangeable shares; and

each C-MAC shareholder otherwise entitled to a fractional interest in a share of Solectron common stock will receive a cash payment equal to such C-MAC shareholder's *pro rata* portion of the net proceeds after expenses received by the depositary upon the sale of whole shares representing an accumulation of all fractional interests in Solectron common stock to which all such C-MAC shareholders would otherwise be entitled. The depositary will sell such shares of Solectron common stock on the New York Stock Exchange as soon as reasonably practicable following the effective date of the arrangement. The aggregate net proceeds after expenses of such sale will be distributed by the depositary, *pro rata* in relation to the respective fractions, among the C-MAC shareholders otherwise entitled to receive fractional interests in shares of Solectron common stock.

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### **DESCRIPTION OF EXCHANGEABLE SHARES**

The following is a summary of the exchangeable share provisions and certain provisions of the voting and exchange trust agreement and the exchangeable share support agreement, all of which C-MAC securityholders and Solectron stockholders are urged to read in their entirety. The exchangeable share provisions are attached to this document as Appendix 1 to the Plan of Arrangement, which is found at Annex C of this

document. The voting and exchange trust agreement and the exchangeable share support agreement are attached to this document as Annexes E, and D, respectively.

## General

The exchangeable shares will be issued by Exchangeco. The exchangeable shares (together with certain ancillary rights) are substantially economically equivalent to the shares of Solectron common stock. The exchangeable shares will be exchangeable at any time at the option of the holder on a one-for-one basis for shares of Solectron common stock. On the effective date of the arrangement, Solectron, Exchangeco and a trustee will enter into the voting and exchange trust agreement. By furnishing instructions to the trustee under the voting and exchange trust agreement, holders of the exchangeable shares will be able to exercise essentially the same voting rights with respect to Solectron as they would have if they had exchanged their exchangeable shares for shares of Solectron common stock. Holders of exchangeable shares will also be entitled to receive from Exchangeco dividends payable in U.S. dollars or Canadian dollars that are economically equivalent to any cash dividends paid on Solectron common stock. The exchangeable shares are subject to adjustment or modification in the event of a stock split or other change to the capital structure of Solectron so as to maintain the initial one-to-one relationship between the exchangeable shares and the Solectron common stock.

## Voting, Dividend and Liquidation Rights

### *Voting Rights with Respect to Exchangeco*

Except as required by law or under the exchangeable share support agreement, the terms of the exchangeable share provisions with respect to the amendment thereof or the voting and exchange trust agreement, the holders of exchangeable shares are not entitled as such to receive notice of or to attend any meeting of shareholders of Exchangeco or to vote at any such meeting.

### *Voting Rights with Respect to Solectron*

Pursuant to the voting and exchange trust agreement, Solectron will issue the special voting share to a trustee for the benefit of the holders (other than Solectron and its subsidiaries and any entities directly or indirectly controlled by or under common control with Solectron) of the exchangeable shares. The special voting share will have a number of votes, which may be cast at any meeting at which Solectron stockholders are entitled to vote, equal to the number of votes that the holders of exchangeable shares outstanding from time to time (other than exchangeable shares held by Solectron, its subsidiaries and any entities directly or indirectly controlled by or under common control with Solectron) would be entitled to if all such exchangeable shares were exchanged by the holders thereof for Solectron common stock pursuant to the terms of the exchangeable shares.

Each holder of an exchangeable share (other than Solectron and its affiliates) on the record date for any meeting at which Solectron stockholders are entitled to vote will be entitled to instruct the trustee to exercise that number of the votes attached to the special voting share represented by the exchangeable shares held by such holder. The trustee will exercise each vote attached to the special voting share only as directed by the relevant holder and, in the absence of instructions from a holder as to voting, will not exercise such votes. A holder may, upon instructing the trustee, obtain a proxy from the trustee entitling the holder to vote directly at the relevant meeting the votes attached to the special voting share to which the holder is entitled. In connection with each meeting, to the extent that the trustee has not, upon such instructions, signed and delivered to holders proxies as aforesaid, the trustee shall exercise its voting rights as holder of the special voting share either by proxy or in person.

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The trustee will send to the holders of the exchangeable shares the notice of each meeting at which the Solectron stockholders are entitled to vote, together with the related meeting materials and a statement as to the manner in which the holder may instruct the trustee to exercise his or her portion of the votes attaching to the special voting share. Such mailing by the trustee shall commence on the same day as Solectron sends such notice and materials to the Solectron stockholders. The trustee will also send to the holders of exchangeable shares copies of all information statements, interim and annual financial statements, reports and other materials sent by Solectron to the Solectron stockholders at the same time as such materials are sent to the Solectron stockholders. To the extent such materials are provided to the trustee by Solectron, the trustee will also send to the holders all materials sent by third parties to Solectron stockholders, including dissident proxy circulars and take-over bid and exchange offer circulars, as soon as reasonably practicable after such materials are delivered to the trustee.



All rights of a holder of exchangeable shares to instruct the trustee to exercise votes attached to the special voting share will cease upon the exchange (whether by redemption, retraction or liquidation, or through the exercise of the call rights) of all of such holder's exchangeable shares for Solectron common stock.

In accordance with the terms of the exchangeable share support agreement, Solectron and its affiliates will not exercise any voting rights with respect to any exchangeable shares held by it or its affiliates, although it will appoint proxyholders with respect to such exchangeable shares for the sole purpose of attending meetings of the holders of exchangeable shares in order to be counted as part of the quorum for such meetings.

#### *Dividend Rights*

Holders of exchangeable shares will be entitled to receive, subject to applicable law, dividends:

in the case of a cash dividend declared on the Solectron common stock, in an amount in cash for each exchangeable share corresponding to the cash dividend declared on each share of Solectron common stock;

in the case of a stock dividend declared on the Solectron common stock to be paid in Solectron common stock, in such number of exchangeable shares for each exchangeable share as is equal to the number of shares of Solectron common stock to be paid on each share of Solectron common stock unless in lieu of such stock dividend Exchangeco elects to effect a corresponding and contemporaneous and economically equivalent subdivision of the exchangeable shares; or

in the case of a dividend declared on the Solectron common stock in property other than cash or Solectron common stock, in such type and amount of property as is the same as, or economically equivalent to, the type and amount of property declared as a dividend on each share of Solectron common stock.

These dividends are the only dividends to which holders of exchangeable shares will be entitled. The declaration date, record date and payment date for dividends on the exchangeable shares will be the same as the relevant date for the corresponding dividends on the Solectron common stock. Cash dividends on the exchangeable shares are payable in U.S. dollars or the Canadian dollar equivalent thereof, as determined in accordance with the exchangeable share provisions at the option of Exchangeco. See *The Companies after the Transaction* Dividend Policy .

#### *Liquidation Rights With Respect to Exchangeco*

In the event of the liquidation, dissolution or winding-up of Exchangeco or any other distribution of the assets of Exchangeco among its shareholders for the purpose of winding-up its affairs, holders of the exchangeable shares will have, subject to applicable law, preferential rights to receive from Exchangeco for each exchangeable share held one share of Solectron common stock and an amount in cash equal to the declared and unpaid dividends on one exchangeable share. Upon the occurrence of such liquidation, dissolution, winding-up of Exchangeco or other distribution of the assets of Exchangeco, Callco will have

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an overriding liquidation call right to purchase all of the outstanding exchangeable shares (other than exchangeable shares held by Solectron and its affiliates) from the holders thereof for consideration per exchangeable share consisting of one share of Solectron common stock and an amount in cash equal to the declared and unpaid dividends on one exchangeable share.

In the event Exchangeco institutes, consents to or fails to contest in good faith within 30 days any bankruptcy, insolvency or winding-up proceedings, admits in writing its inability to pay its debts generally as they become due, takes certain other actions indicating insolvency or fails for solvency reasons to redeem exchangeable shares upon being required to redeem such shares by the holder, then each holder of exchangeable shares (other than Solectron and its affiliates) will be entitled to instruct the trustee under the voting and exchange trust agreement to require Solectron to purchase from the holder any or all of the exchangeable shares held by such holder for consideration per exchangeable share consisting of one share of Solectron common stock and (to the extent not paid by Exchangeco on the designated payment date) an amount in cash equal to the declared and unpaid dividends on one exchangeable share. As soon as practicable following the occurrence of one of the insolvency events described in the preceding sentence, or any event which may, with the passage of time and/or the giving of notice, become such an insolvency event, Exchangeco or Solectron will give written notice thereof to the trustee. As soon as practicable thereafter, the trustee will then notify each holder of exchangeable shares of such event or potential event and will advise the holder of its rights described in this paragraph.

*Liquidation Rights With Respect to Solectron*

In order for the holders of the exchangeable shares to participate on a *pro rata* basis with the holders of Solectron common stock, on the fifth business day prior to the effective date of certain specified events relating to the voluntary or involuntary liquidation, dissolution, winding-up or other distribution of the assets of Solectron among its stockholders for the purpose of winding-up its affairs, each exchangeable share (other than those held by Solectron and its affiliates) will automatically be exchanged for consideration per exchangeable share consisting of one share of Solectron common stock and (to the extent not paid by Exchangeco on the designated payment date) an amount in cash equal to the declared and unpaid dividends on one exchangeable share pursuant to the voting and exchange trust agreement. Upon a holder's request and surrender of exchangeable share certificates, duly endorsed in blank and accompanied by such instruments of transfer as Solectron may reasonably require, Solectron will deliver to such holder certificates representing an equivalent number of shares of Solectron common stock. For a description of certain Solectron obligations with respect to the dividend and liquidation rights of the holders of exchangeable shares, see Description of Exchangeable Shares Solectron Support Obligation below.

**Optional Redemption by Holders**

Holders of the exchangeable shares will be entitled at any time following the effective time of the arrangement to retract (i.e., require Exchangeco to redeem), subject to the exercise by Callco of its retraction call right, any or all of the exchangeable shares held by such holder for consideration per exchangeable share equal to one share of Solectron common stock and an amount in cash equal to the declared and unpaid dividends on one exchangeable share. Holders of the exchangeable shares may effect such retraction by presenting:

a certificate or certificates to Exchangeco or the transfer agent for the exchangeable shares representing the number of exchangeable shares the holder desires to retract;

a duly executed retraction request indicating the number of exchangeable shares the holder desires to retract and the retraction date, and acknowledging the retraction call right; and

such other documents as may be required to effect the retraction of the retracted shares.

In the event that a holder of exchangeable shares exercises the right to require Exchangeco to redeem any of its exchangeable shares, Callco will have an overriding retraction call right to purchase all but not

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less than all of those exchangeable shares, for consideration per exchangeable share consisting of one share of Solectron common stock and (to the extent not paid by Exchangeco on the designated payment date) an amount in cash equal to the declared and unpaid dividends on one exchangeable share. Upon receipt of a retraction request, Exchangeco will immediately notify Callco of the retraction request. Callco must then advise Exchangeco within five business days as to whether the retraction call right will be exercised. If Callco does not so advise Exchangeco, Exchangeco will notify the holder as soon as possible thereafter that Callco will not exercise its overriding retraction call right. If Callco advises Exchangeco that Callco will exercise the retraction call right within such five business day period, then provided the retraction request is not revoked by the holder as described below, the retraction request shall be considered only to be an offer by the holder to sell the exchangeable shares it requested to have redeemed to Callco in accordance with its overriding retraction call right.

A holder may revoke its retraction request, in writing, at any time prior to the close of business on the business day preceding the retraction date, in which case the relevant exchangeable shares will neither be purchased by Callco nor redeemed by Exchangeco. If a holder does not revoke its retraction request, on the contemplated date of retraction, the relevant exchangeable shares will be purchased by Callco or redeemed by Exchangeco, as the case may be, in each case as set out above.

If, as a result of solvency requirements or applicable law, Exchangeco is not permitted to redeem all of the exchangeable shares that the holder requires to be redeemed, Exchangeco will redeem only those exchangeable shares of the holder (rounded down to a whole number of shares) as would not be contrary to such provisions of applicable law. The trustee, on behalf of the holder of any exchangeable share not so redeemed by Exchangeco, will require Solectron to purchase such exchangeable shares not redeemed for the same consideration per exchangeable share as described above under Liquidation Rights with Respect to Exchangeco .

**Mandatory Redemption by Exchangeco and Solectron Call Right**

The redemption date is the date established by the board of directors of Exchangeco for the redemption by Exchangeco of all of the outstanding exchangeable shares, which will not be earlier than the seventh anniversary of the effective date of the arrangement unless:

at any time after the fifth anniversary of the effective date of the arrangement, there are then outstanding exchangeable shares constituting fewer than 30% of the actual number of the exchangeable shares issuable as determined at the election deadline in respect of the arrangement outstanding (other than exchangeable shares held by Solectron and its affiliates), provided that such number may be adjusted by the board of directors of Exchangeco in certain circumstances described in the exchangeable share provisions in which case the board of directors of Exchangeco may accelerate the redemption date to an earlier date upon at least 60 days prior notice to the holders of the exchangeable shares and the trustee under the voting and exchange trust agreement;

at any time, there are then outstanding exchangeable shares constituting fewer than 10% of the actual number of exchangeable shares issuable as determined at the election deadline in respect of the arrangement outstanding (other than exchangeable shares held by Solectron and its affiliates), provided that such number may be adjusted by the board of directors of Exchangeco in certain circumstances described in the exchangeable share provisions, in which case the board of directors of Exchangeco may accelerate the redemption date to an earlier date upon at least 60 days prior notice to the holders of the exchangeable shares and the trustee under the voting and exchange trust agreement;

upon the occurrence of any merger, amalgamation, arrangement, tender offer, material sale of shares or rights or interests therein or thereto or similar transactions involving Solectron, or any proposal to do so, provided that the board of directors of Exchangeco determines (A) that it is not reasonably practicable to substantially replicate the terms and conditions of the exchangeable shares in connection with the transaction described in this bullet point and (B) such transaction involves a *bona fide* third party, is not for the primary purpose of causing a redemption date, and that the

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redemption of the exchangeable shares is necessary to enable the completion of the transaction described in this bullet point, then the redemption date will be such date as determined by the board of directors of Exchangeco;

each of the following occurs: (1) a matter arises on which the holders of exchangeable shares are entitled to vote as shareholders of Exchangeco (other than a matter described in the next bullet point); (2) the board of directors of Exchangeco has determined, in good faith and in its sole discretion, that it is not reasonably practicable to accomplish the business purpose intended by the matter (which business purpose must be *bona fide* and not for the primary purpose of causing the occurrence of the redemption date) in any other commercially reasonable manner that does not result in the holders of exchangeable shares being entitled to vote as shareholders of Exchangeco and (3) the holders of exchangeable shares fail to take the necessary action at a meeting or other vote of the holders of exchangeable shares to approve or disapprove, as applicable, the matter, in which case the redemption date will be the business day following the date on which the holders of exchangeable shares failed to take the necessary action; or

each of the following occurs: (1) a matter arises on which the holders of exchangeable shares are entitled to vote as shareholders of Exchangeco in order to approve any change to or in the rights of the holders of the exchangeable shares; (2) the change is necessary to maintain the economic equivalence of the exchangeable shares and the Solectron common stock; and (3) the holders of exchangeable shares fail to take the necessary action at a meeting or other vote of the holders of exchangeable shares to approve or disapprove, as applicable, the change, in which case the redemption date will be the business day following the date on which the holders of exchangeable shares failed to take the necessary action.

On the redemption date, and subject to applicable law and the overriding redemption call right, as discussed below, Exchangeco will redeem all but not less than all of the then outstanding exchangeable shares (other than those held by Solectron or its affiliates) for consideration per exchangeable share consisting of one share of Solectron common stock and an amount in cash equal to the declared and unpaid dividends on one exchangeable share. Exchangeco will, at least 60 days prior to the redemption date, or such number of days as the board of directors of Exchangeco may determine to be reasonably practicable under the circumstances in respect of a redemption date arising in connection with, among other events, the events described in the third, fourth and fifth bullet points above, provide the registered holders of the exchangeable shares with written notice of the proposed redemption of the exchangeable shares by Exchangeco or the purchase of the exchangeable shares by Callco pursuant to the redemption call right described below.

Callco will have an overriding redemption call right to purchase on the redemption date all but not less than all of the exchangeable shares then outstanding (other than exchangeable shares held by Solectron and its affiliates) for consideration per exchangeable share consisting of one share of Solectron common stock and an amount in cash to the declared and unpaid dividends on one exchangeable share. Upon the exercise of such overriding redemption call right, holders will be obligated to sell their exchangeable shares to Callco. If Callco exercises the redemption call right, Exchangeco's right and obligation to redeem the exchangeable shares on such redemption date will terminate.

In the event of certain changes in Canadian federal and Québec tax law, Solectron will have the right to purchase or cause Calco to purchase all of the exchangeable shares then outstanding (other than exchangeable shares held by Solectron and its affiliates) prior to the seventh anniversary of the effective date. Solectron may exercise this call right if it delivers to the trustee an opinion of counsel stating that there has been a change to the *Income Tax Act* (Canada) and applicable Québec provincial income tax legislation to the effect that a sale by beneficial owners of exchangeable shares (other than Solectron and its affiliates) who are Canadian residents and hold their exchangeable shares as capital property of exchangeable shares to Solectron or Calco, as the case may be, pursuant to Solectron's call right, will qualify as a tax-deferred transaction for purposes of the *Income Tax Act* (Canada) and applicable Québec provincial income tax legislation.

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### **Ranking**

The exchangeable shares will be entitled to a preference over the common shares of Exchangeco, the class A non-voting common shares and any other shares ranking junior to the exchangeable shares with respect to the payment of dividends and the distribution of assets in the event of a liquidation, dissolution or winding-up of Exchangeco, whether voluntary or involuntary, or any other distribution of the assets of Exchangeco, among its shareholders for the purpose of winding-up its affairs.

### **Certain Restrictions**

Without the approval of the holders of the exchangeable shares as set forth below under Description of Exchangeable Shares Amendment and Approval, Exchangeco will not:

pay any dividends on the common shares of Exchangeco, or any other shares ranking junior to the exchangeable shares, other than stock dividends payable in common shares of Exchangeco, or any such other shares ranking junior to the exchangeable shares, as the case may be;

redeem, purchase or make any capital distribution in respect of common shares of Exchangeco, or any other shares ranking junior to the exchangeable shares;

redeem or purchase any other shares of Exchangeco ranking equally with the exchangeable shares with respect to the payment of dividends or on any liquidation distribution; or

issue any exchangeable shares, or any shares of Exchangeco ranking equally with, or superior to, the exchangeable shares, other than (i) pursuant to any shareholder rights plan adopted by Exchangeco, or (ii) by way of stock dividend to the holders of exchangeable shares.

These restrictions will not apply at any time when all dividends on the outstanding exchangeable shares corresponding to dividends declared and paid on the Solectron common stock have been declared and paid in full.

### **Amendment and Approval**

The rights, privileges, restrictions and conditions attaching to the exchangeable shares may be added to, changed or removed only with the approval of the holders thereof. Any such approval or any other approval or consent to be given by the holders of the exchangeable shares will be deemed to have been sufficiently given if given in accordance with applicable law subject to a minimum requirement that such approval or consent be evidenced by a resolution passed by not less than two-thirds of the votes cast on such resolution at a meeting of the holders of exchangeable shares duly called and held at which holders of at least 20% of the then outstanding exchangeable shares are present or represented by proxy. In the event that no such quorum is present at such meeting within one-half hour after the time appointed therefor, then the meeting will be adjourned to such place and time (not less than five days later) as may be designated by the Chairman of such meeting. At such adjourned meeting, the holders of exchangeable shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by the affirmative vote of not less than two-thirds of the votes cast on such resolution will constitute the approval or consent of the holders of the exchangeable shares.

### **Exchangeable Share Rights**

Prior to the effective time of the arrangement, Exchangeco will adopt an exchangeable share rights plan substantially equivalent to the Solectron rights agreement. Pursuant thereto, each exchangeable share issued in the arrangement will have an associated exchangeable share

right entitling the holder of such exchangeable share right to acquire additional exchangeable shares on terms and conditions substantially the same as the terms and conditions upon which a holder of the Solectron common stock is entitled to acquire Solectron Series A preferred stock under the Solectron rights agreement (with the definitions of

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beneficial ownership, the calculation of percentage ownership and the number of shares outstanding and related provisions applying, as appropriate, to Solectron common stock and exchangeable shares as though they were the same security). The exchangeable share rights are intended to have characteristics essentially equivalent in economic effect to the Solectron rights. See Solectron Capital Stock Series A Participating Preferred Stock and Rights Agreement .

### **Solectron Support Obligation**

Pursuant to the exchangeable share support agreement, Solectron will make the following covenants for so long as any exchangeable shares (other than exchangeable shares owned by Solectron or its affiliates) remain outstanding:

Solectron will not declare or pay dividends on the Solectron common stock unless Exchangeco is able to declare and pay and simultaneously declares or pays, as the case may be, an equivalent dividend on the exchangeable shares (or if the dividend is a stock dividend, in lieu thereof Exchangeco effects an economically equivalent subdivision of the outstanding exchangeable stock);

Solectron will advise Exchangeco in advance of the declaration of any dividend on the Solectron common stock and ensure that the declaration date, record date and payment date for dividends on the exchangeable shares are the same as those for the corresponding dividend on the Solectron common stock;

Solectron will ensure that the record date for any dividend declared on the Solectron common stock is not less than ten business days after the declaration date of such dividend;

Solectron will take all actions and do all things reasonably necessary or desirable to enable and permit Exchangeco, in accordance with applicable law, to perform its obligations arising upon the liquidation, dissolution or winding-up or any other distribution of the assets of Exchangeco among its shareholders for the purpose of winding-up its affairs, in the event of a retraction demand by a holder of exchangeable shares or a redemption of exchangeable shares on the redemption date, as the case may be, including all actions and things as are reasonably necessary or desirable to enable and permit Exchangeco to deliver Solectron common stock to the holders of exchangeable shares and cash in respect of declared and unpaid dividends;

Solectron will take all actions and do all things reasonably necessary or desirable to perform its obligations upon exercise of the right of Solectron to purchase the exchangeable shares, and enable and permit Callco, in accordance with applicable law, to perform its obligations arising upon the exercise by it of its overriding call rights or the exercise by Solectron of the Solectron call right, including all such actions and things as are reasonably necessary or desirable to enable and permit Callco to deliver Solectron common stock to the holders of exchangeable shares and cash in respect of declared and unpaid dividends where obligated to do so; and

Solectron will ensure that Callco does not exercise its vote as a shareholder to initiate the voluntary liquidation, dissolution or winding-up of Exchangeco nor take any action or omit to take any action that is designed to result in the liquidation, dissolution or winding-up of Exchangeco.

The exchangeable share support agreement and the exchangeable share provisions provide that, without the prior approval of Exchangeco and the holders of the exchangeable shares given in the manner set forth above under Description of Exchangeable Shares Amendment and Approval , Solectron will not issue or distribute additional Solectron common stock, securities exchangeable for or convertible into or carrying rights to acquire Solectron common stock, rights, options or warrants to subscribe therefor, evidences of indebtedness or other assets, to all or substantially all holders of Solectron common stock, nor shall Solectron change the Solectron common stock, unless the same or an economically equivalent distribution on or change to the exchangeable shares (or in the rights of the holders thereof) is made simultaneously. The Exchangeco board of directors will determine in good faith and in its sole discretion

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whether any corresponding distribution on or change to the exchangeable shares is the same as or economically equivalent to any proposed distribution on or change to the Solectron common stock and its determination is conclusive and binding. In the event of any proposed tender offer, share exchange offer, issuer bid, take-over bid or similar transaction with respect to the Solectron common stock which is recommended by the Solectron board of directors and in connection with which the exchangeable shares are not redeemed by Exchangeco or purchased by Callco pursuant to its overriding redemption call right, Solectron will use reasonable efforts to take all actions necessary or desirable to enable holders of exchangeable shares to participate in such transaction to the same extent and on an economically equivalent basis as the holders of Solectron common stock.

In order to assist Solectron to comply with its obligations under the exchangeable share support agreement and to permit Callco to exercise its overriding call rights, Exchangeco is required to notify Solectron and Callco of the occurrence of certain events, such as the liquidation, dissolution or winding-up of Exchangeco, and Exchangeco's receipt of a retraction request from a holder of exchangeable shares.

Under the exchangeable share support agreement, Solectron has agreed not to exercise any voting rights attached to the exchangeable shares owned by it or any of its affiliates on any matter considered at meetings of holders of exchangeable shares. Solectron has also agreed to use its reasonable best efforts to maintain a listing for the exchangeable shares on a Canadian stock exchange which is a prescribed stock exchange within the meaning of the *Income Tax Act* (Canada) and to ensure that Exchangeco remains a public corporation within the meaning of the *Income Tax Act* (Canada).

With the exception of administrative changes for the purpose of adding covenants of any or all parties, making certain necessary amendments or curing ambiguities or clerical errors (in each case provided that the board of directors of each of Solectron, Exchangeco, Nova Scotia Company and Callco are of the opinion that such amendments are not prejudicial to the interests of the holders of the exchangeable shares), the exchangeable share support agreement may not be amended without the approval of the holders of the exchangeable shares given in the manner set forth above under Description of Exchangeable Shares Amendment and Approval .

## **Withholding**

Solectron, Exchangeco, Callco, the transfer agent for the exchangeable shares and the trustee under the voting and exchange trust agreement will be entitled to deduct and withhold from any dividend or consideration otherwise payable to any holder of exchangeable shares (including upon an exchange or transfer of exchangeable shares for Solectron common stock) or shares of Solectron common stock, any amount it is required (or entitled under section 116 of the *Income Tax Act* (Canada) or the corresponding provisions of any applicable provincial law) to withhold pursuant to applicable tax laws. To the extent amounts are so withheld, such withheld amounts are treated as having been paid to the holder in respect of which the amounts were withheld, provided the withheld amounts are remitted to the appropriate tax authority. If the amount of any consideration deducted or withheld exceeds the cash portion of the consideration that is otherwise payable to the holder of exchangeable shares or shares of Solectron common stock, Solectron, Exchangeco, Callco, the transfer agent for the exchangeable shares or the trustee under the voting and exchange trust agreement, whichever the case may be, are authorized to sell such portion of the consideration as is necessary to provide the cash to comply with any remittance obligations of Solectron, Exchangeco, Callco, the transfer agent for the exchangeable shares or the trustee, whichever the case may be, with respect to any amounts deducted or withheld hereunder.

## **Disclosure of Interest in Exchangeable Shares**

Exchangeco and the trustee under the voting and exchange trust agreement will be entitled to require any holder of exchangeable shares or any person whom Exchangeco or the trustee knows or has reasonable cause to believe holds any interest in an exchangeable share to confirm that fact or to give such details as to whom has an interest in the exchangeable shares as would be required if the exchangeable shares were

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a class of equity shares of Exchangeco under section 101 of the *Securities Act* (Ontario) or under section 147.11 of the *Securities Act* (Québec) or as would be required under the articles of Solectron or any laws or regulations, or pursuant to the rules or regulations of any regulatory authority of the United States, if the exchangeable shares were shares of Solectron common stock.

## **Transfer Agent**

The transfer agent and registrar for the exchangeable shares will be General Trust of Canada at its offices located in Montreal, Québec and Toronto, Ontario.

## **Listing**

Exchangeco intends to apply to The Toronto Stock Exchange to list the exchangeable shares, such listing to be effective prior to the effective date of the arrangement.

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### **SOLECTRON CAPITAL STOCK**

As of the date of this document, Solectron's authorized capital stock consists of 1,601,200,000 shares. Those shares consist of 1,600,000,000 shares designated as common stock, \$0.001 par value, and 1,200,000 shares designated as preferred stock, \$0.001 par value. The only equity securities currently outstanding are shares of common stock. As of September 4, 2001, there were approximately 658,306,082 shares of Solectron common stock issued and outstanding.

#### **Preferred Stock**

As of September 4, 2001, there were no shares of preferred stock outstanding. The Solectron board of directors has the authority, without further action by the stockholders, to issue up to 1,200,000 shares of Solectron preferred stock in one or more series and to fix the following terms of the preferred stock:

designations, powers, preferences, privileges;

relative participating, optional or special rights; and

the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences.

Any or all of these rights may be greater than the rights of the common stock.

The Solectron board of directors, without stockholder approval, can issue preferred stock with voting, conversion or other rights that could negatively affect the voting power and other rights of the holders of common stock. Preferred stock could thus be issued quickly with terms calculated to delay or prevent a change in control of Solectron or make it more difficult to remove Solectron's management. Additionally, the issuance of preferred stock may have the effect of decreasing the market price of the common stock.

The rights, preferences, privileges and restrictions of the preferred stock of each series will be fixed by the certificate of designation relating to that series. The certificate of designation will specify:

the designation of the shares;

the annual dividend rate, if any, whether the dividend rate is fixed or variable, the date dividends will accrue, the dividend payment dates, and whether dividends will be cumulative;

the price and the terms and conditions for redemption, if any, including redemption at Solectron's option or at the option of the holders, including the time period for redemption, and any accumulated dividends or premiums;

the liquidation preference, if any, and any accumulated dividends upon the liquidation, dissolution or winding-up of Solectron's affairs;

any sinking fund or similar provision, and, if so, the terms and provisions relating to the purpose and operation of the fund;

the terms and conditions, if any, for conversion or exchange of shares of any other class or classes of Solectron's capital stock or any series of any other class or classes, or of any other series of the same class, or any other securities or assets, including the price or the rate of conversion or exchange and the method, if any, of adjustment;

the voting rights; and

any or all other preferences and relative, participating, optional or other special rights, privileges or qualifications, limitations or restrictions.

Preferred stock will be fully paid and nonassessable upon issuance.

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### **Series A Participating Preferred Stock and Rights Agreement**

On June 29, 2001, pursuant to a preferred stock rights agreement between Solectron and Fleet National Bank, as rights agent, the Solectron board of directors declared a dividend of one right to purchase one ten-thousandth share of Solectron's Series A participating preferred stock for each outstanding share of Solectron common stock. The dividend was paid on July 30, 2001, to stockholders of record as of the close of business on that date. Each right entitles the registered holder to purchase from Solectron one ten-thousandth of a share of the Series A preferred stock of Solectron at an exercise price of \$150, subject to adjustment.

The following is a summary and general description of the principal terms of the Solectron rights agreement.

#### *Rights Evidenced by Common Stock Certificates*

The rights will not be exercisable until the distribution date. Certificates for the rights will not be sent to Solectron stockholders and the rights will attach to and trade only together with the Solectron common stock. Accordingly, Solectron common stock certificates outstanding on July 30, 2001 will evidence the rights related thereto, and Solectron common stock certificates issued after July 30, 2001 will contain a notation incorporating the rights agreement by reference. Until the distribution date (or earlier redemption or expiration of the rights), the surrender or transfer of any certificates for Solectron common stock, outstanding as of the record date, even without notation or a copy of the summary of rights being attached thereto, also will constitute the transfer of the rights associated with the Solectron common stock represented by such certificate.

#### *Distribution Date*

The rights will be separate from the Solectron common stock. Rights certificates will be issued and the rights will become exercisable upon the earlier of the tenth day (or such later date as may be determined by the Solectron board of directors) after a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the then-outstanding Solectron common stock, or the tenth business day (or such later date as may be determined by the Solectron board of directors) after a person or group announces a tender or exchange offer, the consummation of which would result in ownership by a person or group of 15% or more of the then-outstanding Solectron common stock. The earlier of such dates is referred to as the distribution date.

#### *Issuance of Rights Certificates; Expiration of Rights*

As soon as practicable following the distribution date, a rights certificate will be mailed to holders of record of Solectron common stock as of the close of business on the distribution date, and such separate rights certificate alone will evidence the rights from and after the distribution date. The rights will expire on the earliest of July 30, 2011, or redemption or exchange of the rights as described below.

#### *Initial Exercise of the Rights*

Following the distribution date, and until one of the further events described below, holders of the rights will be entitled to receive, upon exercise and the payment of the purchase price, one ten-thousandth share of the Series A preferred stock. In the event that Solectron does not have sufficient Series A preferred stock available for all rights to be exercised, or the Solectron board of directors decides that such action is necessary and not contrary to the interests of rights holders, Solectron may instead substitute cash, assets or other securities for the Series A preferred stock for which the rights would have been exercisable under this provision or as described below.



**Table of Contents***Right to Buy Solectron Common Stock*

Unless the rights are earlier redeemed, in the event that an acquiring person obtains 15% or more of the then-outstanding Solectron common stock, then each holder of a right which has not theretofore been exercised (other than rights beneficially owned by the acquiring person, which will thereafter be void) will thereafter have the right to receive, upon exercise, Solectron common stock having a value equal to two times the purchase price. Rights are not exercisable following the occurrence of an event as described above until such time as the rights are no longer redeemable by Solectron as set forth below.

*Right to Buy Acquiring Company Common Stock*

Similarly, unless the rights are earlier redeemed, in the event that, after an acquiring person obtains 15% or more of the then-outstanding Solectron common stock, Solectron is acquired in a merger or other business combination transaction, or 50% or more of Solectron's consolidated assets or earning power are sold (other than in transactions in the ordinary course of business), proper provision must be made so that each holder of a right which has not yet been exercised (other than rights beneficially owned by the acquiring person, which will thereafter be void) will thereafter have the right to receive, upon exercise, shares of common stock of the acquiring company having a value equal to two times the purchase price.

*Exchange Provision*

At any time after an acquiring person obtains 15% or more of the then outstanding Solectron common stock and prior to the acquisition by such acquiring person of 50% or more of the outstanding Solectron common stock, the Solectron board of directors may exchange the rights (other than rights owned by the acquiring person), in whole or in part, at an exchange ratio of one share of Solectron common stock per right.

*Redemption*

At any time on or prior to the close of business on the earlier of the fifth day following the attainment of 15% or more of the then-outstanding Solectron common stock by an acquiring person (or such later date as may be determined by action of Solectron's board of directors and publicly announced by Solectron), or July 30, 2011, Solectron may redeem the rights in whole, but not in part, at a price of \$0.001 per right.

*Adjustments to Prevent Dilution*

The purchase price payable, the number of rights, and the number of shares of Solectron Series A preferred stock or Solectron common stock or other securities or property issuable upon exercise of the rights are subject to adjustment from time to time in connection with the dilutive issuances by Solectron as set forth in the rights agreement. With certain exceptions, no adjustment in the purchase price will be required until cumulative adjustments require an adjustment of at least 1% in such purchase price.

*Cash Paid Instead of Issuing Fractional Shares*

No fractional shares of Solectron common stock will be issued upon exercise of a right and, in lieu thereof, an adjustment in cash will be made based on the market price of the Solectron common stock on the last trading date prior to the date of exercise.

*No Stockholders' Rights Prior to Exercise*

Until a right is exercised, the holder thereof, as such, will have no rights as a stockholder of Solectron (other than any rights resulting from such holder's ownership of Solectron common stock), including, without limitation, the right to vote or to receive dividends.

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### *Amendment of Rights Agreement*

The terms of the rights and the rights agreement may be amended in any respect without the consent of the rights holders on or prior to the distribution date. After the distribution date, the terms of the rights and the rights agreement may be amended without the consent of the rights holders in order to cure any ambiguities or to make changes which do not adversely affect the interests of rights holders, other than the acquiring person.

### *Rights and Preferences of the Solectron Series A Preferred Stock*

Each one ten-thousandth of a share of Solectron Series A preferred stock has rights and preferences substantially equivalent to those of one share of Solectron common stock.

### *No Voting Rights*

Rights will not have any voting rights.

### *Certain Anti-Takeover Effects*

The rights are designed to protect and maximize the value of the outstanding equity interests in Solectron in the event of an unsolicited attempt by an acquiror to take over Solectron in a manner or on terms not approved by the Solectron board of directors. Takeover attempts frequently include coercive tactics to deprive the Solectron's board of directors and its stockholders of any real opportunity to determine the destiny of Solectron. The rights were declared by the Solectron board of directors in order to deter such tactics, including a gradual accumulation of shares in the open market of a 15% or greater position to be followed by a merger or a partial or two-tier tender offer that does not treat all stockholders equally. These tactics unfairly pressure stockholders, squeeze them out of their investment without giving them any real choice and deprive them of the full value of their shares.

Subject to the restrictions described above, the rights may be redeemed by Solectron at \$0.001 per right at any time prior to the distribution date. Accordingly, the rights should not interfere with any merger or business combination approved by the Solectron board of directors.

However, the rights may have the effect of rendering more difficult or discouraging an acquisition of Solectron deemed undesirable by the Solectron board of directors. The rights may cause substantial dilution to a person or group that attempts to acquire Solectron on terms or in a manner not approved by Solectron's board of directors, except pursuant to an offer conditioned upon the negation, purchase or redemption of the rights.

The rights agreement and the rights will not be affected by the transaction with C-MAC.

### **Solectron Series B Preferred Stock Special Voting Share**

The special voting share of Series B preferred stock of Solectron will be authorized for issuance pursuant to the combination agreement and, pursuant to the arrangement, the special voting share will be issued to the trustee appointed under the voting and exchange trust agreement. The special voting share will be a Series B preferred share of Solectron and will have a par value of \$0.001 per share. Except as otherwise required by law or the Solectron certificate of incorporation, the special voting share will be entitled to a number of votes equal to the number of outstanding exchangeable shares of Exchangeco from time to time not owned by Solectron, any of its subsidiaries, or entities directly or indirectly controlled by or under common control with Solectron, which votes may be exercised for the election of directors and on all other matters submitted to a vote of Solectron stockholders. The holders of Solectron common stock and the holder of the special voting share will vote together as a single class on all matters, except to the extent voting as a separate class is required by applicable law or the Solectron certificate of incorporation. The holder of the special voting share will not be entitled to receive dividends from Solectron and, in the event of any liquidation, dissolution or winding-up of Solectron, will receive an amount equal to the par value thereof. At such time as there are no exchangeable shares outstanding not owned by Solectron, any

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of its subsidiaries, or entities directly or indirectly controlled by or under common control with Solectron, and there are no shares of stock, debt, options or other agreements of Exchangeco that could give rise to the issuance of any exchangeable shares to any person (other than Solectron, any of its subsidiaries, or entities directly or indirectly controlled by or under common control with Solectron), the special voting share will be cancelled. See Description of Exchangeable Shares Voting, Dividend and Liquidation Rights .

### **Solectron Common Stock**

Holders of Solectron common stock are entitled to receive dividends declared by the Solectron board of directors, out of funds legally available for the payment of dividends, subject to the rights of holders of preferred stock. Currently, Solectron is not paying dividends. Each holder of Solectron common stock is entitled to one vote per share. Upon any liquidation, dissolution or winding-up of Solectron's business, the holders of Solectron common stock are entitled to share equally in all assets available for distribution after payment of all liabilities and provision for liquidation preference of shares of preferred stock then outstanding. The holders of Solectron common stock have no preemptive rights and no rights to convert their Solectron common stock into any other securities. There are also no redemption or sinking fund provisions applicable to the Solectron common stock.

All outstanding shares of Solectron common stock are fully paid and non-assessable.

The shares of Solectron common stock are listed on the New York Stock Exchange under the symbol SLR . The transfer agent and registrar for the Solectron common stock is EquiServe Trust Company, N.A.

### **Delaware General Corporation Law Section 203**

Solectron is a Delaware corporation subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination transaction with an interested stockholder for a period of three years after the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner, as described below.

The Section 203 restrictions do not apply if:

the business combination or transaction is approved by Solectron's board of directors before the date the interested stockholder obtained such status;

upon consummation of the transaction which resulted in the stockholder obtaining such status, the stockholder owned at least 85% of the shares of stock entitled to vote generally in the election of directors (the voting stock ) that are outstanding at the time the transaction commenced. The 85% calculation does not include those shares:

owned by directors who are also officers of the target corporation; or

held by employee stock plans which do not permit employees to decide confidentially whether to accept a tender or exchange offer; or

on or after the date the interested stockholder obtained such status, the business combination is approved by Solectron's board of directors and at a stockholder meeting by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status, did own, 15% or more of a corporation's voting stock. Section 203 may prohibit or delay mergers or other takeover or change in control attempts with respect to Solectron. As a result, Section 203 may discourage attempts to acquire Solectron even though such transaction may offer the stockholders of Solectron the opportunity to sell their stock at a price above the prevailing market price.

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**EXCHANGECO SHARE CAPITAL**

The following summary of certain provisions of Exchangeco's share capital describes all material provisions of Exchangeco's share capital, but does not purport to be complete and is subject to, and qualified in its entirety by, Exchangeco's articles and bylaws and by the provisions of applicable law.

**Common Shares**

The holders of common shares of Exchangeco are entitled to receive notice of and to attend all meetings of the shareholders and are entitled to one vote for each share held of record on all matters submitted to a vote of holders of common shares of Exchangeco. Subject to the prior rights of the holders of any shares ranking senior to the common shares of Exchangeco with respect to priority in the payment of dividends, the holders of common shares of Exchangeco are entitled to receive such dividends as may be declared by the board of directors of Exchangeco out of funds legally available therefor. Holders of common shares of Exchangeco are entitled upon any liquidation, dissolution or winding-up of Exchangeco, subject to the prior rights of the holders of the exchangeable shares or any other shares ranking senior to the common shares, to receive the remaining property and assets of Exchangeco.

All of the common shares of Exchangeco will be held indirectly by Solectron through Nova Scotia Company and Callco. See "The Companies after the Transaction" Callco.

**Exchangeable Shares**

See "Description of Exchangeable Shares" for a summary of certain provisions of the exchangeable shares and see the exchangeable share provisions attached as Appendix 1 to the plan of arrangement, which is attached to this document as Annex C.

**Class A Non-Voting Common Shares**

The Exchangeco class A non-voting common shares will be identical to the Exchangeco common shares with the exception that the Class A non-voting common shares will possess no voting rights. The holders of Class A non-voting common shares of Exchangeco will not be entitled to receive notice of or attend meetings of the shareholders except as provided by applicable law. Subject to the prior rights of the holders of any shares ranking senior to the Class A non-voting common shares of Exchangeco with respect to priority in the payment of dividends, the holders of Class A non-voting common shares of Exchangeco will be entitled to receive such dividends as may be declared by the board of directors of Exchangeco out of funds legally available therefor. Holders of class A non-voting shares of Exchangeco will be entitled upon any liquidation, dissolution or winding-up of Exchangeco, subject to the prior rights of the holders of the exchangeable shares or any other shares ranking senior to the common shares, to receive the remaining property and assets of Exchangeco. Class A non-voting shares will rank equally with the common shares with respect to payment of dividends and rights upon liquidation, dissolution or winding-up of Exchangeco.

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**C-MAC SHARE CAPITAL**

C-MAC's authorized capital is comprised of an unlimited number of common shares without par value, an unlimited number of class A preferred shares without par value, an unlimited number of class B preferred shares without par value, and an unlimited number of class C preferred shares without par value, issuable in series.

As of September 4, 2001, 86,317,076 C-MAC common shares were issued and outstanding. No class A preferred shares, class B preferred shares or class C preferred shares are currently issued and outstanding.

The following description is only a summary and is qualified by reference to the complete text set forth in C-MAC's articles of incorporation.

**Class A Preferred Shares**

With the exception of any matters with respect to which they are entitled to vote as a class by law, holders of class A preferred shares are not entitled to receive any notice of meetings of C-MAC's shareholders nor to attend or vote thereat. Holders of C-MAC class A preferred shares are not entitled to receive any dividends. C-MAC class A preferred shares are redeemable at C-MAC's option for a price equal to the consideration, or to the fair market value of the consideration, C-MAC received at the time of their issuance. In the event of liquidation, dissolution or other distribution of the assets of C-MAC, holders of class A preferred shares are entitled to receive, equally with holders of class B preferred shares, an amount equal to the redemption price.

**Class B Preferred Shares**

With the exception of any matters with respect to which they are entitled to vote as a class by law, holders of C-MAC class B preferred shares are not entitled to receive any notice of meetings of C-MAC shareholders nor to attend or vote thereat. Holders of C-MAC class B preferred shares are entitled to receive, if and when declared by C-MAC's board of directors, a non-cumulative dividend of 12% *per annum*. C-MAC class B preferred shares are redeemable at C-MAC's option for a price equal to the consideration, or to the fair market value of the consideration, C-MAC received at the time of their issuance. In the event of liquidation, dissolution or other distribution of C-MAC's assets, holders of class B preferred shares are entitled to receive, *pari passu* with holders of class A preferred shares, an amount equal to the redemption price.

**Class C Preferred Shares**

The C-MAC class C preferred shares are issuable from time to time in one or more series. Subject to C-MAC's articles of incorporation, C-MAC's board of directors may, prior to issue, determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series as well as the number of shares of each series. C-MAC class C preferred shares rank prior to the C-MAC common shares but are subordinated to C-MAC class B preferred shares with respect to payment of dividends and subordinated to both C-MAC class A preferred shares and C-MAC class B preferred shares with respect to return of capital in the event of liquidation, dissolution or other distribution of C-MAC's assets. With the exception of any matters with respect to which they are entitled to vote as a class by law, holders of C-MAC class C preferred shares are not entitled to vote at any C-MAC shareholders' meetings.

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**Common Shares**

Each C-MAC common share entitles the holder thereof to one vote at, receive notice of and attend meetings of C-MAC's shareholders, with the exception of meetings where only the holders of another class or series of shares are entitled to vote. Subject to the prior rights of the holders of preferred shares, holders of C-MAC common shares are entitled to receive any dividends declared on such shares by C-MAC's board of directors and to participate in the distribution of C-MAC's residual assets in the event of liquidation, dissolution or other distribution of C-MAC's assets.

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**THE COMPANIES AFTER THE TRANSACTION**

**General**

Following completion of the arrangement, Solectron will continue to be a corporation governed by the Delaware General Corporation Law and will continue to have its registered office at 777 Gibraltar Drive, Milpitas, California, U.S.A., 95035 (Tel. No. (408) 957-8500). After the consummation of the arrangement, Solectron will indirectly own all of the securities of C-MAC and will continue to be a corporation governed by the *Canada Business Corporations Act*. The registered office of C-MAC will be located at 1010 Sherbrooke Street West, Suite 1610, Montreal, Québec, H3A 2R7. The registered office of Exchangeco will be located at \_\_\_\_\_.

*Exchangeco*

Exchangeco is a wholly-owned indirect subsidiary of Solectron. Exchangeco was amalgamated under the laws of New Brunswick effective December 25, 1999 and it is intended that Exchangeco will be continued under the *Canada Business Corporations Act* prior to the effective date of the arrangement. After the transaction is completed, Exchangeco will continue to be an indirect wholly-owned subsidiary of Solectron. The authorized capital of Exchangeco will consist of an unlimited number of common shares, exchangeable shares and Class A non-voting preference shares.

*Nova Scotia Company*

Nova Scotia Company is a direct wholly-owned subsidiary of Solectron. Nova Scotia Company is an unlimited liability company incorporated under the laws of Nova Scotia on September 6, 2001 for the sole purpose of participating in the transaction.

*Callco*

Callco is an indirect wholly-owned subsidiary of Solectron. Callco is a corporation incorporated under the *Canada Business Corporations Act* on September 6, 2001, for the sole purpose of participating in the transaction. Callco will hold the call rights related to the exchangeable shares (other than Solectron's call right with respect to the exchangeable shares). See *The Transaction* .

**Plans and Proposals**

Solectron and C-MAC believe that the transaction will enable the combined companies to create a diversified designer and manufacturer of integrated electronic manufacturing solutions that can benefit from complementary high-end technology capabilities, selected vertical integration and improved access to growth opportunities. See *The Transaction* *Joint Reasons for the Transaction* .

Solectron and C-MAC intend to preserve their respective existing businesses and strategic focus, operating through Solectron, in material business segments in which Solectron and C-MAC currently operate. Solectron expects to maintain a significant presence in both Milpitas, California and Montreal, Québec. Solectron does not anticipate reductions in the workforces of the two companies directly as a result of the transaction.

Solectron and C-MAC expect that soon after the acquisition is completed plans will be put into effect that employ the *Selective Vertical Integration* (SVI) strategy. With SVI the combined company will better be able to offer global end-to-end solutions to OEM's. This should provide a key differentiator as the OEM selects potential EMS Partners.

Upon the close of the transaction Solectron intends to explore opportunities for entry into the automotive sector using C-MAC's existing component capability, established relationships, and reputation.

Solectron's strength in supply chain management will be optimized to achieve cost savings across combined company product and service offerings.

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Solectron gains another building block for high-end systems by obtaining the capability of manufacturing backplanes. Solectron also gains ability in the production of optical networking components.

Integration efforts will focus on revenue and profitability enhancement through these additional capabilities and from capturing cost savings inherent in combining public companies. Also, shared service opportunities will be investigated and implemented. Site value proposition evaluation will be undertaken to optimize the cost structure.

**Directors and Officers**

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The combination agreement provides that Solectron shall cause two individuals, mutually agreed upon by Solectron and C-MAC, to be elected to Solectron's board of directors and cause such individuals to be nominated for election to Solectron's board of directors at its next annual meeting of stockholders. The directors elected to Solectron's board of directors will be Dennis Wood, currently Chairman, President and Chief Executive Officer of C-MAC, and C. Wesley M. Scott, currently a director of C-MAC. Following the consummation of the transaction, Solectron's board of directors will consist of eleven members. At each Solectron annual meeting of stockholders, directors are elected for a one-year term.

The following table sets forth certain information with respect to the proposed executive officers and directors of Solectron immediately following the consummation of the arrangement and their beneficial share ownership and percentage of shares beneficially owned of Solectron on a pro forma basis:

Name	Amount Owned(1)	Approximate Percentage Owned(18)
Dennis Wood	15,066,239(2)	1.86%
Ajay B. Shah		
8,082,477(3) 1.00%		
Lin Chien		
2,695,174 *		
Dr. Koichi Nishimura		
1,336,551(4) *		
Dr. Winston H. Chen		
1,264,268(5) *		
Susan S. Wang		
1,054,089(6) *		
Charles A. Dickinson		
369,856(7) *		
Dr. Saeed Zohouri		
214,652(8) *		
Dr. Paul R. Low		
210,268(9) *		
Daniel Perez		
145,026(10) *		
Dr. Kenneth E. Haughton		
131,268(11) *		
Richard A. D. Amore		
114,268(12) *		
Kevin R. Burns		
102,575(13) *		
Heinz Fridrich		
80,268(14) *		
David Kynaston		
70,147(15) *		
Osamu Yamada		
48,268(16) *		
William A. Hasler		
42,268(17) *		
C. Wesley M. Scott		
1,755 *		
Kiran Patel		
0 *		
All directors and executive officers as a group (19 persons)		
31,029,417 3.82%		

\* Less than one percent (1%).

(1) Beneficial ownership is determined in accordance with the rules of the United States Securities and Exchange Commission and generally includes voting or investment power with respect to the securities. In computing the number of shares beneficially owned by a person and

the percentage ownership of that person, shares of Solectron common stock subject to options held by that person that will be exercisable within 60 days of July 31, 2001, are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

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- (2) Based on the number of C-MAC shares held by Mr. Wood as of July 31, 2001. Includes 844,200 shares of C-MAC issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (3) Includes 5,250 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (4) Includes 960,013 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (5) Includes 114,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (6) Includes 478,550 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (7) Includes 66,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (8) Includes 214,652 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (9) Includes 114,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (10) Includes 142,349 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (11) Includes 114,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (12) Includes 114,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (13) Includes 96,817 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (14) Includes 76,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (15) Includes 70,147 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (16) Includes 47,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (17) Includes 30,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (18) Based on the projected number of shares of Solectron common stock that would be outstanding after taking into account the approximate number of shares to be issued pursuant to the C-MAC transaction. Includes shares of Solectron common stock outstanding as of July 31, 2001 and shares of Solectron common stock to be issued based on the number of C-MAC common shares outstanding as of August 8, 2001.

**Mr. Dennis Wood** is a co-founder of C-MAC. It is intended that Mr. Wood will become a director of Solectron on or about the effective time of the arrangement. Mr. Wood has been a director of C-MAC since 1985 and has been Chairman of the Board of Directors and President since 1987 and Chief Executive Officer since 1992. Prior to joining C-MAC, Mr. Wood managed numerous businesses, including Berkeley Wallcoverings Inc. Mr. Wood is a director of General Trust of Canada, Maax Inc., Groupe Bocenor, Inc., Investissements Novacap Inc., Blue Mountain Wallcoverings Inc. and Export Development Corporation.

**Mr. Ajay B. Shah** has served as President and Chief Executive Officer of Solectron Technology Solutions since 1999. Prior to Solectron, Mr. Shah served as the President and Chief Executive Officer at SMART Modular Technologies, Inc. since 1988. Mr. Shah co-founded SMART Modular Technologies,



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Inc. Prior to launching SMART, Mr. Shah held strategic marketing management and product line management positions at Samsung Semiconductor, Inc., and at Advanced Micro Devices.

**Mr. Lin Chien** has served as Solectron's Senior Vice President and President of Solectron Asia since September 1, 2001. Prior to Solectron, Mr. Chien served as Chief Executive Officer of NatSteel Electronics Ltd (NEL) since 1993. Prior to NEL, Mr. Chien held a variety of operational, engineering and management positions with General Instruments of Taiwan, General Electric and SCI Systems.

**Dr. Koichi Nishimura** has served as Chairman of the Board since 1996, Chief Executive Officer since 1992 and President since 1990. He was Co-Chief Executive Officer from 1991 to 1992 and Chief Operating Officer from 1988 to 1991. He was elected a director of the Board of Directors of Solectron in 1991. From 1964 to 1988, Dr. Nishimura was with International Business Machines Corporation in various technology and management positions. Dr. Nishimura serves as a director on the boards of Merix Corporation, the Center for Quality Management and the Santa Fe Institute. He also serves on the advisory board of Santa Clara University's Leavey School of Business and the board of the Silicon Valley Manufacturing Group. Dr. Nishimura serves as a member of the Board of Directors in the capacity of Vice President for the Foundation for the Malcolm Baldrige National Quality Award, Inc.

**Dr. Winston H. Chen** is a founder of Solectron and has served as a director of Solectron since 1978, Chairman of the Board of Directors from 1990 to March 1994, President from 1979 to 1990, Chief Executive Officer from 1984 to 1991, and as Co-Chief Executive Officer from 1991 to 1992. Dr. Chen is currently Chairman of Paramitas Foundation, a position he has held since 1990. From 1970 to 1978, Dr. Chen served as Process Technology and Development Manager of IBM. He also serves as a director of Intel Corporation.

**Ms. Susan S. Wang** has served as Senior Vice President of Business Development since September 1, 2001 and as Secretary since 1992. Ms. Wang served as Senior Vice President and Chief Financial Officer of Solectron from 1990 through August 31, 2001. She was Vice President, Finance and Chief Financial Officer of Solectron from 1986 to 1990 and Director of Finance of Solectron from 1984 to 1986. Prior to joining Solectron, Ms. Wang held various accounting and finance positions with Xerox Corporation. Ms. Wang also held accounting and auditing positions with Westvaco Corp. and Price Waterhouse & Co. She is a Certified Public Accountant.

**Mr. Charles A. Dickinson** has served as a director of Solectron since 1984, and served as Chairman of the Board of Directors from 1986 to 1990 and from 1994 to September 1996. He served as an independent management consultant to Solectron from 1991 to 1993. He served as President, Solectron Europe, from 1993 to February 1996. From 1986 to 1990, Mr. Dickinson was Chairman of the Board of Directors, President and Chief Executive Officer of Vermont Micro Systems, Inc. He also serves as a director of Aavid Thermal Technologies, Inc., LeCroy Corporation and two privately-held corporations.

**Dr. Saeed Zohouri** has served as Senior Vice President and Chief Operating Officer of Solectron since June 1999. He was Chief Technology Officer from 1994 to May 1999; President of Solectron California Corporation from March 1996 to August 1998; and President, Solectron North America since August 1998. Dr. Zohouri joined Solectron in 1980 and held various management positions including Director of Technology. His prior experience includes teaching chemistry at a major international university.

**Dr. Paul R. Low** has served as a director of Solectron since 1993. He is currently President of PRL Associates, a position he has held since 1992. Dr. Low worked for IBM from 1957 to 1992. During his tenure at IBM, Dr. Low held senior management and executive positions with successively increasing responsibility, including President, General Technology Division and IBM Corporate Vice President; President of General Products Division; and General Manager, Technology Products business line, also serving on IBM's corporate management board. He also serves as a director of Applied Materials, Inc., Veeco Instruments, Inc., NCD and Xion.

**Mr. Daniel Perez** has served as Senior Vice President of Worldwide Account Management and Marketing since 1999. Mr. Perez was Corporate Vice President and Chief Administrative Officer from

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1996 to 1999. Mr. Perez joined Solectron in 1991 as Director of Materials, and was soon named Vice President of Materials for Solectron's California facility. He became the General Manager of Solectron's Fremont, California, printed circuit board assembly operation in 1995 and assumed his current role in 1996. Prior to joining Solectron, Mr. Perez spent 14 years with IBM Corporation in various management positions in corporate administration, manufacturing, materials planning, and acquisition and control. Most recently, he was Senior Manager for Supply and Demand at IBM's disk storage business. Mr. Perez also serves as a director of the Tech Museum of Innovation, the California State Center for Quality Education and Development, the Mexican Heritage Corporation, the Center for Training and Careers in San Jose, California, and El Teatro Campesino.

**Dr. Kenneth E. Haughton** has served as a director of Solectron since 1985. Since 1991, Dr. Haughton has been an independent consultant. From 1990 to 1991, he was Vice President of Engineering at Da Vinci Graphics. From 1989 to 1990, Dr. Haughton was an independent consultant, and from 1982 to 1989, he served as Dean of Engineering at Santa Clara University. He also serves as a director of Seagate Technology.

**Mr. Richard A. D. Amore** has served as a director of Solectron since 1985. Mr. D. Amore has been a general partner of North Bridge Venture Partners since 1994. He also serves as a director of Centra Software, Inc., Silverstream Software, Inc., SmarterKids.com, Inc. and Veeco Instruments, Inc.

**Mr. Kevin R. Burns** was recently appointed to Senior Vice President and Chief Materials Officer. He joined Solectron in 1998 as Corporate Vice President of Global Materials Services. Prior to joining Solectron, Mr. Burns worked for Westinghouse Electric Corporation, where he was the Vice President and General Manager of operations for the Power Generation division. In a prior role at Westinghouse, Mr. Burns was President of Westinghouse Security Systems. Prior to Westinghouse, he was with McKinsey & Company Inc. and General Electric Corporation.

**Mr. Heinz Fridrich** has served as a director of Solectron since April 1996. He has been a member of the faculty of the University of Florida since 1993. From 1950 to 1993, Mr. Fridrich held a number of manufacturing and operations management positions in Europe and the United States with IBM. He also serves as a director of CH Energy Group, Inc. and Veeco Instruments, Inc.

**Mr. David Kynaston** has served as Corporate Vice President and President of Solectron Europe since he joined Solectron in 1996. Mr. Kynaston worked for Philips Electronics for the previous 15 years in various capacities, including Managing Director of Philips Mullard Ltd. subsidiary, Managing Director of the Business Communications Systems Division and most recently, Managing Director of the Private Mobile Radio Division. Prior to joining Philips Electronics, Mr. Kynaston held senior technical management positions at EMI Medical Ltd. and Cambridge Scientific Instruments Ltd.

**Mr. Osamu Yamada** has served as a director of Solectron since 1994. Mr. Yamada has been an independent international business consultant since November 1996. From October 1991 to November 1996, Mr. Yamada served as an advisor to The Mitsubishi Bank, Limited and the Bank of Tokyo/ Mitsubishi. From 1990 to 1991, he was Chairman and Chief Executive Officer of BankCal Tri-State Corporation, a wholly owned subsidiary of The Mitsubishi Bank, Limited. From 1987 to 1990, he was Senior Managing Director of The Mitsubishi Bank, Limited, and in an overlapping period from 1985 to 1990, he was also Chairman, President and Chief Executive Officer of Bank of California. Prior to 1985, he held a number of key management positions with The Mitsubishi Bank, Limited organization. Mr. Yamada currently serves on a number of boards of major universities and cultural centers.

**Mr. William A. Hasler** has served as a director of Solectron since May 1998. Mr. Hasler is currently co-chief executive officer of Apton Corporation, an international biotechnology firm. Prior to joining Apton, he was Dean and Department Chair of the Haas School of Business at the University of California, Berkeley. He currently serves as a director of The Schwab Funds, Walker Interactive Systems, Inc., TCSI Corporation, Tenera, Inc. and DiTech Corporation. In addition, Mr. Hasler is a member of the Compensation Committee of TCSI Corporation, Tenera, Inc. and DiTech Corporation.

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**Mr. C. Wesley M. Scott** was appointed a director of C-MAC in May 2001. It is intended that Mr. Scott will become a director of Solectron on or about the effective time of the arrangement. Mr. Scott, a corporate director, was until March 2001, Chief Corporate Officer of BCE Inc. From February 1999 until January 2000, Mr. Scott was Vice Chairman of Bell Canada. From July 1995 until January 1999, Mr. Scott was

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Executive Vice President (Corporate) and, since April 1997, also Chief Financial Officer of Nortel Networks.

**Mr. Kiran Patel** has served as Senior Vice President and Chief Financial Officer since September 1, 2001. Prior to joining Solectron, from November 2000 to May 2001, Mr. Patel served as Chief Financial Officer of iMotors, Inc., a privately held online seller of pre-owned automobiles. Prior to iMotors, Mr. Patel spent over 27 years with Cummins, Inc., a worldwide designer and manufacturer of diesel and natural gas engines, engine components and subsystems, in a variety of management roles, including Executive Vice President and Chief Financial Officer from 1996 through 2000.

### **Dividend Policy**

It is anticipated that Solectron will not pay dividends on its outstanding shares in the foreseeable future. Decisions to pay future dividends will be made by the board of directors of Solectron and will depend on Solectron's future earnings, results of operations, capital requirements and other relevant factors.

### **Independent Auditors**

KPMG LLP, the current auditors of Solectron, will be the independent auditors of Solectron and its subsidiaries, including Exchangeco.

### **Transfer Agent and Registrar**

The transfer agent and registrar for the Solectron common stock in the United States is and after the completion of the arrangement will be EquiServe Trust Company, N.A. Following the completion of the arrangement, the transfer agent and registrar for the exchangeable shares of Exchangeco in Canada will be General Trust of Canada.

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### **BUSINESS OF SOLECTRON**

#### **Overview**

Solectron provides electronics manufacturing services to original equipment manufacturers (OEMs) who design and sell networking equipment, mobile and land based telecommunications equipment, computing equipment, including workstations, notebooks, desktops and peripherals, and other electronic equipment. These OEMs include Cisco Systems, Inc. (Cisco), Compaq Computer Corporation (Compaq), Ericsson Telecom AB (Ericsson), Hewlett-Packard Company (HP), International Business Machines Corporation (IBM), Nortel Networks Limited (Nortel) and Apple Computer Inc. (Apple). These companies contract with Solectron to build their products for them or to obtain other related services from Solectron.

Solectron furnishes integrated supply-chain solutions that span the entire product life-cycle from technology solutions, to manufacturing and operations, to global services. Solectron's range of services includes:

Advanced building block design solutions;

Product design and manufacturing;

New product introduction management;

Materials purchasing and management;

Prototyping;

Printed circuit board assembly (the process of placing components on an electrical printed circuit board that controls the processing functions of a personal computer or other electronic equipment);

System assembly (for example, building complete systems such as mobile telephones and testing them to ensure functionality);

Distribution;

Product repair; and

Warranty services.

Providing these services to Solectron's customers allows them to remain competitive by focusing on their core competencies of sales, marketing, and research and development. Solectron has manufacturing facilities in the Americas, Europe and Asia/ Pacific. This geographic presence gives Solectron's customers access to manufacturing services in the locations close to their expanding markets for faster product delivery.

Solectron was originally incorporated in California in August 1977. In February 1997, Solectron was reincorporated in Delaware. Solectron's principal executive offices are located at 777 Gibraltar Drive, Milpitas, California 95035. Solectron's telephone number is (408) 957-8500 and Internet address is [www.solelectron.com](http://www.solelectron.com).

The information contained within this overview of Solectron's business is qualified in its entirety by, and is subject to, Solectron's historical consolidated financial statements and notes thereto attached to this document as Annex J and the information in the sections of this document entitled "Solectron Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Selected Consolidated Financial Data - Solectron Selected Consolidated Financial Data". For financial information about industry segments see note 5 of the Solectron Condensed Consolidated Financial Statements in Annex J.

## Industry Overview

Solectron is well recognized for its printed circuit board (PCB) assembly business. Solectron continues to lead in this industry and has grown into a global supply-chain facilitator, expanding its

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capabilities across the entire product cycle to include: product design, pre-production planning, new product introduction (NPI) management, manufacturing, distribution, and end-of-life product service and support. Solectron is benefiting from increased worldwide market acceptance of, and reliance upon, the use of outsourcing manufacturing services by many electronics OEMs. Solectron expects the trend toward outsourcing manufacturing to continue for many reasons including the following:

**Faster Time to Market:** Due to intense competitive pressures in the electronics industry, OEMs are facing increasingly shorter product life-cycles and therefore have a growing need to reduce the time required to bring a product to market. OEMs can reduce the time to market by using Solectron's manufacturing expertise and infrastructure. OEMs can further reduce the time to market by partnering with Solectron at the stages of product design and product improvement to expedite the transition into large volume production in its manufacturing centers.

**Reduce Investment:** As electronic products have become more technologically advanced and are shipped in greater unit volumes, the necessary investment required for internal product design, manufacturing, and end-of-line support services by OEMs has increased significantly for working capital, capital equipment, labor, systems and infrastructure. Solectron, a global supply-chain facilitator, enables OEMs to gain access to its worldwide advanced technology facilities including NPI centers, manufacturing and depot repair facilities. As a result, OEMs can substantially reduce their overall resource requirements.

**Focus Resources:** The electronics industry is experiencing greater levels of competition and more rapid technological change. Many OEMs increasingly are seeking to focus their resources on activities and technologies that add the greatest value. By offering comprehensive electronics assembly and related manufacturing services, Solectron allows OEMs to focus on their own core competencies such as next-generation product development, sales and marketing.

**Access to Leading Manufacturing Technology:** Electronic products and electronics manufacturing technology have become increasingly sophisticated and complex, making it difficult for OEMs to maintain the necessary technological expertise to manufacture products internally. OEMs are motivated to work with Solectron to gain access to its expertise in interconnect, test and process technologies.

**Improved Inventory Management and Purchasing Power:** Electronics industry OEMs are faced with increasing difficulties in planning, procuring and managing their inventories efficiently due to frequent design changes, short product life-cycles, large investments in electronic components, component price fluctuations and the need to achieve economies of scale in materials procurement. OEMs can reduce production costs by using Solectron's volume procurement capabilities. In addition, Solectron's expertise in inventory management can provide better control over inventory levels and increase the OEMs' return on assets.

**Access to Worldwide Manufacturing Capabilities:** OEMs are increasing their international activities in an effort to lower costs and access foreign markets. With its worldwide capabilities, Solectron offers OEMs a variety of manufacturing location options to better address their objectives, including cost containment, compliance with local content regulations, and the elimination of expensive freight costs, tariffs and time-consuming customs clearances.

## **Strategy**

Solectron's goal is to offer its customers significant competitive advantages of electronics outsourcing, such as access to design and product improvement, advanced manufacturing technologies, reduced overall cost, faster product time-to-market, effective asset utilization, and refined end-of-life product support services. To achieve this goal, Solectron emphasizes the following key elements:

**Quality:** Solectron believes product quality is a critical success factor in the electronics manufacturing market. Solectron strives to continuously improve its processes and have adopted a number of quality

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improvement and measurement techniques to monitor its performance. Solectron has received numerous superior service and quality awards, including:

Malcolm Baldrige National Quality Award in 1991 and again in 1997;

Named one of the World's Best Performers on the Information Technology 100 Listing by Business Week June 2001;

Ranked No. 2 in Semiconductors and Other Electronic Components on the Fortune 500 by Fortune April 2001;

3Com Supplies Appreciation Award;

Cisco Supplier of the year - Subcontractor/ Distributor Award;

Sun Microsystems Fiscal Year 2000 Supplier Performance Award in Recognition of Improving and Maintaining Overall Scorecard;

Hewlett-Packard Outstanding Supplier;

AFC Appreciation Award for the Highest Standard of Customer Service and Product Quality;

Agilent - In recognition of outstanding support through dedication to teamwork and quality service to E-Module Transfer Project;

Intermec Key Supplier Award;

NDS Supplier Partners Award;

Qualcomm Key Suppliers Award; and

Other numerous awards from its customers.

All of Solectron's manufacturing facilities are certified under ISO-9000 standards, which are international quality standards for design, manufacturing and distribution management systems.

**Partnerships:** An important element of Solectron's strategy is to establish partnerships with major and emerging OEM leaders in diverse segments across the electronics industry. Solectron's customer base consists of leaders in industry segments such as networking, telecommunications, workstations, personal computers, computer peripherals, instrumentation, semiconductor equipment and avionics. Due to the costs inherent in supporting customer relationships, Solectron focuses its efforts on customers with high potential for long-term business partnerships. Solectron's goal is to deliver a total product life cycle solution to its customers. Solectron offers OEMs NPI management, which includes design and layout, concurrent engineering, test development and prototype engineering. Solectron continues the cycle to provide solutions in manufacturing and distribution, including just-in-time delivery on low- to medium-volume turn-key, price-sensitive and high-volume production, and projects that require more value-added services. Additionally, Solectron serves OEMs that need end-of-life services such as product repair and warranty services.

**Turn-key Capabilities:** Another element of Solectron's strategy is to provide a complete range of manufacturing management and value-added services, including materials management, board design, concurrent engineering, assembly of complex printed circuit boards and other electronic assemblies, test engineering, software manufacturing, accessory packaging and post-manufacturing services. Solectron believes that, as manufacturing technologies become more complex and as product life-cycles shorten, OEMs will increasingly contract for manufacturing on a turn-key basis as they seek to reduce their products' time-to-market, capital asset and inventory costs. A substantial portion of Solectron's revenue is from its turn-key business. Solectron believes that its ability to manage and support large turn-key projects is a critical success factor. In addition, Solectron believes that, due to the difficulty and long lead-time required to change manufacturers, turn-key projects generally increase an OEM's dependence, resulting in greater stability of its customer base and in closer working relationships. Solectron also has been successful in establishing sole-source positions for certain products with many of its customers.

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**Advanced Manufacturing Process Technology:** Solectron intends to continue to offer its customers the most advanced manufacturing process technologies, including surface mount technology (SMT) and ball-grid array (BGA) assembly as well as testing and emerging interconnect technologies. Solectron has developed substantial SMT expertise including advanced, vision-based component placement equipment. Solectron believes that the cost of SMT assembly facilities and the required technical capability to operate a high-yield SMT operation are significant competitive factors in the market for electronic assembly. Solectron also has the capability to manufacture using tape-automated-bonding, chip-on-substrate and other more advanced manufacturing processes.

**Diverse Geographic Operations:** An additional element of Solectron's strategy is to establish production facilities in areas of high customer density or where manufacturing efficiencies can be achieved. Solectron currently has operations throughout the Americas, Europe and Asia/Pacific. Solectron believes that its facilities in these diverse geographic locations enable it to better address its customers' requirements, such as cost containment, compliance with local content regulations, and the elimination of expensive freight costs, tariffs and time-consuming customs clearances. Solectron intends to expand its operations continually as necessary to serve its existing customers and to develop new business.

## **International Manufacturing Capability**

To achieve excellence in manufacturing, Solectron combines advanced manufacturing technology, such as computer-aided manufacturing and testing, with manufacturing techniques including just-in-time manufacturing, total quality management, statistical process control and continuous flow manufacturing. Just-in-time manufacturing is a production technique to minimize work-in-process inventory and manufacturing cycle time while enabling Solectron to deliver products to customers in the quantities and time frame required. Total quality management is a management philosophy that seeks to impart high levels of quality in every operation of Solectron and is accomplished by setting quality objectives for every operation, tracking performance against those objectives, identifying work flow and policy changes required to achieve higher quality levels and a commitment by executive management to support changes required to deliver higher quality. Statistical process control is a set of analytical and problem-solving techniques based on statistics and process capability measurements through which Solectron tracks process inputs and resulting quality and determine whether a process is operating within specified limits. The goal is to reduce variability in the process, as well as to eliminate deviations that contribute to quality below the acceptable range of each process performance standard.

In order to successfully implement these management techniques, Solectron has developed the ability to collect and utilize large amounts of data in a timely manner. Solectron believes this ability is critical to a successful assembly operation and represents a significant competitive factor, especially in large turn-key projects. To manage this data, Solectron uses sophisticated computer systems for material resource planning, shop floor control, work-in-process tracking and statistical process control.

To offer its customers the significant competitive advantage of electronics outsourcing, Solectron has production facilities in areas of high customer density or where manufacturing efficiencies can be achieved. In the nine-month period ended May 31, 2001, approximately 49% of Solectron's sales were from operations outside of the United States. As a result of continuous customer demand overseas, Solectron expects foreign sales to increase. During fiscal 2000 and the nine-month period of fiscal 2001, Solectron has further expanded its global presence through acquisitions. Solectron's foreign sales and operations are subject to risks of doing business abroad, including fluctuations in the value of currency, export duties, import controls and trade barriers (including quotas), restrictions on the transfer of funds, associate turnover, work stoppages, longer payment cycles, greater difficulty in accounts receivable collection, burdens of complying with a wide variety of foreign laws and, in certain parts of the world, political instability. While, to date, these factors have not materially affected its results of operations, Solectron cannot assure that there will not be such an impact in the future.

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### *Americas*

*Western United States.* Solectron's headquarters and one of its largest manufacturing operations are located in Silicon Valley, principally in Milpitas, California, in the midst of one of the largest concentrations of OEM electronics manufacturers. With its recent acquisition of SMART in Fremont, California, Solectron extended its manufacturing capacity. SMART designs and manufactures memory modules and memory cards, embedded computers and I/O products. Solectron's manufacturing facility in Everett, Washington helps to serve its customers in the Pacific Northwest. Solectron established a manufacturing facility in Hillsboro, Oregon during the second quarter of fiscal 2001 through the acquisition of NEL.

*Southwestern United States.* Solectron believes its facility in Austin, Texas is situated in a geographic region with strong growth of electronics OEMs that will allow Solectron to better service its existing customers and to attract new ones.

*Eastern United States.* Solectron's manufacturing facility in Westborough, Massachusetts, near Boston, in the center of a geographic region with a large concentration of electronics OEMs, provides a full range of integrated solutions across the entire product life cycle from pre-production planning to manufacturing.

*Southeastern United States.* Solectron also has operations in Charlotte, North Carolina and Columbia, South Carolina. Solectron believes these facilities allow Solectron to better pursue new business opportunities with new and existing customers, in particular, because of Charlotte's status as a transportation hub and its relative proximity to major Southeastern United States electronics markets. Solectron further expanded its manufacturing facilities by the acquisition of manufacturing assets of Nortel in North Carolina.

*Mexico.* Solectron's site in Guadalajara, Mexico, provides a full range of PCB assembly and systems-build manufacturing services. This site offers Solectron's customers a low-cost, high-volume manufacturing center for PCB assembly, build-to-order and configure-to-order systems assembly for the Americas. Solectron's manufacturing capacity in Mexico was expanded by the acquisition of manufacturing assets of Nortel in Monterrey, Mexico, in fiscal 2000.

*Brazil.* Solectron's site in Sao Paulo, Brazil, provides a full range of capabilities across the product life cycle, including systems-build capabilities, PCB and flex assembly, custom packaging and distribution services, primarily to multinational customers seeking access to the Latin American market. This manufacturing facility in Brazil was expanded as a result of the acquisition of IBM Corporation's manufacturing operations in Sao Paulo, Brazil.

*Puerto Rico.* Solectron recently established a manufacturing facility in Aguadilla, Puerto Rico, through the acquisition of Alcatel's manufacturing business. This site will provide Solectron's customers with a full range of manufacturing services and high-volume PCB assembly.

### *Europe*

Solectron has manufacturing operations in Bordeaux, France; Herrenberg, Germany; Dublin, Ireland; Timisoara, Romania; and Dunfermline, Scotland. Each of these sites provides a full range of manufacturing capabilities to a multinational customer base. In addition, each site is developing an area of specific expertise to offer to all customers. The French and German sites offer low-volume, high-mix manufacturing services. The Romania site serves as Solectron's full-service, high-volume, low-cost manufacturing hub for its rapidly growing European customer base. The Scotland site specializes in building PCB assemblies, subassemblies and systems for multinational customers in the European market.

During fiscal 2000, Solectron's manufacturing capacity in Europe was expanded to Longuenesse, France; Östersund, Sweden; and Monkstown, Northern Ireland, through the acquisition of Nortel's manufacturing assets and of Ericsson's manufacturing assets of telecommunications infrastructure

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equipment operations. Solectron expanded its presence in Scotland through an asset acquisition of IBM's Netfinity server operations in Greenock, Scotland.

### *Asia/ Pacific and other*

Solectron's Southeast Asia manufacturing operations are located in Penang and Johor, Malaysia. The operations in Southeast Asia were established to better serve the needs of OEMs requiring price-sensitive, high-volume production capabilities and to provide more efficient manufacturing services to customers in Southeast Asia. These facilities currently provide electronics assembly, materials management and other services to customers in Malaysia, Singapore, Japan, the United States and other locations. Solectron's facility in Suzhou, China opened in fiscal 1997. This facility currently provides a full range of low-cost high volume manufacturing services.

During fiscal 2000, Solectron expanded its manufacturing presence in Penang, Malaysia and established a site in Bangalore, India through the acquisition of SMART. Solectron's low-cost, high volume manufacturing capability was further expanded in Shenzhen and Shanghai, China; Singapore; Penang, Malaysia; Batan, Indonesia; Kaohsiung, Taiwan and Nakaniida, Japan through the acquisitions of NEL and Sony manufacturing facilities during the first two quarters of fiscal 2001. Solectron's Australian site was established through the acquisition of Bluegum. Solectron offers its customers manufacturing and systems assembly capabilities in Liverpool, New South Wales; Melbourne, Victoria; and program offices in Sydney and North Melbourne, Australia.

## **New Product Introduction Centers**

Solectron has NPI centers in the United States, Brazil, Puerto Rico, France, Sweden, Germany, Northern Ireland, Scotland, Malaysia, Japan, Singapore and Australia. These NPI centers offer a full range of electronics product development services, including design and layout, concurrent engineering, test development and prototype engineering. Solectron believes its NPI services will shorten its customers' product development cycles by offering full design and development services to complement its customers' in-house capabilities. Solectron partners with its customers as early as possible in the new product development process to optimize their products' design for volume manufacturing.

Solectron's NPI center in Milpitas, California specializes in design consultation, prototyping, and NPI management services. Solectron's subsidiary, Fine Pitch in San Jose, California provides extensive prototype services for electronics OEMs, further enhancing its ability to address the needs of design teams who require almost immediate availability of highly complex prototype assemblies. Through the acquisition of NEL, Fine Pitch recently opened another NPI center in Morgan Hill, California. Another subsidiary, Force Computers, Inc. (Force) in San Jose, California specializes in system design, board design and system integration for open, scalable system and board-level embedded computer platforms for the communications, industrial and command and control markets. Through the acquisition of SMART, Solectron gained design centers and infrastructure by integrating SMART along with Force into the technology solutions business unit in Fremont, California. During the third quarter of fiscal 2001, Solectron strengthened its Technology Business Unit through the acquisition of Centennial.

Solectron's site in Sao Paulo, Brazil offers NPI management and engineering services.

As part of the Nortel and Ericsson manufacturing asset acquisitions, NPI centers were established in Longuenesse, France; Östersund, Sweden and Monkstown, Northern Ireland. Solectron provides prototyping and NPI management services in these locations. To support the IBM design team as part of the acquisition of manufacturing assets of IBM's Netfinity server operations, Solectron established a new full-service NPI center in Port Glasgow, Scotland.



Solectron's Product Introduction center just outside of Tokyo, Japan, provides a complete range of electronics pre-manufacturing services, including design and layout, testing capabilities, prototype development, and concurrent and component engineering.

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Solectron established new NPI centers in Singapore and in Liverpool and Melbourne, Australia, through its recent acquisition of Bluegum.

### **Global Services**

Solectron offers a full range of integrated solutions from the time the product is designed until it is removed from the market. These services include product repair, upgrades, remanufacturing and maintenance through factory and fast-hub service centers located around the world; help-desk support through customer call centers for end-users; logistics and parts management; returns processing; warehousing; engineering change management; and end-of-life manufacturing. These services give its customers improved speed from the service pipeline by Solectron taking direct receipt responsibility for returns from the end user and making sure that various buffer stock and inventory mechanisms are established. These services also minimize shipping costs and time by handling repairs at Solectron's various international locations. In addition, Solectron's data collection system can provide invaluable information to analyze product design reliability. As a result, the OEMs can focus their efforts on developing next-generation products.

Solectron has global service sites in the United States, Canada, Mexico, France, Northern Ireland, Brazil, Sweden, United Kingdom and Japan. Solectron's service capacity was strengthened through the acquisition of Sequel, in San Jose, California; and Memphis, Tennessee. The Memphis hub offers integrated call management, remote failure diagnostics, air express dispatch, systems repair, component level repair, configuration and upgrades, returns processing and administration, refurbishment and redistribution services. Solectron further expanded its service capacity in wireless handset repair and refurbishment and outsourcing technical customer support services in Los Angeles, California; Louisville, Kentucky; Baltimore, Maryland; and Dallas, Texas, through the acquisition of AMERICOM Wireless Services, Inc. (AMERICOM) in fiscal 2000.

Solectron recently established a repair service site in Vaughn, Canada by acquiring repair operations of IBM's NULOGIX Technical Services. NULOGIX provides a complete range of technology repair, remanufacturing and refurbishment services for a large variety of electronics products. As a result of this transaction, Solectron is now able to provide the Canadian market a full range of value-added support service solutions. These services include: product repair, upgrades, remanufacturing and maintenance through factory and fast-hub service centers located around the world; help-desk support through customer call-in centers for end-users; logistics and parts management; returns processing; warehousing; engineering change management and end-of-life manufacturing.

As part of Solectron's acquisition of Nortel and Ericsson manufacturing assets, global service sites were established in Calgary, Canada; Research Triangle Park, North Carolina; Monterrey, Mexico; Longuenesse, France; Östersund, Sweden; and Monkstown, Northern Ireland. During the second quarter of 2001, Solectron expanded its service capability in Amsterdam, Netherlands through the acquisition of IBM's European repair, refurbishment and asset recovery operation.

### **Electronics Assembly and Other Services**

Solectron's electronics assembly activities consist primarily of the placement and attachment of electronic and mechanical components on printed circuit boards and flexible cables. Solectron also assembles higher-level sub-systems and systems incorporating printed circuit boards and complex electromechanical components, in some cases manufacturing and packaging products for shipment directly to its customers distributors. In addition, Solectron provides other manufacturing services, including refurbishment and re-manufacturing. Solectron manufactures on a turn-key basis, directly procuring some or all of the components necessary for production and on a consignment basis, where the OEM customer supplies all or some components for assembly.

In conjunction with its assembly activities, Solectron also provides computer-aided testing of printed circuit boards, sub-systems and systems, which contributes significantly to its ability to consistently deliver high-quality products. Solectron has developed specific strategies and routines to test board and system-

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level assemblies. In-circuit tests verify that all components have been properly inserted and that the electrical circuits are complete. Functional tests determine if the board or system assembly is performing to customer specifications. Solectron either designs and procures test fixtures and develop its own test software, or Solectron utilizes its customers' test fixtures and test software. In addition, Solectron provides environmental stress tests of the board or system assembly.

Solectron provides turn-key manufacturing management to meet its customers' requirements, including procurement and materials management and consultation on board design and manufacturability. Individual customers may select various services from among Solectron's full range of turn-key capabilities.

Procurement and materials management consists of the planning, purchasing, expediting, warehousing, preparing and financing of the components and materials required to assemble a printed circuit board or electronic system. OEMs have increasingly used electronic manufacturing specialists like Solectron to purchase all or some components directly from component manufacturers or distributors and to finance and warehouse the components. Another service Solectron provides to its customers is assisting in evaluating board designs for manufacturability. Solectron evaluates the board design for ease and quality of manufacture and, when appropriate, recommend design changes to reduce manufacturing costs or lead times or to increase the quality of finished assemblies. Board design services consist of the engineering and design associated with the arrangement and interconnection of specified components on printed circuit boards to achieve an OEM's desired level of functionality.

Solectron also offers Application Specific Integrated Circuit (ASIC) design services. Solectron's ASIC product design services include the embedded computer, memory modules and memory cards, and I/O products.

## **Sales and Marketing**

Solectron's sales and marketing are integrated processes involving direct salespersons and project managers, as well as its senior executives. Solectron's sales resources are directed at multiple management and staff levels within targeted accounts. Solectron also uses independent sales representatives in certain geographic areas. Solectron receives unsolicited inquiries resulting from advertising and public relations activities, as well as referrals from current customers. These opportunities are evaluated against Solectron's customer selection criteria and are assigned to direct salespersons or independent sales representatives, as appropriate. Historically, Solectron has had substantial recurring sales from existing customers.

Approximately 99% of Solectron's net sales during fiscal 2001 were derived from customers that were also customers during the same period of fiscal 2000. Although Solectron seeks to diversify its customer base, a small number of customers currently are responsible for a significant portion of its net sales.

Solectron's top ten customers accounted for approximately 72% of net sales in the nine-month period of fiscal 2001 and 71% of net sales in the same period of fiscal 2000. Several customers each accounted for more than 10% of net sales during these periods. Ericsson accounted for 14% of net sales; Cisco and Nortel accounted for 12% of net sales in the nine-month period of fiscal 2001. Cisco and Ericsson represented 12% and 11% of net sales, respectively, in the same period of fiscal 2000.

## **Backlog**

Backlog consists of contracts or purchase orders with delivery dates scheduled within the next twelve months. At May 31, 2001, Solectron's backlog was approximately \$2.5 billion. The backlog was approximately \$4.9 billion at August 31, 2000. Because customers may cancel or reschedule deliveries, backlog is not a meaningful indicator of future financial results.

## **Competition**

The electronic manufacturing services industry comprises a large number of companies, several of which have achieved substantial market share. Solectron also faces competition from current and prospective customers that evaluate its capabilities against the merits of manufacturing products internally.

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Solectron competes with different companies depending on the type of service or geographic area. Certain competitors may have greater manufacturing, financial, research and development and marketing resources than Solectron. Solectron believes that the primary basis of competition in its targeted markets is manufacturing technology, quality, responsiveness, the provision of value-added services and price. To remain competitive, Solectron must continue to provide technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price. Solectron may be at a competitive disadvantage as to price, compared with manufacturers with lower cost structures, particularly manufacturers with facilities where labor costs are lower.

**Associates**

As of May 31, 2001, Solectron employed 65,828 associates worldwide, including 6,375 temporary associates. Solectron's international operations employed 38,000 associates.

**Patents and Trademarks**

Solectron has a number of United States patents related to the process and equipment used in its surface mount technology. Solectron's subsidiary SMART Modular Technologies Inc. holds one patent related to memory module technology. Another subsidiary, Force, holds a number of patents related to Versa Module Eurocard (VME) technology. In addition, as part of its recent acquisition of IBM-ECAT's manufacturing assets, Solectron has access to a number of IBM patents and license rights. Solectron also has registered trademarks in the United States and many countries throughout the world. These patents and trademarks are considered valuable to Solectron.

Although Solectron does not believe that its trademarks, manufacturing process, SMART's and Force's technology or the IBM patents and license rights to which Solectron has access infringe on the intellectual property rights of third parties, Solectron cannot assure that third parties will not assert infringement claims against Solectron in the future. If such an assertion were to be made, it may become necessary or useful for Solectron to enter into licensing arrangements or to resolve such an issue through litigation. However, Solectron cannot assure that such license rights would be available to Solectron on commercially acceptable terms or that any such litigation would be resolved favorably. Additionally, such litigation could be lengthy and costly and could materially harm Solectron's financial condition regardless of the outcome of such litigation.

**Legal Proceedings**

SMART Modular Technologies, Inc. (SMART), a wholly-owned subsidiary of Solectron Corporation, and certain of SMART's ex-officers and ex-directors were named as defendants in a securities class action filed in the United States District Court for the Northern District of California. That action was dismissed with prejudice on January 26, 2001.

On October 22, 1998, a putative securities class action lawsuit captioned *Reagan v. SMART Modular Technologies, Inc., et al.*, Case No. H204162-5 (the State Complaint), was filed against SMART and certain of SMART's ex-officers and ex-directors in the Superior Court of the State of California, County of Alameda. The State Complaint alleges violations of Sections 25400 and 25500 of the California Corporations Code and seeks unspecified damages on behalf of a purported class of purchasers of SMART common stock during the period from July 1, 1997 through May 21, 1998. The factual allegations of the State Complaint are nearly identical to those in the federal complaint that was dismissed with prejudice. The State Complaint remains pending, and SMART continues to vigorously defend the action.

**Table of Contents****Directors and Executive Officers of Solectron**

Solectron's directors and executive officers and their ages as of September 1, 2001 are as follows:

Name	Age	Position
Dr. Koichi Nishimura	63	President, Chief Executive Officer and Chairman of the Board
Dr. Winston H. Chen		

60	Chairman, Paramitas Foundation
Richard A. D. Amore	
48	General Partner, North Bridge Venture Partners
Charles A. Dickinson	
77	Independent Consultant
Heinz Fridrich	
68	Faculty, University of Florida
William A. Hasler	
59	Co-Chief Executive Officer, Aphton Corporation
Dr. Kenneth E. Haughton	
73	Independent Management Consultant
Dr. Paul R. Low	
68	President, PRL Associates
Osamu Yamada	
72	International Business Consultant
Kevin R. Burns	
37	Senior Vice President and Chief Materials Officer
Lin Chien	
60	Senior Vice President and President of Solectron Asia
David Kynaston	
60	Senior Vice President and President of Solectron Europe
Daniel Perez	
50	Senior Vice President of Worldwide Account Management and Marketing
Ajay B. Shah	
41	President, Chief Executive Officer of Solectron Technology Solutions
Susan S. Wang	
50	Senior Vice President and Corporate Secretary
Dr. Saeed Zohouri	
50	Senior Vice President and Chief Operating Officer
Kiran Patel	
53	Senior Vice President and Chief Financial Officer

#### **Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth as of July 31, 2001 information relating to the beneficial ownership of Solectron common stock by:

each person known by Solectron to be the beneficial owner of more than five percent (5%) of the outstanding shares of Solectron common stock;

each director;

each of the executive officers named in the Solectron summary compensation table; and

all directors and executive officers as a group.

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Name	Amount Owned(1)	Approximate Percentage Owned(16)
AXA Financial Inc. 1290 Avenue of the Americas New York, NY 10104	67,771,722(2)	10.32%
Ajay B. Shah 8,082,477(3) 1.23%		
Lin Chien 2,695,174 *		
Dr. Koichi Nishimura 1,336,551(4) *		
Dr. Winston H. Chen 1,264,268(5) *		
Charles A. Dickinson 369,856(6) *		
Dr. Saeed Zohouri 214,652(7) *		
Dr. Paul R. Low 210,268(8) *		
Dr. Kenneth E. Haughton 131,268(9) *		
Richard A. D Amore 114,268(10) *		
Kevin R. Burns 102,575(11) *		
Heinz Fridrich 80,268(12) *		
David Kynaston 70,147(13) *		
Osamu Yamada 48,268(14) *		
William A. Hasler 42,268(15) *		
All directors and executive officers as a group (17 persons) 15,961,423 2.43%		

\* Less than one percent (1%).

- (1) Beneficial ownership is determined in accordance with the rules of the United States Securities and Exchange Commission and generally includes voting or investment power with respect to the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Solectron common stock subject to options held by that person that will be exercisable within 60 days of July 31, 2001, are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Reflects shares held as of June 30, 2001 pursuant to a Form 13F filed by AXA Financial Inc. on August 13, 2001.

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- (3) Includes 5,250 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (4) Includes 960,013 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (5) Includes 114,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (6) Includes 66,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (7) Includes 214,652 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (8) Includes 114,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (9) Includes 114,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (10) Includes 114,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (11) Includes 96,817 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.

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- (12) Includes 76,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (13) Includes 70,147 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (14) Includes 47,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (15) Includes 30,268 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 31, 2001.
- (16) Based on number of shares of Solectron common stock outstanding as of July 31, 2001.

To the knowledge of Solectron, none of the directors or officers of Solectron beneficially owns any C-MAC common shares. See The Companies after the Transaction Directors and Officers for pro forma ownership of Solectron common stock following completion of the transaction.

### **Options to Purchase Securities**

The following table sets out certain information with respect to options to purchase securities of Solectron which are outstanding as of July 31, 2001.

Holder of Option	Number of Optionees	Number of Securities Under Option	Purchase Price of Securities Under Option  (U.S.\$)	Expiration Date of Option	Market Value of Securities Under Option on Date of Grant  (in U.S.\$ thousands)	Current Market Value of Securities Under Option(1)  (in U.S.\$ thousands)
Directors and Executive Officers of Solectron						
	17	4,678,929	3.33	46.94	2001	2008
	98,695	55,819				
Other Employees						
	7,318	43,702,865	0.33	433.66	2001	2011
	1,031,044	577,194				

(1) Based on the closing price of shares of Solectron common stock on the New York Stock Exchange on September 5, 2001 of \$11.93.

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### Executive Officer Compensation

The following table shows, as to the Chief Executive Officer and each of the four other most highly compensated executive officers, information concerning compensation for services to Solectron in all capacities during the past three fiscal years.

**Summary Compensation Table**

Name and Principal Position	Annual Compensation(1)			Long-Term Compensation(2)	All Other Compensation
	Year	Salary(\$)	Bonus(\$)	Options/SARs (#)(2)	(\$)(3)
Dr. Koichi Nishimura	2000	643,097		132,182	9,594
President, Chief Executive Officer and Chairman of the Board of Directors	1999	660,000	940,010	200,000	8,805
	1998	485,552	727,887	180,000	7,650
David Kynaston	2000	300,008	408,665	12,000	23,335
Senior Vice President and President, Solectron Europe	1999	300,041	290,599	30,000	13,393
	1998	195,313	211,814	32,000	12,500
Kevin R. Burns	2000	296,167	365,371	5,764	12,654
Senior Vice President and Chief Materials Officer	1999	234,242	65,492	120,000	88,095(4)
	1998				
Dr. Saeed Zohouri	2000	503,162	86,755	13,367	
Senior Vice President and Chief Operating Officer	1999	425,022	882,060	111,600	10,388
	1998	352,926	510,596	60,000	4,485
Ajay B. Shah	2000	252,692	225,676	3,904	
President and Chief Executive Officer of Technology Solutions	1999				
	1998				

(1) Perquisites are not included since the aggregate amount is less than the lesser of \$50,000 or 10% of salary and bonus, in accordance with regulations promulgated by the United States Securities and Exchange Commission; therefore, the Other Annual Compensation has not been included in this table. Bonus compensation reported for fiscal years 2000, 1999 and 1998 was earned in that fiscal year, but may have been paid in the subsequent fiscal year.

(2)

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Solectron has not granted any stock appreciation rights or restricted stock awards and does not have any Long-Term Incentive Plans as that term is defined in regulations promulgated by the United States Securities and Exchange Commission. Amounts reported have been adjusted to reflect a 2 for 1 stock split of Solectron's common stock, which occurred in March 2000.

- (3) Amounts represent Solectron's contributions to a 401(k) plan, overseas pension contributions and private health payments, the taxable benefit of premium payments under split dollar life insurance policies, and premiums under an executive group term life insurance policy.
- (4) Amount stated includes \$85,409 of relocation expenses and taxes connected with such expenses.

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*Stock Option Grants and Exercises*

The following tables set forth, for the executive officers named in the Solectron summary compensation table, the stock options granted under Solectron's stock option plans and the options exercised by such executive officers during fiscal 2000.

**Stock Option Grants in Fiscal 2000**

Name	Options Granted (#)(1)	Percent of Total Options Granted to Employee in Fiscal Year
	120,000	1.09%
	12,182	.11
8,818		
21		
06,262 16,145 .15 31.0000 05/10/07 203,752 474,828 5,610 .05 43.7500 08/23/07 99,918 232,851		

- (1) These options become exercisable as to one forty-eighth ( 1/48) of the shares after each month from the date of grant.
- (2) Potential realizable value is based on an assumption that the stock price of the common stock appreciates at the annual rate shown (compounded annually) from the date of grant until the end of the seven (7) year option term. Potential realizable value is shown net of exercise price. These amounts are calculated based on the regulations promulgated by the United States Securities and Exchange Commission and do not reflect Solectron's estimate of future stock price growth.

**Aggregated Option Exercises in Fiscal 2000 and Year-End Values**

Shares	Total Number of Unexercised Options Held at Fiscal Year End(#)	Value of Unexercised, In-the-Money Options Held at Fiscal Year End\$(2)
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Name	Acquired Value		Realized		Unexercisable		Unexercisable	
	Exercisable	Unexercisable	Exercisable	Unexercisable	Exercisable	Unexercisable	Exercisable	Unexercisable
Dr. Koichi Nishimura			846,247	265,935	30,962,513	6,035,791		
David Kynaston								
100,000	3,843,818	40,208	33,792	1,257,477	870,363			
Kevin R. Burns								
52,860	72,904	1,474,883	1,963,292					
Dr. Saeed Zohouri								
40,224	1,547,720	293,752	151,587	10,363,018	3,256,874			
Ajay B. Shah								
26,086	35,572	556,242	758,515					

- (1) Fair market value of underlying securities at exercise minus the exercise price.
- (2) Calculated based upon the August 25, 2000 fair market value share price of \$44.5625 less the share price to be paid upon exercise. There is no guarantee that if and when these options are exercised they will have this value.

### Compensation of Directors

Directors who are not employees of Solectron (or outside directors) receive annual retainers of \$20,000. In addition, each outside director is paid \$3,000 for each meeting of the Solectron board of directors attended, \$500 for each telephonic board and committee meeting attended and \$1,500 for each committee meeting attended in person in fiscal 2000. Outside directors may also receive consulting fees for

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projects completed at the request of management. Employee directors are not compensated for their service on the board or on committees of the board.

Options to purchase shares of Solectron common stock are granted to outside directors under Solectron's 1992 Stock Option Plan only in accordance with an automatic, non-discretionary grant mechanism. The option plan provides, with respect to outside directors, for an automatic grant on December 1 of each year of a nonstatutory option to purchase eight thousand (8,000) shares (pro rata for the portion of the first fiscal year of service as an outside director) of Solectron common stock, with an initial equity grant for new outside directors to purchase fifteen thousand (15,000) shares of Solectron common stock at the commencement of their service as an outside director, at a per share exercise price of 100% of the fair market value on the date of grant.

#### *Compensation Committee Interlocks and Insider Participation*

Neither Charles A. Dickinson, William A. Hasler nor Dr. Kenneth E. Haughton, the members of the compensation committee, is an executive officer of any entity for which any executive officer of Solectron serves as a director or a member of the compensation committee.

### Recent Developments

On June 24, 2001 Solectron announced that it completed the acquisition of Singapore Shinei Sangyo Pte Ltd., a privately held manufacturer and designer of enclosures for electronics products. Shinei, which will be renamed Shinei International, will be an independently operated subsidiary within Solectron's newly formed Power, Packaging and Cooling unit, and continues to market its services to other companies separately. The acquisition of Shinei will bring to Solectron a global company providing customer-focused solutions for metal stamping, contract manufacturing and ODM assembly with full product- design capabilities.

On July 2, 2001, Solectron filed a registration statement with the Securities and Exchange Commission pursuant to Rule 415 under the United States Securities Act of 1933, as amended, pursuant to which Solectron may, from time to time, offer its debt securities, and shares of its common stock and preferred stock, which together have an aggregate initial public offering price of up to \$3.0 billion. The Securities may be offered, separately or together, in separate series, in amounts, at prices and on terms to be set forth in the prospectus contained in the registration statement, and in one or more supplements to the prospectus, and may only be offered pursuant thereto.

Solectron anticipates that the universal shelf registration statement should provide flexibility and efficiency in accessing the public securities markets should Solectron decide to offer any securities covered by the registration statement for sale to the public in the future, although Solectron has no immediate plans to do so. Solectron anticipates using the net proceeds of any eventual offerings under the registration statement to fund the expansion of its operations to meet demand, for general corporate purposes, or to finance the acquisition of assets or businesses.

On July 2, 2001, Solectron announced that its board of directors approved the adoption of a stockholder rights plan on June 29, 2001. Under the plan, Solectron will issue a dividend of one right for each share of common stock, par value of \$0.001 per share, held by stockholders of record at the close of business July 30, 2001.

On August 9, 2001, Solectron announced that it expects to have a one time, non-recurring charge of approximately \$58 million related to credit and other exposures. It also plans to record a total fourth-quarter restructuring charge of up to \$260 million.

On August 21, 2001, Solectron announced that it had signed a definitive agreement to acquire Iphotonics, Inc., a provider of core optical services. Solectron expects to complete this transaction during the first quarter of its fiscal year ending 2002.

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On August 27, 2001, Solectron announced that Kiran Patel joined the company as an officer and Senior Vice President and Chief Financial Officer effective September 1, 2001. Concurrent with this announcement, Solectron disclosed that Susan Wang, its Chief Financial Officer at the time of the announcement, would remain an officer of Solectron while focusing her full-time duties on the company's new business development activities.

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## **SOLECTRON MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Cautionary Statement Regarding Forward-Looking Statements**

With the exception of historical facts, the statements contained in this discussion are 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, as amended (the Exchange Act), and are subject to the safe harbor provisions created by that statute. Certain statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations, including, without limitation, statements containing the words believes, anticipates, estimates, expects, and words of similar import, constitute forward-looking statements that involve risks and uncertainties. Such statements are based on current expectations and are subject to risk, uncertainties and changes in condition, significance, value and effect, including those discussed under the heading Risk Factors within this section of the document and Management's Discussion and Analysis of Financial Condition and Results of Operations. Such risks, uncertainties and changes in condition, significance, value and effect could cause Solectron's actual results to differ materially from those anticipated events. Although Solectron believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate, including, but not limited to, statements as to Solectron's future operating results and business plans. Solectron disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Results of Operations**

The electronics industry is subject to rapid technological change, product obsolescence and price competition. These and other factors affecting the electronics industry, or any of Solectron's major customers in particular, could materially harm Solectron's results of operations. See

Risk Factors for additional factors relating to possible fluctuations of Solectron's operating results.

**Results of Operations for the Three and Nine Months Ended May 31, 2001 and 2000**

The following table sets forth, for the periods indicated, certain items in the Consolidated Statements of Income as a percentage of net sales. The financial information and the discussion below should be read

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in conjunction with the Condensed Consolidated Financial Statements of Solectron and Notes thereto attached to this document as Annex J.

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2001	2000	2001	2000
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales				
92.3 91.6 91.5 90.8				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Gross profit				
7.7 8.4 8.5 9.2				
Operating expenses:				
Selling, general and administrative				
5.1 3.1 3.8 3.4				
Research and development				
0.5 0.4 0.4 0.5				
Goodwill amortization expense				
1.3 0.6				
Acquisition costs				
0.1 0.2 0.3				
Restructuring and impairment costs				
7.2 2.1 0.1				
<hr/>				
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<hr/>				
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Operating (loss) income				
(6.4) 4.8 1.4 4.9				
Net interest (expense) income				
(.6) .2 (.2) .3				

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(Loss) income before income taxes and  
cumulative effect of change in accounting  
principle  
(7.0) 5.0 1.2 5.2  
Income taxes  
(2.4) 1.6 0.4 1.7

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(Loss) income before cumulative effect of  
change in accounting principle  
(4.6) 3.4 0.8 3.5  
Cumulative effect of change in accounting  
principle for start-up costs

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Net (loss) income  
(4.6)% 3.4% 0.8% 3.5%

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**Net Sales**

Net sales for the three- and nine-month periods of fiscal 2001 grew to \$4.0 billion and \$15.1 billion, respectively. Net sales increased 9.3% and 60.6%, respectively, over the same periods in fiscal 2000. The growth in sales year over year was primarily attributable to increased demand from Solectron's personal computer, notebook and consumer and automotive business sectors. This increase is also due to the full-quarter contributions from the NEL and Sony acquisitions, which were completed during the second quarter of fiscal 2001, acquisition of Nortel, which was completed during the fourth quarter of fiscal 2000, and the partial-quarter contribution from the Centennial Technologies, Inc. acquisition which was completed during the third quarter of fiscal 2001.

Solectron's worldwide manufacturing operations business unit, including the former NEL and Sony Plants, accounted for 91% of total sales for the three- and nine-month periods of fiscal 2001 compared to 88% and 87%, respectively, for the same periods in fiscal 2000. Solectron's technology solutions unit generated 7% of total sales for the three- and nine-month period of fiscal 2001 compared to 10% and 11%, respectively, for the same periods in fiscal 2000. The global services unit contributed 2% for the three- and nine-month periods of fiscal 2001 compared to 2%, for the same periods in fiscal 2000.

As a result of recent unfavorable economic conditions and reduced capital spending, Solectron's sales have declined in the third quarter compared to the first two quarters of fiscal 2001. In particular, sales to OEMs in the telecommunications, workstation and server equipment manufacturing industry in the United States were impacted during the third quarter of fiscal 2001. If the economic conditions in the United States worsen or if a wider or global economic slowdown occurs, Solectron may experience a material adverse impact on its business, operating results, and financial condition. Given current economic conditions and limited visibility, Solectron currently anticipates that sales for the fiscal fourth quarter are expected to range from \$3.0 billion to \$3.5 billion.

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### **Manufacturing and Operations**

Net sales from Solectron's worldwide manufacturing operations group grew to \$3.6 billion and \$13.8 billion, respectively, for the three- and nine-month periods in fiscal 2001 compared to \$3.2 billion and \$8.2 billion for the corresponding periods in fiscal 2000. This represented increases of 12% and 68% for the three- and nine-month periods, respectively, in fiscal 2001 over the comparable periods of fiscal 2000. The increase in net sales was principally due to the acquisitions of NEL and Sony manufacturing plants during the prior fiscal quarter, as well as Nortel sites during the fourth quarter of fiscal 2000.

Within the Americas, net sales decreased 22% for the three-month period ended May 31, 2001 from the corresponding period of fiscal 2000 and increased 25% for the nine-month period ended May 31, 2001 from the same period of fiscal 2000. The decrease in the three-month period was due to lower demand from Solectron's customers as a result of unfavorable economic conditions and reduced capital spending by its customers. Solectron's plants in California, Texas, Mexico and North Carolina were the largest contributors to the increase for the nine-month period. This increase was primarily due to higher demand from Solectron's customers and the acquisition of Nortel sites in North Carolina, Mexico and Canada.

In Europe, net sales increased 12% and 94%, respectively, in the three- and nine-month periods of fiscal 2001 from the corresponding periods of fiscal 2000. The increase was principally due to higher demand from Solectron's customers and to its acquisition of Ericsson's manufacturing assets in Östersund, Sweden ( Östersund ) during the third quarter of fiscal 2000. Solectron's France, Östersund and Scotland sites were the largest contributors to the sales increase in the region.

In Asia Pacific, net sales grew to \$1.0 billion for the three-month period ended May 31, 2001 compared to \$581 million for the corresponding period of fiscal 2000, and \$3.3 billion for the nine-month period for fiscal 2001 compared to \$1.4 billion for the corresponding period of the prior year. The increase from the prior year was primarily due to the ramp-up in production to meet demand growth from Solectron's customers. Solectron's Penang site in Malaysia benefited from the transfer of networking business from Solectron's Milpitas, California site. Solectron's Penang and former NEL Penang sites in Malaysia, Suzhou site in China, as well as other recently acquired NEL sites, were the major contributors to the increase.

### **Technology Solutions**

Sales from Solectron's new technology solutions operations, including SMART, Force and former Centennial Technologies units, decreased 19% for the three-month period ended May 31, 2001, and increased 5% for the nine-month period from the corresponding periods of fiscal 2000. The decrease in the three-month period ended May 31, 2001 was principally due to decrease in demand and declines in average selling prices of memory components. The increase in net sales for the nine-month period was attributable to the increase in the first fiscal quarter of 2001 that primarily resulted from an overall increase in the average memory densities incorporated into the standard memory products and from stronger sales of specialty memory modules and embedded computer boards and systems. The increase in net sales was partially offset by declines in average selling prices of memory components.

### **Global Services**

Net sales from Solectron's global services unit increased 28% and 40%, respectively, for the three- and nine-month periods ended May 31, 2001 over the corresponding periods in fiscal 2000. Net sales benefited from stronger demand as well as the acquisitions of Nortel, Bluegum Group and IBM Netherlands service facilities.

**International Sites**

In the three- and nine-month periods ended May 31, 2001, international locations contributed 58% and 49%, respectively, of consolidated net sales compared to 46% and 43% for the same periods of fiscal 2000. Solectron's international operations are subject to various risks of doing business abroad. See Risk

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Factors for additional factors relating to possible fluctuations of Solectron's international operating results. While these dynamics have not materially harmed its results of operations, Solectron cannot ensure that there will not be such an impact in the future.

**Major Customers**

Several of Solectron's customers accounted for 10% or more of its net sales in the three- and nine-month periods ended May 31, 2001 and 2000. The following table details these customers and the percentage of net sales attributed to them.

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2001	2000	2001	2000
Cisco		13.0%	12.0%	12.0%
Ericsson	14.0%	15.0%	14.0%	11.0%
Nortel	12.0%	12.0%		

Solectron's top ten customers accounted for approximately 65% and 72% of consolidated net sales in the three- and nine-month periods ended May 31, 2001, respectively, compared to 68% and 71% for the same periods in fiscal 2000. Solectron is dependent upon continued revenues from Cisco, Ericsson, Nortel and Compaq as well as its other top ten customers. Solectron cannot guarantee that these or any other customers will not increase or decrease as a percentage of consolidated net sales either individually or as a group. Consequently, any material decrease in sales to these or other customers could materially harm Solectron's results of operations.

Solectron believes that its ability to grow depends on increasing sales to existing customers for their current and future product generations, on successfully attracting new customers and on geographic expansion. Customer contracts can be canceled and volume levels can be changed or delayed. The timely replacement of delayed, canceled or reduced orders with new business cannot be ensured. In addition, Solectron cannot ensure that any of its current customers will continue to utilize its services. Because of these factors, Solectron cannot ensure that its historical revenue growth rate will continue.

**Gross Profit**

The gross margin percentage decreased to 7.7% and 8.5%, respectively, for the three- and nine-month periods ended May 31, 2001, respectively, compared to 8.4% and 9.2% for the corresponding periods of fiscal 2000. The decrease was primarily attributable to under-absorbed fixed costs that could not be taken out immediately in response to the deterioration in Solectron's customers' end market. In the second quarter of fiscal 2001, Solectron began to experience manufacturing inefficiencies due to higher-than-normal costs associated with the additional manpower required in the materials management area and underutilization of capacity which occurred later in the second quarter. In the first quarter of fiscal 2001, Solectron sustained the improvement in component linearity that had been gained in the fourth quarter of the prior year. While the constricted supply of components in the electronics industry began to ease late in the first quarter, Solectron continued to experience spot shortages of parts resulting in production control inefficiencies during the first quarter of the fiscal 2001.

For its worldwide manufacturing operations, Solectron anticipates that a larger percentage of its sales may be derived from systems-build projects, which generally yield lower profit margins than PCB assemblies. Solectron expects most of its technology solutions sales may continue to be derived from turn-key projects, which typically yield lower profit margins than the consignment projects. In addition, factors affecting technology solutions profit margins include the sales mix of specialty memory modules, standard memory modules, communication card products and embedded computer modules, as well as changes in average memory densities used in memory products.

In the foreseeable future, Solectron's overall gross margin will depend primarily on several factors, including but not limited to, product mix, production efficiencies, utilization of manufacturing capacity,

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start-up and integration costs of new and acquired businesses, percentage of sales derived from systems-build and turn-key projects, pricing within the electronics industry, component costs, and delivery linearity, and cost structure at individual sites. Over time, gross margins at the individual sites and for Solectron as a whole may continue to fluctuate. Increases in the systems-build business or turn-key projects, additional costs associated with new projects, and price erosion within the electronics industry could harm Solectron's gross margin.

In addition, Solectron has experienced component shortages. While the component availability fluctuates from time to time and is still subject to lead-time and other constraints, this could possibly limit Solectron's net profit growth and might have a negative impact on its sales and gross margins for the foreseeable future. Therefore, Solectron cannot ensure that its gross margin will not fluctuate or decrease in future periods.

## **Selling, General and Administrative Expenses**

In absolute dollars, selling, general and administrative (SG&A) expenses increased 83% and 82%, respectively, for the three- and nine-month periods ended May 31, 2001 over the corresponding periods of fiscal 2000. As a percentage of net sales, SG&A expenses were 5.1% for the three-month period ended May 31, 2001, compared to 3.1% for the corresponding period in fiscal 2000, and 3.8% for the first nine-month period in fiscal 2001, compared to 3.4% for the corresponding period in fiscal 2000. The increase in absolute dollars for the first three- and nine-month periods in fiscal 2001 primarily resulting from higher human resource costs, information systems costs, and higher SG&A costs resulted from Solectron's acquisition of NEL entities. The increase as a percentage of net sales for the nine-month period ended May 31, 2001, reflected Solectron's on-going efforts to invest in its infrastructure such as marketing, sales, supply-base management and information systems to support the increased size and complexity of its business. Solectron anticipates SG&A expenses will continue to increase in terms of absolute dollars over the long-term, and may possibly increase as a percentage of revenue, as Solectron continues to invest in its infrastructure such as marketing, sales, supply-base management and information systems to support the increased size and complexity of its business.

## **Research and Development Expenses**

With the exception of Solectron's technology solutions unit, its research and development (R&D) activities have been focused primarily on developing prototype and engineering design capabilities, fine pitch interconnecting technologies (including ball-grid array, tape-automated bonding, multichip modules, chip-on-flex, chip-on-board and flip chip), high-reliability environmental stress test technology and the implementation of environmentally friendly assembly processes such as VOC-free and no-clean. Technology solutions' R&D efforts are concentrated on new product development and improvement of product designs through improvements in functionality and the use of microprocessors in embedded applications.

In absolute dollars, R&D expenses increased 24.2% and 24.9%, respectively, for the three- and nine-month periods in fiscal 2001 from the corresponding periods in fiscal 2000. As a percentage of net sales, R&D expenses were 0.5% for the three-month period ended May 31, 2001, compared to 0.4% for the corresponding period in fiscal 2000, and 0.4% for the first nine-month period in fiscal 2001 compared to 0.5% for the corresponding period in fiscal 2000. The increases in absolute dollars in the fiscal 2001 periods compared to the fiscal 2000 periods were primarily due to increased R&D effort at SMART and Force and new R&D projects initiated at various sites. Solectron expects that R&D expenses will increase in absolute dollars in the future and may increase as a percentage of net sales, as SMART and Force will continue to invest in their R&D efforts and additional R&D projects are undertaken at certain sites.

## **Goodwill Amortization Expense**

The goodwill amortization expense of \$52.3 million for the three-month period in fiscal 2001 primarily resulted from the NEL acquisition. During the second quarter of fiscal 2001, Solectron purchased all of

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the outstanding issued share capital and convertible bonds of NEL for approximately \$2.3 billion and \$122.4 million, respectively. The NEL acquisition was accounted for under the purchase accounting method and, as a result, Solectron recorded approximately \$1.97 billion of goodwill. Goodwill is being amortized in equal quarterly amounts over a ten-year period. Annual and quarterly goodwill amortization expenses are approximately \$196.8 million and \$49.2 million, respectively.

### **Acquisition Costs**

Acquisition and integration costs of \$29.5 million for the nine months ended May 31, 2001, related to the acquisition of NEL.

### **Restructuring and Impairment Costs**

The current quarter restructuring and impairment charge was taken in connection with Solectron's plan to review its operations in light of the current economic downturn and that it expected to undertake several measures to restructure the company. The measures, which included reducing the workforce, consolidating some facilities, relocating certain capabilities and changing the strategic focus of a number of sites, was largely intended to align its capacity and infrastructure to anticipated customer demand as well as rationalize its footprint worldwide.

During the third quarter of fiscal 2001, total restructuring and impairment costs of \$285.0 million were charged against earnings. These restructuring and impairment charges included employee severance and benefit costs of approximately \$41.8 million, costs related to facilities that will be abandoned and subleased of approximately \$44.7 million, costs related to leased equipment that will be abandoned of approximately \$56.2 million, impairment of equipment held for disposal of approximately \$99.9 million, impairment of facilities held for disposal of approximately \$11.3 million, impairment of goodwill and intangible assets related to closed facilities of approximately \$28.2 million and other exit costs of approximately \$2.9 million.

The employee severance and benefit costs related to the elimination of 7,700 positions worldwide. Approximately 67% of the positions eliminated were in the Americas region, 23% were in Europe and 10% were in Asia/ Pacific. The employment reductions primarily affected employees in manufacturing and back office support functions. Facilities and equipment subject to restructuring were primarily located in the Americas and Europe. For leased facilities that will be abandoned and subleased, the lease costs represent future lease payments subsequent to abandonment less estimated sublease income. For facilities and equipment held for disposal, the impairment loss recognized was based on the fair value less costs to sell with fair value based on estimates of existing market prices for similar assets. As of May 31, 2001, 7,700 employees have left Solectron under this plan.

During the second quarter of fiscal 2001, Solectron recorded restructuring costs of \$25.3 million related to the consolidation of certain facilities. These restructuring costs included fixed asset impairments of \$19.7 million, employee severance and benefit costs of approximately \$3.2 million, and other exit costs of \$2.4 million.

### **Net Interest Income (Expense)**

Net interest expense was \$25.5 million for the third quarter of fiscal 2001 compared to net interest income of \$7.3 million for the same period of fiscal 2000. For the nine-months ended May 31, 2001, net interest expense was \$32.1 million compared to net interest income of \$26.8 million for the comparable period of fiscal 2000. The net interest expense in the fiscal 2001 periods primarily resulted from Solectron's 4.0% yield zero-coupon convertible senior notes, 2.75% and 3.25% yield zero-coupon convertible senior notes and 7.38% senior notes partially offset by interest income earned on undeployed cash and investments. Solectron did not incur any interest expense from the 3.25% yield zero-coupon convertible senior notes in the three- and nine-month periods in fiscal 2000 since these notes were issued subsequently. Solectron incurred partial interest expense from 2.75% yield zero-coupon convertible senior notes in the three- and nine-month periods ended May 31, 2000 since they were issued in May of 2000.



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**Income Taxes**

For the nine-months ended May 31, 2001, income taxes decreased to \$55.5 million from \$158.3 million for the same period of fiscal 2000. The decrease was primarily due to decreased income before income taxes. In general, the effective income tax rate is largely a function of the balance between income from domestic and international operations. Solectron's international operations, taken as a whole, have been taxed at a lower rate than those in the United States, primarily due to a tax holiday granted to Solectron's sites in Malaysia. The Malaysian tax holiday is effective through January 31, 2002, subject to some conditions, including maintaining certain levels of research and development expenditures. Solectron has also been granted various tax holidays in China that are effective for various terms and are subject to certain conditions.

**Results of Operations for Years Ended August 31, 2000, 1999 and 1998**

The following table summarizes certain items in the Consolidated Statements of Income as a percentage of net sales. The financial information and the discussion below should be read in conjunction with the Consolidated Financial Statements of Solectron and Notes thereto attached to this document as Annex .

	Years Ended August 31,		
	2000	1999	1998
Net sales	100.0%	100.0%	100.0%
Cost of sales			
91.0 90.3 89.1			
<hr/>			
<hr/>			
<hr/>			
Gross profit			
9.0 9.7 10.9			
Operating expenses:			
Selling, general and administrative			
3.3 3.9 4.4			
Research and development			
0.4 0.4 0.5			
Acquisition costs			
0.3			
<hr/>			
<hr/>			
<hr/>			
Operating income			
5.0 5.4 6.0			
Net interest income			
0.2 0.1			
<hr/>			
<hr/>			
<hr/>			

Income before income taxes

5.2 5.4 6.1

Income taxes

1.7 1.7 2.0

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Net income

3.5% 3.7% 4.1%

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## Net Sales

Solectron's net sales have increased significantly in each of the past several years, reflecting the growing trend toward outsourcing within the electronics industry. For the year ended August 31, 2000, net sales grew to \$14.1 billion, an increase of 46.2% over fiscal 1999. Net sales of \$9.7 billion in fiscal 1999 were 58.5% greater than fiscal 1998. The sales growth in fiscal 2000 compared with fiscal 1999 was attributable to new program ramp-ups, strong demand from Solectron's customers worldwide and acquisitions made during fiscal 2000. The sales growth in fiscal 1999 over fiscal 1998 was primarily due to the significant increase in sales volume from both existing and new customers worldwide, and the transfer of production from certain customer plants to various Solectron locations around the world.

Solectron is organized in three business units: manufacturing and operations, technology solutions, and global services. Solectron's core business group, manufacturing and operations, provided 87.8%, 87.5% and 85.4% of net sales, respectively, for fiscal 2000, 1999 and 1998. Solectron's technology solutions group, consisting of SMART and Force, contributed 10.5%, 11.7% and 13.5% of net sales, respectively, for fiscal 2000, 1999 and 1998. Solectron's global services unit, which was formed in fiscal 2000 and pooled with AMERICOM and the services unit of Bluegum, contributed 1.7%, 0.8% and 1.1% of net sales, respectively, in fiscal 2000, 1999 and 1998.

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### **Manufacturing and Operations**

Net sales from the worldwide manufacturing and operations group have contributed a significant share of total sales for the past three fiscal years. Fiscal year 2000 net sales grew to \$12.4 billion, an increase of 46.8% over fiscal year 1999. The increase was principally due to strong demand growth from Solectron's customers and to acquisitions, including Alcatel's telecommunications manufacturing business in Liverpool, Australia, by our subsidiary Bluegum; IBM ECAT in Austin, Texas; Trimble of California; IBM's Netfinity server operations in Greenock, Scotland; Ericsson's telecommunications infrastructure equipment operations in Longuenesse, France, and Ostersund, Sweden; and Zhong Technologies of California; as well as Solectron's acquisition of Alcatel's manufacturing business in Aguadilla, Puerto Rico. In fiscal year 1999, net sales from manufacturing and operations was \$8.5 billion, which was 62.3% greater than fiscal 1998. The increase in manufacturing and operations sales in fiscal 1999 from 1998 was primarily due to demand increases and to acquisitions of assets from Ericsson, NCR and Mitsubishi during fiscal 1999 and 1998.

Within the Americas, the Milpitas site in California, Guadalajara site in Mexico and Austin site in Texas were the largest contributors to the sales increase. The increase in fiscal 2000 versus 1999 was primarily due to new programs from Solectron's customers, partially offset by limited sales growth in the Americas caused by the shortage of components. Sales continued to grow in the Milpitas site despite Solectron's strategic transfer of personal computer PCB programs and computer peripherals systems assembly programs to Mexico and networking business to Penang, Malaysia. The increase in net sales in fiscal 1999 compared with fiscal 1998 resulted from strong demand growth and acquisitions.

In Europe, net sales stayed relatively flat in fiscal 2000 versus fiscal 1999. The increase in fiscal 1999 over fiscal 1998 was principally due to overall business growth and increased demand from Solectron's telecommunications customers. In Asia/Pacific, net sales growth in fiscal 2000 was primarily due to demand growth in mobile phone, networking and personal computer projects. In particular, sales growth in the Penang site was attributable to the growth of networking business. In addition, Solectron's subsidiary Bluegum's acquisition of Alcatel's telecommunications manufacturing operations in Liverpool, Australia, also contributed to Solectron's sales increase in the region. The increase in fiscal 1999 over fiscal 1998 resulted primarily from increased demand from personal computer customers and from networking business transferred from Milpitas, California.

**Technology Solutions**

Solectron's technology solutions group consists of SMART and Force, subsidiaries of Solectron. This business unit was formed on November 30, 1999 coinciding with the merger of SMART. Solectron's main products in technology solutions group are specialty and standard memory products, PC cards, embedded computer modules and communications card products. Net sales for fiscal years 2000, 1999 and 1998 were \$1.5 billion, \$1.1 billion and \$825.9 million, respectively. The increase in fiscal 2000 of 31.5% over fiscal 1999 resulted from an overall increase in standard memory products incorporated with average memory densities, as well as an increase in embedded computer modules and communications card products. The increase of 36.9% in fiscal 1999 over fiscal 1998 was primarily due to an increase in sales of standard memory products, communications card products and embedded computer modules.

**Global Services**

Solectron's global services group was established in June 1999. It was formed through three business acquisitions, Sequel in July 1999, NULOGIX in November 1999 and AMERICOM in April 2000, as well as a small division of Solectron in Milpitas. Net sales were \$232.5 million, \$78.5 million and \$65.0 million in fiscal years 2000, 1999 and 1998, respectively.

**International Sites**

Net sales from Solectron's international sites, as a percentage of consolidated net sales, have grown over the last three fiscal years. International locations contributed 41% of consolidated net sales in fiscal

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2000, compared with 33% in fiscal 1999 and 28% in fiscal 1998. As a result of its international sales and facilities, Solectron's operations are subject to the risks of doing business abroad. While these dynamics have not materially harmed its results of operations, Solectron cannot assure that there will not be such an impact in the future.

**Major Customers**

Only four major customers accounted for more than 10% of our net sales in fiscal 2000, 1999 and 1998, as summarized in the following table:

	Years Ended August 31,		
	2000	1999	1998
Ericsson	13%	*	*
Compaq			
* 12% *			
Cisco			
12% 11% 10%			
HP			
* * 11%			

\* net sales less than 10%

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Solectron's top ten customers accounted for 72% of net sales in fiscal 2000, 74% of net sales in fiscal 1999 and 68% of net sales in fiscal 1998. Solectron depends on continued revenues from Ericsson, Compaq, Cisco, HP, IBM and our other top ten customers. Solectron cannot guarantee that these or any other customers will not increase or decrease as a percentage of consolidated net sales either individually or as a group. Consequently, any material decrease in sales to these or other customers could materially harm Solectron's results of operations.

Solectron believes that its ability to continue growing depends on increasing sales to existing customers for their current and future product generations, successfully marketing to new customers and expanding geographically. Customer contracts can be canceled and volume levels can be changed or delayed. The timely replacement of delayed, canceled or reduced orders with new business cannot be assured. In addition, Solectron cannot assure that its current customers will continue to utilize its services. Because of these factors, Solectron cannot assure that Solectron's historical revenue growth rate will continue.

### **Gross Profit**

The gross margin percentages were 9.0%, 9.7% and 10.9% respectively, for fiscal 2000, 1999 and 1998. The decrease in fiscal 2000 over fiscal 1999 was attributed primarily to sales derived from lower margin mobile telecommunication equipment, manufacturing inefficiencies due to non-linearity of material receipts, a high level of business development activities and new site integration support expenditures, as well as capacity ramp-up for future demand growth. The decrease in fiscal 1999 over 1998 was due to lower margins from sales derived from systems build projects and lower margin standard memory products. The start-up operations also contributed to the decrease. In addition, the amortization of intellectual property resulting from certain acquisitions reduced gross margins.

For its worldwide manufacturing operations, Solectron anticipates a larger percentage of its sales may be derived from systems-build projects that generally yield lower profit margins than PCB assembly.

Solectron expects most of its technology solutions sales may continue to be derived from turn-key projects, which typically yield lower profit margins than consignment projects. In addition, factors affecting technology solutions profit margins include the sales mix of specialty memory modules, standard memory modules, communication card products and embedded computer modules, as well as changes in average memory densities used in memory products. Currently, a significant amount of net sales is derived from the sales of standard memory modules, which typically have lower profit margins than specialty memory modules.

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In the foreseeable future, Solectron's overall gross margin will depend primarily on product mix, production efficiencies, utilization of manufacturing capacity, start-up and integration costs of new and acquired businesses, percentage of sales derived from systems-build and turn-key products, pricing within the electronics industry, component costs and delivery linearity, and the cost structure at individual sites. Over time, gross margins at the individual sites and for Solectron as a whole may continue to fluctuate. Increases in the systems-build business or turn-key projects, additional costs associated with new projects, and price erosion within the electronics industry could harm our gross margin.

In addition, Solectron has experienced component shortages. While the component availability fluctuates from time to time and is still subject to lead time and other constraints, this could possibly have a negative impact on its sales and gross margins for the foreseeable future. Therefore, Solectron cannot assure that its gross margin will not fluctuate or decrease in future periods.

### **Selling, General and Administrative Expenses**

In absolute dollars, our selling, general and administrative (SG&A) expenses increased 24.4% in fiscal 2000 over fiscal 1999, and 41.6% in fiscal 1999 over fiscal 1998. The increase in absolute dollars in fiscal 2000 compared to 1999 was contributed by an increase in head count and information system costs to support our sales growth and increased costs of acquisition related activities. The absolute dollar increase in fiscal 1999 over fiscal 1998 primarily reflected expenses associated with increased head count necessary to support sales growth and business infrastructure and further development costs of information systems, as well as expenses related to business and asset acquisitions.

As a percentage of net sales, SG&A expenses were 3.3% in fiscal 2000, 3.9% in fiscal 1999 and 4.4% in fiscal 1998. The primary reasons for the fiscal 2000 and 1999 decrease in SG&A expenses as a percentage of net sales were the significant increase in sales volume and Solectron's continued effort to manage operating expenses, partially offset by the costs associated with investments in its business infrastructure, information systems and start-up costs for new sites. Solectron anticipates SG&A expenses will continue to increase in terms of absolute dollars in the future and may possibly increase as a percentage of net sales as Solectron continues to develop the infrastructure necessary to support the

current and prospective business.

### **Research and Development Expenses**

With the exception of its technology solutions business unit, Solectron's research and development (R&D) activities have primarily supported the development of prototype and engineering design capabilities, fine pitch interconnecting technologies (which include ball grid array, tape automated bonding, multichip modules, chip-on-flex, chip-on-board and flip chip), high reliability environmental stress test technology and the implementation of environmentally friendly assembly processes such as VOC-free and no-clean. Technology solutions' R&D efforts are concentrated on new product development and improvement of product designs through improvements in functionality and the use of microprocessors in embedded applications.

In absolute dollars, R&D expenses increased 50.1% in fiscal 2000 over fiscal 1999 and 35.5% in fiscal 1999 over fiscal 1998. The increases in absolute dollars in R&D expenses were primarily due to Solectron's increased R&D effort in technology solutions and new R&D projects initiated at its various sites. Solectron expects that R&D expenses will increase in absolute dollars in the future and may increase as a percentage of net sales as SMART and Force continue to invest in their R&D efforts and additional R&D projects are undertaken at certain sites. As a percentage of net sales, R&D expenses were 0.4% for both fiscal 2000 and 1999, 0.5% in fiscal 1998.

### **Acquisition and Restructuring Costs**

A one-time charge for acquisition costs of approximately \$26.8 million was incurred in fiscal 2000 as a result of the acquisitions of SMART, AMERICOM and Bluegum during fiscal 2000. Solectron's acquisition costs consist of investment banker fees, accounting fees, registration fees and other incidentals.

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Solectron recorded restructuring costs of approximately \$11.1 million in fiscal 2000 primarily related to the consolidations of certain facilities acquired in the SMART and Sequel mergers. Approximately \$4.4 million related to lease exit costs, \$3.4 million related to asset write-offs and other incidental costs, \$1.2 million related to severance costs and \$2.1 million related to other related costs. Approximately \$2.8 million remains in accrued expenses as of August 31, 2000 and Solectron expects to utilize these reserves by the end of fiscal 2001.

### **Net Interest Income (Expense)**

Net interest income was \$35.3 million in fiscal 2000 compared to \$6.9 in fiscal 1998, and net interest expense of \$1.6 million in fiscal 1999. The net interest income in fiscal 2000 was attributed primarily to interest income earned on cash and investments from the proceeds of the 2.75% zero-coupon convertible senior notes which were issued in May 2000, offset partially with interest expense on the 4% and 2.75% yield zero-coupon convertible senior notes as well as on the 7 3/8% senior notes. The net interest expense in fiscal 1999 was related to interest expenses from the 4% yield zero coupon convertible senior notes and the 6% convertible subordinated notes. The net interest income in fiscal 1998 was primarily due to the proceeds from SMART's secondary public offering of common stock completed during September 1997.

### **Income Taxes**

Income taxes increased to \$238.8 million in fiscal 2000 from \$164.2 million in fiscal 1999 and \$124.2 million in fiscal 1998, primarily due to increased income before income taxes. Solectron's effective income tax rate was 32.3% in fiscal 2000 compared to 31.9% in fiscal 1999 and 33.1% in fiscal 1998.

In general, the effective income tax rate is largely a function of the balance between income from domestic and international operations. Solectron's international operations, taken as a whole, have been taxed at a lower rate than those in the United States, primarily due to the tax holiday granted to Solectron's sites in Malaysia. The Malaysian tax holiday is effective through January 31, 2002, subject to some conditions, including certain levels of research and development expenditures. Solectron has also been granted various tax holidays in China, which are effective for various terms and are subject to some conditions.

### **Cumulative Effect of Change in Accounting Principle**

Statement of Position 98-5, Reporting on the Costs of Start-up Activities requires companies to expense all costs incurred in connection with start-up activities. Solectron recorded a cumulative effect of change in accounting principle of \$3.5 million, net of \$1.6 million tax benefit, in the first quarter of fiscal 2000.

## Liquidity and Capital Resources

Net working capital was \$6.2 billion at May 31, 2001 compared to \$5.4 billion at August 31, 2000. The increase in net working capital was primarily due to the growth in accounts receivable and inventory attributable to higher sales. Cash, cash equivalents and short-term investments decreased to \$2.2 billion at May 31, 2001 from \$2.4 billion at August 31, 2000. This change reflected the proceeds of approximately \$1.5 billion from the 3.25% yield zero-coupon convertible senior debt issued in November 2000 and the issuance of 35 million shares of common stock for approximately \$1.2 billion, offset by inventory purchases and investing activities, including the acquisition of NEL's shares and convertible bonds for approximately \$2.4 billion, purchases of manufacturing assets of \$84 million and capital expenditures of \$454.9 million.

Accounts receivable increased approximately \$245.1 million during the first nine months of fiscal 2001 over the fiscal year ended 2000. The increase was primarily due to growth in total net sales and the acquisition of NEL. Inventories increased \$414.4 million during the first nine months of fiscal 2001 over the fiscal year ended 2000. The increase in inventory levels was primarily due to non-cancelable, non-returnable parts ordered on behalf of customers, under terms agreed to in the tight supply environment in the first quarter of fiscal 2001 and the acquisition of NEL and Centennial.

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As of May 31, 2001, Solectron had available a \$100 million unsecured multicurrency revolving line of credit that expires April 30, 2002. Borrowings under the credit facility bear interest, at Solectron's option, at either the bank's prime rate, the London interbank offering rate (LIBOR) plus a margin, or the bank's certificate of deposit (CD) rate plus a margin. The margin under the LIBOR or CD rate options will vary depending on Solectron's Standard & Poor's Corporation and/or Moody's Investor Services, Inc. rating for its long-term senior unsecured debt. Under the credit agreement, Solectron must meet certain financial covenants. Solectron was in compliance with all of its line of credit financial covenants as of May 31, 2001. There were no borrowings outstanding under this line of credit as of May 31, 2001. In addition, Solectron had approximately \$175 million and \$562 million, respectively, in committed and uncommitted foreign lines of credit and other bank facilities as of May 31, 2001. The interest rates ranged from the bank's prime lending rate to the bank's prime rate plus a margin. As of May 31, 2001, borrowings and guaranteed amounts under committed and uncommitted foreign lines of credit were \$152 million and \$198 million, respectively.

Solectron believes that its current cash and cash equivalents, short-term investments, line of credit, any potential funds that may be raised under its recently filed shelf Registration Statement and cash generated from operations will satisfy its expected working capital, capital expenditure, and investment requirements through at least the next 12 months.

## Quantitative and Qualitative Disclosure About Market Risk

### *Foreign Currency Exchange Rates Risk*

Solectron does not use derivative financial instruments for speculative purposes. Solectron's policy is to hedge its foreign currency denominated transactions in a manner that substantially offsets the effects of changes in foreign currency exchange rates. Presently, Solectron uses foreign currency borrowings and foreign currency forward contracts to hedge only those currency exposures associated with certain assets and liabilities denominated in non-functional currencies. Corresponding gains and losses on the underlying transaction generally offset the gains and losses on these foreign currency hedges.

As of May 31, 2001, the majority of the foreign currency hedging contracts were scheduled to mature in less than three months and there were no material deferred gains or losses. In addition, Solectron's international operations in some instances act as a natural hedge because both operating expenses and a portion of sales are denominated in local currency. In these instances, including Solectron's experience involving the devaluation of the Brazilian real, although an unfavorable change in the exchange rate of a foreign currency against the U.S. dollar will result in lower sales when translated to U.S. dollars, operating expenses will also be lower in these circumstances. Also, since less than 13% of Solectron's net sales are denominated in currencies other than the U.S. dollar, Solectron does not believe its total exposure to be significant.

Solectron has currency exposures arising from both sales and purchases denominated in currencies other than the functional currency of Solectron sites. Fluctuations in the rate of exchange between the currency of the exposure and the functional currency of the Solectron site could

seriously harm our business, operating results and financial condition. For example, if there is an increase in the rate at which a foreign currency is exchanged for U.S. dollars, it will require more of the foreign currency to equal a specified amount of U.S. dollars than before the rate increase. In such cases, and if Solectron prices its products and services in the foreign currency, Solectron will receive less in U.S. dollars than it did before the rate increase went into effect. If Solectron prices its products and services in U.S. dollars and competitors price their products in local currency, an increase in the relative strength of the U.S. dollar could result in Solectron's prices being not competitive in markets where business is transacted in the local currency.

#### *Interest Rate Risk*

The primary objective of Solectron's investment activities is to preserve principal, while at the same time, maximize yields without significantly increasing risk. To achieve this objective, Solectron maintains

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its portfolio of cash equivalents and short-term investments in a variety of securities, including both government and corporate obligations, certificates of deposit and money market funds. As of May 31, 2001, approximately 96% of Solectron's total portfolio was scheduled to mature in less than six months.

The following table presents the amounts of Solectron's cash equivalents and short-term investments that are subject to interest rate risk by year of expected maturity and weighted average interest rates as of May 31, 2001:

	<b>Q1 2002</b>	<b>Q4 2002</b>	<b>Total</b>	<b>Fair Value</b>
	(amounts in millions)			
Cash equivalents and short-term investments	\$1,122.8	\$46.5	\$1,169.3	\$1,169.3
Average interest rate	4.70%	6.30%	6.26%	

Solectron has entered into an interest rate swap transaction under which it pays a fixed rate of interest hedging against the variable interest rates implicit in the rent charged by the lessor for the facility lease at Milpitas, California. The interest rate swap expires in the year 2002, which coincides with the maturity date of the lease term. As Solectron intends to hold the interest rate swap until the maturity date, it is not subject to market risk. In fact, such interest rate swap has fixed the interest rate for the facility lease, thus reducing interest rate risk.

Solectron's long-term debt instruments are subject to fixed interest rates. In addition, the amount of principal to be repaid at maturity is also fixed. In the case of the convertible notes, such notes are based on fixed conversion ratios into common stock. Therefore, Solectron is not exposed to variable interest rates related to its long-term debt instruments.

### **Recent Accounting Pronouncements**

In July 2001, the FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies the criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS No. 142.

Solectron adopted the provisions of SFAS No. 141 on July 1, 2001, Solectron will adopt SFAS No. 142 effective on September 1, 2001.

SFAS No. 141 will require, upon adoption of SFAS No. 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in prior purchase business combinations, and to make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141 for recognition apart from goodwill. Upon adoption of SFAS No. 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, SFAS No. 142 will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the

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date of adoption. To accomplish this the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings.

As of the date of adoption, the Company expects to have unamortized goodwill of approximately \$1.9 billion, unamortized identifiable intangible assets of approximately \$500 million, all of which will be subject to the transition provisions of SFAS Nos. 141 and 142. Amortization expense related to goodwill was \$87.8 million for the nine months ended May 31, 2001 and not significant for the fiscal year ended August 31, 2000. Because of the extensive effort needed to comply with adopting SFAS Nos. 141 and 142, it is not practicable to reasonably estimate the impact of adopting these standards on the Company's financial statements at the date of this filing, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

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### **BUSINESS OF C-MAC**

#### **Overview**

C-MAC provides a comprehensive portfolio of electronic manufacturing services and solutions to over 500 customers worldwide. C-MAC focuses on complex, high-margin products and services ranging from components to full systems in addition to design, testing, supply chain management, order fulfillment and aftermarket support services. C-MAC primarily serves the global communications equipment market. In addition, C-MAC provides integrated systems solutions for the communications, transportation electronics, aerospace, military and industrial markets.

C-MAC is a leading provider of a broad array of products, including optical, switching, transmission and other solutions to communications equipment customers, including Nortel, Alcatel, Lucent, Marconi and Motorola. C-MAC's major transportation electronics customers include Daimler-Chrysler, Delphi, Ford, General Motors, Hella and Siemens Automotive.

C-MAC's manufacturing services include specialized component, module and printed circuit board fabrication, printed circuit board and backplane assembly, electro-mechanical sub-assembly, sheet metal fabrication, electro-plating, embedded computing solutions, digital signal



processing and final system assembly test and order fulfillment. C-MAC's design services include concept design, circuit design, ASIC design, design for manufacturability, design for test, software design and new product introduction. C-MAC's supply chain management services include materials procurement, inventory management, packaging, distribution and after-market service and support.

C-MAC also designs and develops proprietary technologies in areas such as hybrid microcircuits, frequency control products, sensors, custom ASICs, DC/DC converters, Low Temperature Co-Fired Ceramic (LTCC), actuators, body control electronics, compact personal computer interface, or PCI, versabus module europa, or VME, bus systems and digital signal processing. C-MAC incorporates our technology into products that it designs for its customers as well as into products that it manufactures and sells itself. C-MAC believes that its proprietary technologies differentiate it from its competitors. C-MAC intends to continue to expand its portfolio of proprietary products and technologies through internal research and development as well as acquisitions.

C-MAC has supplemented its strong internal growth by selective acquisitions. Since January 1999, C-MAC has completed 17 acquisitions and entered into one joint venture. C-MAC has relied on acquisitions when they were the quickest and most economical way to diversify its product, technology and service offerings and customer base, enter new geographic markets or acquire new expertise. C-MAC currently operates 51 manufacturing facilities and eight independent design centers in ten countries, employing over 9,000 employees. C-MAC's revenue grew from Cdn\$1.2 billion in 1999 to Cdn\$2.6 billion in 2000.

For information relating to financial information about geographic areas see note 13 of Annex K.

## Industry Overview

Historically, original equipment manufacturers, or OEMs, were vertically integrated and invested significantly in equipment and facilities to manufacture, service and distribute their products. Electronic manufacturing services, or EMS, companies originated to provide additional capacity during periods of high demand by assembling and testing printed circuit boards that typically form the backbone of electronic devices. Recently, EMS providers have been expanding their service offerings to include design and prototyping, supply chain management services such as procurement, inventory management, logistics and after-market services.

The EMS industry has experienced and is expected to continue to experience significant growth. Industry growth is being driven by overall growth in the electronics industry as well as increased outsourcing by OEMs as a way to streamline their operations. C-MAC believes that larger EMS companies will experience the most significant growth as OEMs increasingly seek to partner with EMS

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companies that have a broad portfolio of technologies, products and services, significant financial resources and a global presence.

EMS companies derive a majority of their revenues from the communications equipment, computer peripherals, consumer electronics and computer systems markets. Demand for manufacturing services by communications equipment OEMs is being driven by the growing global demand for telecommunications bandwidth.

As OEMs have become dependent on the broad array of services offered by EMS companies, EMS providers have become virtual manufacturing arms of their customers. Improvements in process technology have reduced setup times and increased flexibility of electronic manufacturing operations. EMS providers can increasingly offer products at a lower cost with reduced lead times compared to products manufactured in-house by OEMs. Furthermore, improvements in management information systems, especially computer-aided manufacturing and enterprise resource planning, or ERP, systems have allowed EMS providers to expand their service offerings to include such functions as design and supply chain management. The principal benefits to OEMs of outsourcing are:

*Focused Resources.* The electronics industry is experiencing greater levels of competition and more rapid technological change. As a result, many OEMs are increasingly seeking to focus their resources on activities and technologies in which they add the greatest value. By offering comprehensive design, electronic assembly and turnkey manufacturing services, EMS manufacturing specialists allow OEMs to focus on activities such as product development, marketing and distribution and the development of core technologies.

*Reduced Time-to-Market.* The rapid technological advancement of electronic products is forcing OEMs to reduce the time it takes to bring innovative products to market. By outsourcing, OEMs can reduce their time to market by leveraging the proven design capabilities, manufacturing expertise and infrastructure of EMS providers.

*Access to Global Manufacturing Capabilities.* OEMs are seeking to lower costs and access international markets by shifting manufacturing outside their home market. EMS companies with worldwide capabilities are able to offer manufacturing locations that enable OEMs to meet local content requirements, lower shipping costs, eliminate custom duties and incur lower labor costs.

*Reduced Investments in Working Capital and Equipment.* OEMs are increasingly seeking to lower their investment in inventory, facilities and manufacturing equipment in order to allocate capital to other activities such as sales and marketing, and research and development.

*Improved Supply Chain Management and Purchasing Power.* As a result of short product life cycles, frequent design changes and fluctuations in product demand, procurement and inventory management are becoming increasingly complex for OEMs. EMS providers can leverage their significant procurement advantages to lower product costs. In addition, EMS providers with supply chain management expertise can monitor inventory levels better and adapt to product design changes more rapidly.

### **C-MAC's Competitive Advantage Selective Vertical Integration**

C-MAC believes that it differentiates itself through its selective vertical integration. As C-MAC's relationship with its customers evolved from that of a component supplier to a manufacturer of highly-integrated complex systems, C-MAC has used acquisitions and internal development to selectively increase the range of value-added technologies, products and services that it provides. C-MAC has developed proprietary technologies, sophisticated design and manufacturing services, and specialized supply chain management services to provide its customers with innovative turnkey solutions. C-MAC's selective vertical integration has provided it with the following competitive advantages:

*Proprietary Technologies and Products.* C-MAC has developed proprietary technologies that it incorporates into products it manufactures for its customers and products that it manufactures and sells itself. C-MAC has also developed proprietary process and manufacturing technologies that allow it to

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produce highly specialized and complex products. For instance, C-MAC has leading edge technologies in the areas of microtechnologies, specifically in advanced microcircuit substrates, high density interconnect technology, sensors, actuators, body control electronics and quartz crystal based frequency control products. C-MAC has also advanced know-how in the design and manufacture of compact PCI and VME bus systems and complex backplanes used in high capacity communications switches and routers. Through its expertise, C-MAC has also enhanced the design and manufacture of some of its customers' products. C-MAC is often able to retain the intellectual property rights for such enhancements. C-MAC believes that the proprietary products and technologies incorporated into the manufacturing of its customers' products solidifies its relationships with its customers, and gives it an advantage over its competitors.

*Specialized Engineering Services.* C-MAC believes that its extensive engineering resources with expertise in circuit and electronic design, electro-mechanical design, printed circuit board layout, prototyping and testing represent one of the largest electro-mechanical design groups in the EMS industry. C-MAC has eight design centers located near its primary manufacturing facilities and have new product introduction teams and prototyping facilities at most of its manufacturing facilities. These new product development and introduction resources reduce time-to-market for C-MAC's customers. In addition, the close collaboration between C-MAC's design engineers and its manufacturing units reduces costs for its customers and minimizes potential production and test difficulties. C-MAC believes that OEMs will increasingly seek to partner with EMS providers with advanced engineering capabilities in order to outsource more design functions, improve their products and decrease time-to-market.

*Value-Added Manufacturing Services.* C-MAC offers a complete range of specialized value-added manufacturing capabilities that differentiate it from its competitors. Through selective acquisitions and internal development, C-MAC has expanded and upgraded its manufacturing capabilities to include such items as multi-layer, high density printed circuit boards, complex double-sided backplanes, advanced substrates, metal fabrication, plastic molding and electroplating capabilities. C-MAC believes that its advanced manufacturing capabilities have enabled it to secure additional business from OEMs for complex products that have not been traditionally outsourced. Moreover, by controlling most of the specialized manufacturing steps involved in the creation of an end product, C-MAC streamlines the development and manufacturing process.

### **C-MAC's Products and Services**

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C-MAC offers its customers turnkey EMS services, ranging from product design and manufacturing to full system assembly, test, shipping and after-market support. Leveraging its engineering expertise, C-MAC also designs, manufactures and sells products that use its proprietary technologies. The products that C-MAC manufactures can be found in such devices as:

telecommunication switches routers central office/ switching equipment wireless base stations	satellites optical networking equipment automobile electronics aerospace electronics telematics products GPS receivers	cellular phones set-top boxes medical instruments industrial instruments radio transmitters
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The following is a list of the types of products and services C-MAC offers:

Design Services	Manufacturing Services	Supply Chain Management Services	Proprietary Products and Technologies
Concept design Product design Cost reduction Product documentation and data management Prototype services Product qualification Design for Manufacturability Design for test Regulatory Testing Software Design New product introduction	Printed circuit boards Printed circuit board assembly Backplanes Backplanes assembly Metal fabrication Plastic injection molding Electro-mechanical sub-assembly Opto-electronic assembly Product assembly Electro-plating System assembly Product test Quality assurance Failure analysis	Materials procurement Inventory management Logistics Packaging Distribution After-market support Refurbishment	Microtechnology products Hybrid microcircuits Sensors Computer modules Frequency control products DC/ DC converters Low Temperature Co-Fired Ceramic (LTCC) Multichip modules Databus modules Compact PCI and VME bus systems Fiber optic modules High-density connectors Activators Body Control Electronics Telematics Point of use power supplies Resistor networks Video Filters Data bus modules

#### *Design Services*

With its extensive engineering resources, C-MAC offers value-added design services from the concept stage to the creation and testing of prototypes. C-MAC also provides product qualification, regulatory testing and new product introduction. C-MAC locates its design teams near its key EMS manufacturing operations and its major customers to facilitate coordination between its design and manufacturing teams. This ensures that reducing costs and optimizing manufacturability and testability are an integral part of the design process. C-MAC believes that close collaboration among its design engineers, its new product introduction teams and OEM engineers is essential to minimize delays and improve its products. Moreover, C-MAC believes that by involving its design engineers in the prototype building and testing process, it enables its customers to introduce new products into volume production more rapidly and with fewer performance issues.

C-MAC's design teams include specialists in electrical, electronic, chemical, software and mechanical engineering as well as in electro-magnetic compatibility, thermal analysis, structural dynamics and element modeling to ensure that C-MAC's products are constructed to meet the exacting standards of its customers.

*Manufacturing Services*

Because C-MAC is selectively vertically integrated, C-MAC is able to offer a broad array of specialized services from the component level (hybrid microcircuits, frequency control devices, LTCC, sensors, actuators, intelligent switches, multi-chip modules, RF amplifiers, video filters) to full system assembly and test. C-MAC offers high performance, multi-layer, medium to large size printed circuit boards and assemblies, and C-MAC assembles double-sided, high density, multi-layer backplanes. C-MAC also manufactures and electro-plates precision sheet metal products such as cabinets, shelves, frames, consoles and backplane enclosures. Through its relationship with Nortel, C-MAC has developed expertise

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in areas such as fiber alignment for the assembly and test of optical networking equipment that it now offers to other customers. C-MAC also provides a broad range of testing capabilities, including machine vision, environmental, burn-in, regulatory and final test.

*Supply Chain Management Services*

As OEMs have increasingly sought to outsource the management of their supply chain, C-MAC has introduced a full range of supply chain management services such as materials procurement, inventory management, logistics, packaging, global distribution, after-market support and refurbishment. To oversee these functions, C-MAC created a supply chain management team at the corporate level, thus enabling it to maximize economies of scale and reduce procurement costs.

C-MAC currently has a centralized management resource planning system that orchestrates procurement, inventory and order status and allows it to provide access to some of this information to its customers. C-MAC's system is presently installed in most North American locations, and it is currently implementing it globally. This software enables each customer to monitor its product inventory by part to verify turnover and cost. C-MAC intends to continue to provide more of its customers with real-time access to its systems.

C-MAC also provides logistics management, packaging and distribution capabilities for its customers. These capabilities enable C-MAC to offer its customers distribution either to the point of use or to a finished goods warehousing location where products can be configured, labeled and packaged for final distribution. For example, at its Winnipeg and Creedmoor facilities, it assembles, packages and distributes some of Nortel's products directly to the end user. C-MAC now offers after-market support, including repair, software maintenance and upgrades and refurbishment services.

*Proprietary Products and Technologies*

C-MAC designs and develops proprietary technologies primarily in the areas of communications equipment and transportation electronics. C-MAC incorporates its technology into products that it designs and manufactures for its customers. Additionally, C-MAC manufactures and sells products based on its proprietary designs.

C-MAC is a leading manufacturer of thick film hybrid microcircuits for applications ranging from radio frequency amplifiers for cellular telephones to multi-chip modules for satellites. Thick film hybrid microcircuits enable its customers to meet the market demand for increased functionality in compact and robust packaging. In addition to conventional thick film hybrid microcircuits, C-MAC also specializes in LTCC manufacturing of microcircuits focused primarily on the automotive electronics market. The LTCC process is a leading edge technology that greatly reduces the manufacturing cost and the size of components.

C-MAC now manufactures body, safety and powertrain electronic products aimed primarily to the automotive industry including specialized actuators, electronic body controllers, intelligent switches, and sensors. C-MAC's high performance sensors, including multifunctional, pressure, force and position are also utilized in the aerospace, military and industrial markets.

C-MAC also manufactures a wide array of frequency control products from low cost quartz crystals used in data processing equipment to extremely precise reference oscillators used in satellites. C-MAC has leveraged its capabilities in reference oscillator products for traditional synchronous digital communication equipment products into high speed electrical, wireless and optical networking systems.

Other proprietary products that C-MAC manufactures include DC/DC power converters, multi-chip modules, point-of-use power supplies (PUPS) and high density, interconnect products such as compact PCI and VME bus systems. In addition to providing standard, off-the-shelf

interconnect products, C-MAC also utilizes its engineering expertise to blend the compact PCI and VME bus architectures with its customers special application requirements to provide unique solutions. Digital Signal Processing (DSP) also represents a key technology as it translates, digitizes, analyzes and interprets signals to provide

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the end user with meaningful data in applications including radar, sonar, signal intelligence systems, voice recognition, semiconductor testing for the defense, aerospace, semiconductor testing equipment and telecommunications markets. C-MAC intends to expand its portfolio of proprietary products and technologies through research and development as well as through acquisitions.

### **Customers**

C-MAC's customers consist principally of large, multinational OEMs, primarily in the communications equipment and automotive electronics markets. In 2000, C-MAC serviced over 500 customers with its largest customer being Nortel. C-MAC's revenue from Nortel represented approximately 60% and 46.8% of its consolidated revenue for the year ended December 31, 2000 and the twenty-six week period ended June 30, 2001, respectively. C-MAC's next largest customer accounted for approximately 4.6% of its revenue during the same periods.

Since C-MAC's inception, it has developed a long standing relationship with Nortel. In 1991, C-MAC acquired its backplane and microcircuit businesses based in Florida. Sales to Nortel grew steadily through the 1990s, strengthened in 1998 by its acquisition of their network systems operations at Creedmoor, North Carolina, and also in 1999 by its acquisition of their optical networking activities in Monkstown, Northern Ireland. Concurrently with this acquisition, C-MAC entered into a contract covering the electro-mechanical assembly of Nortel's carrier class optical transport systems through September 2002. C-MAC also continues to supply backplanes and microcircuits to a variety of Nortel business units.

In addition to Nortel, C-MAC is building close relationships with other major communications OEMs including Lucent, Motorola and Marconi. In the automotive electronics market, major customers include General Motors, Ford, Daimler-Chrysler, Hella, Delphi and Siemens Automotive.

### **Sales, Marketing & Customer Services**

C-MAC's global sales and marketing organization is comprised of two separate direct sales groups located in 52 selected cities in North America, Europe, and Asia. One group sells network and electronic systems manufacturing services while the other sells microtechnology manufacturing services and products. These groups coordinate their efforts in developing new territories and new markets. C-MAC's sales organization consists of over 200 sales, marketing and customer service people and is supported by global account executives and senior executives. C-MAC also utilizes independent sales representatives in emerging markets, such as Israel and Brazil, until the customer base justifies a direct sales team. C-MAC assigns product managers to key customer accounts to serve as a single point of contact for all products and services.

### **Technology, Research & Development**

C-MAC possesses what it believes to be one of the largest non-captive design groups in the EMS industry. C-MAC has eight independent design centers including a research and development center in partnership with the Université de Sherbrooke in Sherbrooke, Québec. C-MAC also carries on design, research and development activities at each of its manufacturing facilities.

C-MAC designs and develops proprietary technologies that it incorporate into products that it manufacture for its customers and that it manufactures and sells directly itself. C-MAC has also developed proprietary manufacturing and process technologies that it uses to manufacture higher quality products at lower costs for its customers. By requiring close collaboration between its design engineers and its manufacturing units, C-MAC seeks to reduce cost, minimize potential production and test difficulties at the initial design phase, thereby ensuring optimal manufacturability.

C-MAC incorporates proprietary design into its microcircuits, frequency control devices, communications and transportation electronics solutions. For example, C-MAC designs application-specific integrated circuits, or ASICs, for its temperature control quartz oscillator family of frequency control products. This

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design is able to combine both analog and digital technologies in a very dense and stable chip for use in advanced communications systems such as CDMA base stations as well as orbiting satellite systems. C-MAC also incorporates proprietary design into its sensors, actuators and electronic body controllers which are utilized in aerospace, military, automotive and industrial electronic applications.

The frequency control products, printed circuit boards, microcircuit and metal products that C-MAC manufactures benefit from its expertise in a wide range of specialized manufacturing processes. These include machining of ductile and brittle materials, clean room processing, casting of special ceramic materials, vacuum deposition of conductors, electroplating, precious metal ink printing and firing, a range of photolithographic processes and encapsulation technologies. C-MAC has also developed some of its own proprietary special-purpose machines and processes.

C-MAC's substantial product design capability is complemented by its extensive experience and capability in advanced test engineering. Using its design expertise, C-MAC has also developed its own testing machines, such as lightning and surge simulation equipment.

C-MAC's success depends in part on its ability to develop and protect its proprietary products, processes and other trade secrets. C-MAC's primary intellectual property resides in its manufacturing and process technologies. C-MAC relies primarily on trade secrets and does not generally rely on copyright protections, trademarks or patents. C-MAC generally does not believe that patents are a particularly effective way to protect its intellectual property due to the rapid changes in technology and the cost and time consuming nature of receiving patent approval. As a result, C-MAC believes that the most effective way to maintain its trade secrets is with continuous and rapid improvement of its processes and products. C-MAC has also taken, and intend to continue to take, appropriate steps to protect this proprietary information, including signing of non-disclosure agreements with certain customers, employees and other parties. In addition, C-MAC ensures that the design and manufacture of its proprietary manufacturing equipment is carried out internally and strictly controlled.

**Competition**

C-MAC competes against independent EMS providers, as well as the in-house, or captive, manufacturing capability of OEMs. Captive manufacturers occasionally sell to third parties in order to increase their volume of business but do not represent significant competition since their efforts are usually sporadic and small scale.

In traditional EMS services C-MAC has many large competitors, including some significantly larger than it. These larger competitors include Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., Sanmina Corporation, SCI Systems, Inc. and Solectron. C-MAC's major competitors for the assembly and integration of complex communications switches include Chatham Technologies-Seattle, Inc., Plexus Corporation and Sanmina Corporation. C-MAC has only a few independent competitors of equivalent size to it in the microtechnology portion of its business including CTS Corporation, Danam Communications Inc., MMC Networks, Inc., Oak Industries Inc. and USI Diversified.

**Employees**

C-MAC's employees are one of its primary strengths. C-MAC works hard to attract and retain high quality and well-qualified staff, particularly those engaged in its scientific and technical activities. As C-MAC has grown, it has been able to offer enhanced career opportunities to its most talented employees. C-MAC's human resources department identifies career objectives and monitors specific skill development for employees with management potential for advancement. C-MAC invests heavily in training at all levels, particularly for its technical staff to ensure that they are trained with the latest design tools and techniques.

As of December 31, 2000, C-MAC employed over 9,000 full time employees worldwide. Given the growth of its business and the quick response time required by its customers, it is critical that C-MAC be

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able to scale its production as necessary to maximize efficiency. To do so, C-MAC uses skilled temporary labor.

Approximately 350 of C-MAC's employees in North America are unionized. In Europe, approximately 400 of C-MAC's employees are covered by union agreements. These union agreements are normally renewed at the beginning of each year although in a few cases they may last two or more years.

C-MAC has no history of labor disputes in any plant. C-MAC operates a policy of involvement and consultation with all employees in every facility and embody the principles of total quality management and continuous improvement at all levels. C-MAC believes that its labor relationships are good.

**Environmental Matters**

C-MAC's operations are subject to many laws and regulations concerning health and safety and the environment. These vary greatly in the various different geographical locations in which C-MAC operates.

In general, environmental laws and regulations become more stringent with the passage of time and C-MAC continually has to update its plants and processes to meet them. In some cases C-MAC has to significantly re-engineer its processes, as was the case in recent years, with the elimination of ozone depleting substances formerly used for cleaning, to comply with more stringent requirements.

C-MAC expects that all manufacturers of electronic equipment will need to reduce their use of lead in solder in the future. Lead is a major component of the solder currently in use. New lead free solders are being developed and C-MAC expects that some will become industry standards. The time frame of legislation is not certain because it has not yet been fully implemented in any jurisdiction. However, C-MAC believes that it will most likely be a widespread requirement in many countries within several years.

C-MAC is in the process of remediating or investigating contamination at a few of its facilities. However, based on currently available information, C-MAC believes that any costs or liabilities in connection with such contamination or any other environmental matter will not have a material adverse effect on its operations or financial condition.

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth, to C-MAC's knowledge, information regarding holdings of C-MAC's common shares as of August 8, 2001, by:

- persons beneficially owning, directly or indirectly, or exercising control or direction over, more than 10% of C-MAC's common shares;
- directors and officers individually; and
- directors and officers as a group.

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Name of Shareholder	Number of C-MAC Common Shares	Percentage of C-MAC Common Shares(1)
Dennis Wood(2)(3)	7,740,552	8.97%
The Hon. Edward C. Lumley 6,532 *		
Brenda T. Norris 5,288 *		

Jean Pierre Ouellet  
2,500 \*

Ronald T. Riley(4)  
12,888 \*

Richard Royer(5)  
43,988 \*

C. Wesley M. Scott  
1,000 \*

Christopher Wood(2)  
4,688 \*

Brian Hamilton Antell

Anthony Byk  
40,000 \*

Suzanne M. Gunther  
4,000 \*

Peter Kielstra

Denis Marchand  
104,644 \*

Claude Michaud  
4,000 \*

John Naismith  
21,850 \*

Donna Pasteris

Frederick Rollinson, III

Directors and Executive Officers as a group (18 persons)  
7,991,930 9.26

- (1) Excludes the C-MAC common shares, if any, issuable by C-MAC on the exercise of the C-MAC options outstanding at August 8, 2001, to acquire up to an aggregate of 3,234,795 C-MAC common shares granted pursuant to C-MAC's stock option plan.
- (2) Does not include 4,000 C-MAC common shares held by Blue Mountain Wallcoverings Inc., Dennis Wood and Christopher Wood respectively control 18% and 70% of the voting shares of Blue Mountain Wallcoverings Inc.
- (3) Dennis Wood holds options to purchase 945,000 C-MAC common shares and controls (a) 100% of the voting shares of Les Placements Dennis Wood Inc., which holds 7,299,188 C-MAC common shares and (b) 100% of the voting shares of 3567320 Canada Inc., which holds 236,360 C-MAC common shares.
- (4) Marback Ltd., a corporation controlled by Ronald T. Riley, holds 10,500 C-MAC common shares.
- (5) 2164-1907 Québec Inc., a corporation controlled by Richard Royer, owns 8,000 C-MAC common shares and Royer Fields and Blais, a general partnership of which Richard Royer is a partner, owns 20,000 C-MAC common shares.

\* Less than 0.1%.

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### **Management of C-MAC**

The following table sets forth information with respect to the directors and executive officers of C-MAC.

Name	Age	Positions with C-MAC
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Dennis Wood(1) Magog, Québec	62	Chairman of the Board of Directors, President and Chief Executive Officer
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The Hon. Edward C. Lumley(1)  
61  
Director

South Lancaster,  
Ontario

Brenda T. Norris(3)  
69  
Director

Westmount, Québec

Jean Pierre Ouellet(1)(2)(3)  
53  
Vice-Chairman of the Board of Directors

Montreal, Québec

Ronald T. Riley(1)(2)  
66  
Director

Westmount, Québec

Richard Royer(3)  
64  
Director

Sherbrooke, Québec

C. Wesley M. Scott(2)  
55  
Director

Toronto, Ontario

Christopher Wood(1)  
37  
Director

King Township,  
Ontario

Brian Hamilton Antell  
62  
Chief Operating Officer and President, Microtechnology

Norfolk, England

Anthony Byk  
51  
Vice President of C-MAC and President,

Electronic

Palm Beach Gardens,  
Florida

Components  
Suzanne M. Gunther  
39  
Vice President,  
Strategic Development

Wellington, Florida

Peter Kielstra  
44  
Vice President,  
Engineering

Kanata, Ontario

Denis Marchand  
46  
Vice President of  
C-MAC and General  
Manager

Sherbrooke, Québec

Automotive Business  
Unit  
Claude Michaud  
44  
Vice President and  
Chief Financial Officer

Town of Mount Royal,  
Québec

John Naismith  
54  
Executive Vice  
President, Global  
Supply Chain

Montreal, Québec

Management  
Donna Pasteris  
55  
Vice President,  
Corporate Services

Town of Mount Royal,  
Québec

Frederick Rollinson,  
III  
45  
Vice President of  
C-MAC and President,  
Electronic

Raleigh, North  
Carolina

Manufacturing  
Services

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- (1) Member of the Strategic Planning Committee.
- (2) Member of the Audit Committee.
- (3) Member of the Human Resources and Corporate Governance Committee.

**Dennis Wood.** Mr. Wood is a co-founder of C-MAC. Mr. Wood has been a director of C-MAC since 1985 and has been Chairman of the Board of Directors and President since 1987 and Chief Executive Officer since 1992. Prior to joining C-MAC, Mr. Wood managed numerous businesses, including Berkeley Wallcoverings Inc. Mr. Wood is a director of General Trust of Canada, Group Bocenor Inc., Maax Inc., Investissements Novacap Inc., Blue Mountain Wallcoverings, Inc. and Export Development Corporation.

**The Hon. Edward C. Lumley.** Mr. Lumley has been a director of C-MAC since 1999. Mr. Lumley has been Vice-Chairman of BMO Nesbitt Burns Inc. since 1990 and is a director of Canadian National

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Railway Company, Magna International Inc., Magna Entertainment Inc., DY-4 Systems Inc., Air Canada, Dynasty Corp., Dollar-Thrifty Automotive Corp. and AIT Corp.

**Brenda T. Norris.** Mrs. Norris has been a director of C-MAC since 1998. Mrs. Norris is President of McCord Street Sites Inc., a real estate management firm. She is also a Governor of McGill University, a member of the Roosevelt Campobello International Park Commission and the international representative for Canada of Christie s.

**Jean Pierre Ouellet.** Mr. Ouellet has been a director of C-MAC since 1992. He was appointed Vice-Chairman of the Board of Directors in July 1999. Mr. Ouellet is Vice Chairman (Québec Operations) of RBC Dominion Securities Inc. From 1996 to 2001, Mr. Ouellet was employed as Senior Vice-President, Chief Legal Officer and Corporate Secretary of Canadian National Railway Company. From 1976 to 1996, Mr. Ouellet was a partner with Stikeman Elliott.

**Ronald T. Riley.** Mr. Riley has been a director of C-MAC since 1997. Mr. Riley has been a Vice-President of L.B.G. Capital Inc., a division of National Bank Financial Inc., since 1995. He is a director of Argus Corporation, Canfor Corporation, Optimum Général Inc. and McGill University Health Centre.

**Richard Royer.** Mr. Royer has been a director of C-MAC since 1992. Mr. Royer is President and Chief Executive Officer of Les Entreprises Kanitek Inc. Prior to December 1998, Mr. Royer was President and Chief Executive Officer of Le Groupe Teknika Inc. He is also a director of Missisquoi Insurance Company, a subsidiary of the Economical Mutual Insurance Company.

**C. Wesley M. Scott.** Mr. Scott was appointed a director of C-MAC in May 2001. Mr. Scott, a corporate director, was until March 2001, Chief Corporate Officer of BCE Inc. From February 1999 until January 2000, Mr. Scott was Vice Chairman of Bell Canada. From July 1995 until January 1999, Mr. Scott was Executive Vice President (Corporate) and, since April 1997, also Chief Financial Officer of Nortel Networks.

**Christopher Wood.** Mr. Wood has been a director of C-MAC since 1998. Mr. Wood is President and Chief Executive Officer of Blue Mountain Wallcoverings Inc. and a director of Groupe Bocenor Inc. Dennis Wood is the father of Christopher Wood.

**Brian Hamilton Antell.** Mr. Antell joined C-MAC in 1992 and was Vice-President of C-MAC and President, C-MAC Microcircuit Division from 1994 to 1998 and has been President, Microtechnology since 1999. Prior to joining C-MAC, Mr. Antell was a Managing Director at Nortel.

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**Anthony Byk.** Mr. Byk has been Vice-President of C-MAC and President, Electronic Components since 1991. Prior to joining C-MAC, Mr. Byk was Senior Manager-Interconnect Operations of Nortel.

**Suzanne M. Gunther.** Mrs. Gunther has served as Vice-President, Strategic Development (and prior to that Vice-President, Mergers and Acquisitions) since 1998. Prior to joining C-MAC, Mrs. Gunther was Senior Vice-President and Financial Strategist of Bank of America.

**Peter Kielstra.** Mr. Kielstra has been Vice-President, Engineering since October 2000. Mr. Kielstra joined C-MAC in 1999 as General Manager of the Engineering Division. Prior to joining C-MAC, Mr. Kielstra had been with Nortel Networks Corporation, from 1984 to 1999, in various positions, most recently as Senior Manager.

**Denis Marchand.** Mr. Marchand joined C-MAC in 1990 and has occupied various positions with us, most recently as Vice-President and General Manager Automotive Products and Services since 1999. Previously, Mr. Marchand was Engineering CAD Manager of Société de Microélectronique de Sherbrooke.

**Claude Michaud.** Mr. Michaud has served as Vice-President and Chief Financial Officer since August 2000. Prior to joining C-MAC, Mr. Michaud has been employed by Scotia Capital Inc. from 1986, where he has served in various positions, most recently as Managing Director.

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**John Naismith.** Mr. Naismith has been Vice-President, E.M.S. division from 1993 to 1999 and Vice-President, Global Supply Chain Management since 1999. Prior to joining C-MAC, Mr. Naismith was Director of Materials at IBM Canada.

**Donna Pasteris.** Mrs. Pasteris joined C-MAC in 2001 as Vice President, Corporate Services. From 1995 until she joined C-MAC, Mrs. Pasteris was employed by Atomic Energy of Canada Ltd. as Vice-President, Administration and Human Resources.

**Frederick Rollinson, III.** Mr. Rollinson joined C-MAC in 1998 as General Manager of the Creedmoor Facility. He has been Vice-President of C-MAC and President, Electronic Manufacturing Services since 1999. From 1996 to 1998, Mr. Rollinson was director of Nortel's North American Distribution Center Operation. Prior to that, from 1994 to 1996, Mr. Rollinson was plant manager of Nortel's Creedmoor Facility.

### **Audit Committee**

The Audit committee is presently made up of three directors all of whom are outside and unrelated directors (Mr. Ronald T. Riley, its Chairman, Mr. Jean Pierre Ouellet and Mr. C. Wesley M. Scott ). Mr. Claude Michaud, Vice President and Chief Financial Officer and Mr. Edmond Brault, Chief Internal Auditor, also attend the meetings of this committee but do not participate in certain of the discussions which are held exclusively between the members of the committee or with C-MAC's auditors. The external auditors also attend the meetings of this committee.

The Audit committee meets and reports to the Board of Directors at least four times a year. During the 2000 financial year, the Audit committee held four (4) meetings. Its mandate includes C-MAC, its divisions and subsidiaries. The main responsibilities of this committee are to review and recommend to the Board of Directors for approval the annual and quarterly financial statements, the annual information form, the prospectus and other documents containing financial information; to recommend to the Board the external auditors to be appointed and their remuneration; to review the nature and scope of the annual audit plan proposed by the auditors; to review with management the risks inherent in C-MAC's business and risk management programs relating thereto; to evaluate with management and the external auditors C-MAC's procedures and systems of internal accounting and control and to recommend to the Board business conduct and conflict of interest policies.

### **Human Resources and Corporate Governance Committee**

The Human Resources and Corporate Governance committee is presently composed of three outside and unrelated directors: Mr. Jean Pierre Ouellet, its Chairman, Mrs. Brenda T. Norris and Mr. Richard Royer.

The Human Resources and Corporate Governance committee meets as required but at least two times per year. Mr. Dennis Wood, Chairman of the Board, President and Chief Executive Officer, attends most of the meetings of this committee, except for those meetings where his performance or compensation are discussed. During 2000, this committee met five (5) times.

The human resources responsibilities of this committee include the review and, if necessary, formulation of appropriate policy recommendations to the Board of Directors regarding all aspects of C-MAC's management and employee compensation. The committee also formulates recommendations relative to the director's compensation. The committee also addresses succession planning, including the appointment, training, monitoring and retention of senior management. Finally, it assesses the performance of all senior officers, including the President and Chief Executive Officer.

As part of its corporate governance responsibilities, it reviews and makes recommendations on the composition of the Board of Directors, its committees and their respective mandates, the scope of which is reviewed annually to ensure that the Board effectively discharges its duties. This review has led to the creation of a Strategic Planning Committee which was put in place in February of 1999. The committee

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also periodically reviews the contribution of each member of the Board to the deliberations of the Board and the affairs of C-MAC.

### **Directors Remuneration**

In 1999, for the first time since C-MAC made its initial stock offering, the remuneration of the members of the Board of Directors was reviewed, as recommended by the Human Resources and Corporate Governance Committee. It was decided to increase the annual base remuneration of outside directors to about Cdn.\$25,000, Cdn.\$10,000 to be paid in cash and the balance in common shares of C-MAC or in deferred stock units. As a consequence, in 2000, outside directors were remunerated for their regular services to C-MAC by way of an annual retainer fee of Cdn.\$10,000 for serving as directors and an attendance fee of Cdn.\$1,000 for each meeting of the Board of Directors attended (Cdn.\$500 for meetings held by telephone conference). In addition, each member of a committee of the Board of Directors who is an independent director receives Cdn.\$2,000 per year and Cdn.\$1,000 for each committee meeting attended (Cdn.\$500 for meetings held by telephone conference), the Chairman of each committee who is an outside director receives an additional sum of Cdn.\$1,000 per year. With respect to the year ended December 31, 2000, C-MAC paid an aggregate of Cdn.\$215,500 to its independent directors. In addition, in 2000, each outside director received 288 common shares of C-MAC, shares that were bought by C-MAC in the market at a price of Cdn.\$51 per share. Mr. Jean Pierre Ouellet and the Honourable Edward C. Lumley instead chose to each receive 288 deferred stock units.

During 1999, the Board of Directors decided to put in place a policy relative to the ownership by members of the Board of a minimum number of shares of C-MAC. Pursuant to the terms of this policy, it is planned that each member of the Board will have to own, before the 2004 shareholder meeting is held (for the present directors of C-MAC or within the five years following their first election (for the new directors that may join the Board), shares of C-MAC for a value of at least \$150,000, such value being established according to the higher of the acquisition cost or market value on the day the decision is made.

### **Report on Executive Compensation**

The Board of Directors established a Human Resources and Corporate Governance Committee which acts as the Executive Compensation Committee of the Board. The Human Resources and Corporate Governance Committee is comprised of three directors who are not employees of C-MAC. The Human Resources and Corporate Governance Committee meets regularly and its meetings are attended by the President and Chief Executive Officer of C-MAC, except for those meetings where his performance or compensation are discussed.

The mandate of the Human Resources and Corporate Governance Committee is, among others, to elaborate and oversee the implementation of a compensation policy for all employees of C-MAC, with a particular emphasis on senior or executive officers, to monitor the implementation of this policy and to review and recommend to the Board annually the compensation of senior or executive officers of C-MAC (including subsidiaries) whatever the form of such compensation, whether salary, bonuses, share options, etc.

From the outset, the Human Resources and Corporate Governance Committee established as a principle that the compensation allocated to senior or executive officers, including the President and Chief Executive Officer, would take into account three principal factors: (i) base salary is to be competitive with that offered by similar size and type employers to employees having comparable responsibilities, (ii) bonuses are determined and paid in relation to the performance of the unit over which the senior or executive employee has responsibility, having due regard

to the overall performance of C-MAC, and, in the case of the President and Chief Executive Officer, the overall performance of C-MAC as measured in relation to its objectives and the market value of its common shares, taking into account general market performance; and (iii) options to purchase shares of C-MAC are awarded as long term incentives by creating a link between the financial success of C-MAC and the creation of capital for senior or executive employees.

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During the course of the 2000 meetings and those held in the beginning of 2001, the Human Resources and Corporate Governance Committee made its recommendation in establishing the compensation paid to the President and Chief Executive Officer of C-MAC for the years ended December 31, 2000 and 2001, based on the following factors: (i) the amount paid or to be paid to him as a base salary has to be competitive with those paid to chief executive officers of comparable employers; (ii) his remuneration must be at a level that recognizes his specific contribution to the success of C-MAC and at the same time meet the other objectives of C-MAC's compensation policy for the other members of management; (iii) finally, as for the other members of management, the compensation must be comprised of a retention element that reduces the risk of a premature departure. The bonus and share options awarded to the President and Chief Executive Officer were established under the factors set forth above. The Committee and the Board are aware of the fact that it is essential for the medium and long term success of C-MAC to recruit, train and keep at C-MAC's employment top level managers, able to take on the challenges associated with the growth of C-MAC all within an environment which is more and more competitive in terms of management recruitment.

The Human Resources and Corporate Governance Committee established the compensation payable to the other executive officers of C-MAC under the same factors, also taking into account their compensation with their previous employer from whom C-MAC purchased the units over which they have responsibilities.

Presented by the Committee: Mr. Jean Pierre Ouellet, Brenda T. Norris and Richard Royer.

**Aggregate Compensation**

As at the year ended December 31, 2000, C-MAC had eleven senior executives. The aggregate cash remuneration paid or payable by C-MAC to said senior executives with respect to such year is Cdn.\$3,363,117. The non-cash remuneration paid or payable to senior executives of C-MAC did not exceed ten percent (10%) of the cash remuneration or Cdn.\$25,000 per person for such year.

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**Executive Compensation**

The following table sets forth the annual compensation for the Chief Executive Officer and each of the other four most highly compensated executive officers, together the Named Executive Officers, for the year ended December 31, 2000 and for each of the two preceding years.

**Summary Compensation Table**

Name	Year	Annual Compensation(1)			All Other Compensation(2)
		Salary(Cdn. \$)	Bonus(Cdn. \$)	Other Annual Compensation(Cdn. \$)	
Dennis Wood	2000	579,464	367,500	75,000	
Chairman of the Board	1999	525,000	332,500	120,000	

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							of Directors, President	1998	475,000	197,500	150,000
							and Chief Executive Officer				
Brian Hamilton Antell											
2000	198,985	92,582	31,379	10,000	89,126(4)						
Chief Operating											
1999	206,166	95,923	23,780	20,000	92,342(4)						
Officer and											
1998	206,383	103,191	18,368	12,000	18,575(4)	President,					
Microtechnology											
Frederick Rollinson, III											
2000	208,084	118,840		10,000							
Vice President and											
1999	185,411	7,217		25,000							
President, Electronic											
1998	44,231(5)				Manufacturing Services						
Anthony Byk											
2000	248,097	133,695		10,000							
Vice President and											
1999	208,733	131,340		20,000							
President, Electronic											
1998	199,329	119,597		20,000							
Components											
Suzanne M. Gunther											
2000	179,374	95,815		15,000							
Vice President,											
1999	152,050	57,732		20,000							
Strategic Development											
1998	144,492		3,000	2,760							

- (1) Amounts paid in currencies other than Canadian dollars have been converted in Canadian dollars by using the exchange rates as at the end of each year.
- (2) The amount of All Other Compensation paid on a non-cash basis to named executive officers in 2000 did not exceed ten percent (10%) of the cash remuneration or Cdn. \$25,000 per person for such year.
- (3) For more information, see Business of C-MAC Stock Option Plan .
- (4) Amounts paid pursuant to a retirement plan.
- (5) For a period of three months.

**Stock Option Plan**

C-MAC s stock option plan authorizes the granting of options to purchase a maximum of 8,625,000 common shares to employees, officers and directors of C-MAC and its subsidiaries. The exercise price of the options granted pursuant to the plan cannot be less than the closing sale price per C-MAC common share on the day preceding the grant of such options. Unless the C-MAC board of directors decides otherwise in exceptional circumstances, the options granted under the plan shall vest equally over a five year period which begins one year after the date on which such options were granted. Optionholders may exercise each option for a period determined by the C-MAC board of directors which cannot be later than ten years from the day of the grant of the option, provided that the optionholder remains an employee, an officer or a director of C-MAC or of its subsidiaries. The options are not transferable and the options may be exercised in the event of a takeover bid if the C-MAC board of directors deems it appropriate.

The plan provides that the number of options granted to any outside director cannot exceed 20,000 options for every ten years of service as a director.

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The following table sets forth, for the executive officers named in the C-MAC summary compensation table, the stock options granted under C-MAC's stock option plan to such executive officers during fiscal 2000.

**Stock Option Grants in Fiscal 2000**

Name	Number of Securities Under Options Granted (#)	Financial Year	Percentage of Total Options Granted to Employees in (Cdn.\$/Share)	Exercise Price (Cdn.\$/Share)	Base Date of Grant	Market Value of Securities Underlying Options on the Date of Grant (Cdn.\$/Share)	Expiration Date
Dennis Wood	75,000		9.56%	57.00	57.00	04-18-2010	
Brian Hamilton Antell	10,000	1.27	57.00	57.00	04-18-2010		
Frederick Rollinson, III	10,000	1.27	57.00	57.00	04-18-2010		
Anthony Byk	10,000	1.27	57.00	57.00	04-18-2010		
Suzanne M. Gunther	5,000	0.64	71.65	71.65	07-05-2010	10,000	1.27 57.00 57.00 04-10-2010

The options granted in 2000 could not be exercised for a period of one year beginning on the date they were granted. Following the expiration of the first year, the options vest ratably over a five year period. Any portion not exercised during a given year is added to the amount exercisable during the following year until expiration of such options.

The following table sets forth, for the executive officers named in the C-MAC summary compensation table, the stock options exercised by such executive officers during fiscal 2000.

**Aggregated Stock Option Exercises in Fiscal 2000**

Name	Shares Acquired on Exercise (#)	Aggregate Value Realized (Cdn.\$)	Number of Securities Underlying Unexercised Options at 2000 Year-End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at 2000 Year-End Exercisable/Unexercisable (Cdn.\$)(1)
Dennis Wood	300,000	18,840,000(2)	740,000/205,000	45,662,500/7,810,000
Brian Hamilton Antell	1,768,000(3)	38,666/ 27,334	2,281,030/1,050,470	
Frederick Rollinson, III	8,332/ 26,668	411,098/ 922,402		
Anthony Byk	2,300,000(4)	44,000/ 30,000	2,575,867/1,197,833	50,000 3,630,000(5)



ne M. Gunther  
29,200/ 18,800 1,522,350/ 451,960

- (1) Calculated using the closing market price of each C-MAC common share as of December 31, 2000 on the TSE (Cdn.\$67.00).
- (2) Calculated using the closing market price of each C-MAC common share as of April 20, 2000 on the TSE (Cdn.\$62.80).
- (3) Calculated using the closing market price of each C-MAC common share as of August 22, 2000 on the TSE (Cdn.\$104.00).
- (4) Calculated using the closing market price of each C-MAC common share as of February 18, 2000 on the TSE (Cdn.\$57.50).
- (5) Calculated using the closing market price of each C-MAC common share as of December 6, 2000 on the TSE (Cdn.\$72.60).
- (6) Calculated using the closing market price of each C-MAC common share as of May 9, 2000 on the TSE (Cdn.\$59.55).

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### **Employment Agreements**

Each of Dennis Wood, Brian Antell, Anthony Byk, Frederik Rollinson, Claude Michaud, John Naismith, Suzanne Gunther, Peter Kielstra, Donna Pasteris, Roch Asselin, and Denis Marchand have entered into letter agreements with C-MAC providing for benefits to be paid upon termination of employment, including for good reason but excluding for cause, generally within 12 months following a change of control in C-MAC (which includes the arrangement). For all the above persons except for Mr. Wood, the agreements generally provide for a lump sum payment to be made equal to 24 months of salary and bonus. The agreement entered with Mr. Wood generally provides for a lump sum payment to be made equal to 36 months of Mr. Wood's salary and bonus. In addition, the vesting schedule of options granted to these persons may be accelerated in certain circumstances including in the event of termination without cause following completion of the arrangement.

### **Performance Graph**

The following graph compares the total cumulative yield of a Cdn.\$100 investment in the common shares of C-MAC made on December 29, 1995, and the performance of the TSE 300 Index on The Toronto Stock Exchange.

	<b>29-Dec-95</b>	<b>31-Dec-96</b>	<b>31-Dec-97</b>	<b>31-Dec-98</b>	<b>31-Dec-99</b>	<b>29-Dec-00</b>
C-MAC	\$ 100.00	\$ 233.7	\$ 436.1	\$ 608.4	\$ 1,988.0	\$ 3,228.9
TSE 300	\$ 100.00	\$ 125.7	\$ 142.1	\$ 137.6	\$ 178.5	\$ 189.5

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### **C-MAC MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following in conjunction with the Selected Financial Data section of this document and C-MAC's consolidated financial statements and the notes thereto appearing elsewhere in this document. The forward-looking statements in this discussion regarding the electronic manufacturing services industry, C-MAC's expectations regarding its future performance, liquidity and capital resources and other non-historical statements in this discussion include numerous risks and uncertainties, as described in the Risk Factors section of this documents. C-MAC's actual results may differ materially from those contained in any forward-looking statements. You should read this discussion completely and with the understanding that C-MAC's actual future results may be materially different from what it expects. C-MAC may not update these forward-looking statements after the date of this document, even though its situation will change in the future. All forward-looking statements attributable to C-MAC are expressly qualified by these cautionary statements.*

## Overview

C-MAC provides a comprehensive portfolio of electronic manufacturing services and solutions to over 500 customers worldwide. C-MAC focuses on complex, high-margin products and services ranging, from components to full system assembly and test as well as design and supply chain management services. C-MAC primarily serves the global communications equipment market. In addition, C-MAC provides solutions for the automotive electronics, aerospace and instrumentation markets.

## Operating Results

C-MAC's revenue has grown from Cdn.\$643.0 million in 1998 to Cdn.\$2.6 billion in 2000. C-MAC's growth has been primarily due to acquisitions and the continued outsourcing by OEMs of manufacturing and manufacturing related services. C-MAC's revenue growth in the future will depend largely on its ability to secure additional programs with existing OEMs, engage new OEMs, expand its operations and identify and complete further acquisitions.

C-MAC provides services to its customers primarily on a turnkey basis. Turnkey contracts require C-MAC to source, procure and maintain inventory for eventual assembly into products deliverable to its customers. Some of C-MAC's competitors deliver products on a consignment basis where the customer provides the raw materials. Consignment sales generally only include manufacturing costs. Almost none of C-MAC's revenue is based on consignment sales.

C-MAC enters into contracts with its customers that vary in length and typically do not contain minimum purchase commitments. Most of C-MAC's sales are derived from purchase orders from its customers. Orders from C-MAC's customers, including those contemplated under long-term purchase agreements commit to firm production schedules ranging up to 90 days in advance. C-MAC's agreements with Nortel vary in length, with the last one expiring in September 2002. These agreements do not contemplate minimum purchase commitments.

C-MAC's margins from period to period are affected by its product mix, specifically by the relationship of the aggregate cost of the components being integrated to the amount of the value added services that it provides. C-MAC is increasingly providing products with higher aggregate component costs.

C-MAC minimizes risks associated with carrying inventory by working closely with its customers and suppliers and by usually ordering materials and components only to the extent necessary to satisfy existing customer purchase orders. Most of C-MAC's significant customers contracts permit quarterly or other periodic adjustments to pricing based on changes in component prices, which largely protects C-MAC from the risk of raw materials cost fluctuations.

C-MAC's consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with Canadian GAAP. As applied to C-MAC's consolidated financial statements, Canadian

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GAAP conforms in all material respects with U.S. GAAP except as described in note 15 to C-MAC's audited consolidated financial statements included elsewhere in this document.

The following table sets forth, for the periods indicated, the percentage of revenue represented by items in C-MAC's consolidated statements of earnings as reported under Canadian GAAP:

	Twenty-six week periods ended		Years ended December 31,		
	June 30, 2001	July 1, 2000	2000	1999	1998
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses:					
Cost of goods sold					
82.4 83.7 82.9 83.0 81.8					
Selling and administrative					
5.0 4.7 4.5 5.8 6.9					
Research and development					
2.4 1.4 1.6 1.5 2.0					
Amortization of capital and other assets					
2.5 1.7 1.7 2.0 1.8					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
Earnings from operations					
7.7 8.5 9.3 7.7 7.5					
Financial expenses					
0.4 1.2 0.4 1.2 0.9					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
Earnings before income taxes, non-controlling interest and goodwill amortization					
7.3 7.3 8.9 6.5 6.6					
Income taxes					
2.5 2.7 3.1 2.3 2.4					
Net earnings before goodwill amortization					
4.8 4.6 5.8 4.2 4.2					
Goodwill amortization, net of income taxes					
1.3 0.5 0.6 0.3 0.2					
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Net earnings

3.5% 4.1% 5.2% 3.9% 4.0%

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**Twenty-Six Week Period Ended June 30, 2001 Compared to the Twenty-Six Week Period Ended July 1, 2000**

*Revenue.* C-MAC's revenue was Cdn.\$1.5 billion for the twenty-six week period ended June 30, 2001 compared to Cdn.\$1.0 billion for the twenty-six week period ended July 1, 2000. This 50% increase is primarily attributable to organic growth and acquisitions completed over the last 12 months, namely the acquisition of A-Plus Manufacturing Corp., GHZ Technologies Inc., TQF Technologie Inc., Invotronics, Kavlico Corporation, DY4 Systems Inc. and two plants from Honeywell.

*Cost of Goods Sold.* C-MAC's cost of goods sold was Cdn.\$1,229.0 million, or 82.4% of revenue, for the twenty-six week period ended June 30, 2001 compared to Cdn.\$831.6 million, or 83.7% of revenue, for the twenty-six week period ended July 1, 2000, representing an increase of 47.8%. The decrease in cost of goods sold expenses as a percentage of revenue is the result of C-MAC's selective vertical integration business model, acquisitions and higher value-added services.

*Selling and Administrative Expenses.* Selling and administrative expenses were Cdn.\$74.1 million, or 5.0% of revenue, for the twenty-six week period ended June 30, 2001, compared to Cdn.\$46.4 million, or 4.7% of revenue, for the twenty-six week period ended July 1, 2000. The increase of Cdn.\$27.7 million was due to the growth of C-MAC's business and acquisitions having a higher percentage of selling and administrative expenses relative to revenue.

*Research and Development Expenses.* Research and development expenses were Cdn.\$36.2 million, or 2.4% of revenue, for the twenty-six week period ended June 30, 2001, compared to Cdn.\$13.4 million, or 1.4% of revenue, for the twenty-six week period ended July 1, 2000. The increase of Cdn.\$22.8 million was primarily due to the expansion of C-MAC's activities and acquisitions, such as DY4, having a higher percentage of research and development expenses relative to revenue.

*Amortization of Capital and Other Assets.* Amortization of capital and other assets amounted to Cdn.\$36.8 million, or 2.5% of revenue, for the twenty-six week period ended June 30, 2001, compared to Cdn.\$17.1 million, or 1.7% of revenue, for the twenty-six week period ended July 1, 2000. The increase of Cdn.\$19.7 million was due to increased capital expenditures and acquisitions.

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*Financial Expenses, net.* Net financial expenses were Cdn.\$6.2 million for the twenty-six week period ended June 30, 2001 compared to Cdn.\$12.1 million for the twenty-six week period ended July 1, 2000. The decrease in financial expenses was primarily due to higher interest revenue.

*Income Taxes.* Income taxes totaled Cdn.\$37.9 million for the twenty-six week period ended June 30, 2001 compared to Cdn.\$27.0 million for the twenty-six week period ended July 1, 2000. C-MAC's effective income tax rate was approximately 34.7% for the twenty-six week period ended June 30, 2001 compared to approximately 36.9% for the twenty-six week period ended July 1, 2000. The decrease in C-MAC's effective

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income tax rate in 2001 is attributable to a higher proportion of its revenue being generated by operations in lower tax jurisdictions.

*Goodwill Amortization, Net of Income Taxes.* Goodwill amortization, net of income taxes was Cdn.\$18.8 million for the twenty-six week period ended June 30, 2001 compared to Cdn.\$5.2 million for the twenty-six week period ended July 1, 2000. This increase of Cdn.\$13.6 million is attributable to acquisitions completed in 2000.

### **Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999**

*Revenue.* C-MAC's revenue was Cdn.\$2.6 billion for the year ended December 31, 2000 compared to Cdn.\$1.2 billion for the year ended December 31, 1999. This 116.7% increase is primarily attributable to organic growth and acquisitions completed in 2000.

Sales to Canada amounted to Cdn.\$936.9 million, constituting 36.7% of revenue for the year ended December 31, 2000, compared to 27.2% for the year ended December 31, 1999. Sales to the United States reached Cdn.\$1,130.1 million for the year ended December 31, 2000, representing 44.3% of revenue, compared to Cdn.\$585.9 million, or 50.1% of revenue, for the year ended December 31, 1999. Sales to Europe were Cdn.\$405.5 million for the year ended December 31, 2000, representing 15.9% of revenue, compared to Cdn.\$221.3 million, or 18.9% of revenue, for the year ended December 31, 1999. Our sales to the rest of the world were Cdn.\$80.3 million for the year ended December 31, 2000, representing 3.1% of revenue, compared to Cdn.\$44.3 million, or 3.8% of revenue, for the year ended December 31, 1999.

*Cost of Goods Sold.* C-MAC's cost of goods sold was Cdn.\$2,115.5 million, or 82.9% of revenue, for the year ended December 31, 2000 compared to Cdn.\$970.7 million, or 83.0% of revenue, for the year ended December 31, 1999, representing an increase of 117.9%. C-MAC's gross margin increased from 17.0% in 1999 to 17.1% in 2000, even though EMS product, which is typically a lower margin business, represented a larger percentage of revenue. The improvement was a result of increased productivity and acquisitions.

*Selling and Administrative Expenses.* Selling and administrative expenses were Cdn.\$114.0 million, or 4.5% of revenue, for the year ended December 31, 2000 compared to Cdn.\$67.5 million, or 5.8% of revenue for the year ended December 31, 1999. The increase of Cdn.\$46.5 million was primarily due to the expansion of C-MAC's activities and acquisitions. The decrease in selling and administrative expenses relative to revenue is due to investments made in past years and additional revenue generated as a result.

*Research and Development Expenses.* Research and development expenses were Cdn.\$41.5 million, or 1.6% of revenue, for the year ended December 31, 2000 compared to Cdn.\$17.2 million, or 1.5% of revenue, for the year ended December 31, 1999. The increase of Cdn.\$24.3 million was primarily due to the expansion of C-MAC's activities and acquisitions.

*Amortization of Capital and Other Assets.* Amortization of capital and other assets amounted to Cdn.\$44.1 million, or 1.7% of revenue, for the year ended December 31, 2000, compared to Cdn.\$22.8 million, or 2.0% of revenue, for the year ended December 31, 1999. The increase of Cdn.\$21.3 million was mainly due to increased capital expenditures and acquisitions.

*Financial Expenses, net.* Net financial expenses were Cdn.\$9.2 million for the year ended December 31, 2000 compared to Cdn.\$13.6 million for the year ended December 31, 1999. The decrease

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of Cdn.\$4.4 million was primarily due to higher interest revenue relative to increased costs of borrowings required to finance certain acquisitions, capital expenditures and working capital requirements.

*Income Taxes.* Income taxes totaled Cdn.\$79.8 million for the year ended December 31, 2000 compared to Cdn.\$27.4 million for the year ended December 31, 1999. Our effective income tax rate for 2000 was approximately 34.9% compared to approximately 35.5% for 1999. The decrease in C-MAC's effective tax rate for the year ended December 31, 2000 was mainly attributable to higher tax deductions in 2000 partially offset by a higher proportion of revenue being generated by our operations in higher tax jurisdictions.

*Goodwill Amortization, Net of Income Taxes.* Goodwill amortization net of income taxes amounted to Cdn.\$15.7 million for the year ended December 31, 2000 compared to Cdn.\$3.9 million for the year ended December 31, 1999. This increase of Cdn.\$11.8 million is attributable to acquisitions completed in 2000.

**Year Ended December 31, 1999 Compared to the Year Ended December 31, 1998**

*Revenue.* Our revenue was Cdn.\$1.2 billion for the year ended December 31, 1999 compared to Cdn.\$643.0 million for the year ended December 31, 1998. This 86.6% increase is primarily attributable to acquisitions, namely the acquisition of the Monkstown facility, Blue Star Engineering Ltd. and LG Technologies Group Inc. in 1999 and of the Creedmoor facility in North Carolina, USA in 1998.

Sales to Canada amounted to Cdn.\$317.7 million, constituting 27.2% of revenue for the year ended December 31, 1999, compared to 16.1% for the year ended December 31, 1998. Sales to the United States reached Cdn.\$585.8 million for the year ended December 31, 1999, representing 50.1% of revenue, compared to Cdn.\$354.9 million, or 55.2% of revenue, for the year ended December 31, 1998. Sales to Europe were Cdn.\$221.3 million for the year ended December 31, 1999, representing 18.9% of revenue, compared to Cdn.\$151.5 million, or 23.6% of revenue, for the year ended December 31, 1998. Our sales to the rest of the world were Cdn.\$44.3 million for the year ended December 31, 1999, representing 3.8% of revenue, compared to Cdn.\$33.0 million, or 5.1% of revenue, for the year ended December 31, 1998.

*Cost of Goods Sold.* Our cost of goods sold was Cdn.\$970.7 million, or 83.0% of revenue, for the year ended December 31, 1999 compared to Cdn.\$525.5 million, or 81.8% of revenue, for the year ended December 31, 1998, representing an increase of 84.7%. The increase, as a percentage of revenue, was primarily due to increased sales of products with higher aggregate component costs.

*Selling and Administrative Expenses.* Selling and administrative expenses were Cdn.\$67.5 million, or 5.8% of revenue, for the year ended December 31, 1999 compared to Cdn.\$44.6 million, or 6.9% of revenue for the year ended December 31, 1998. The increase of Cdn.\$22.9 million was primarily due to the expansion of our activities and to our acquisitions and represents a lower percentage of our revenue due to the fixed nature of a portion of these expenses.

*Research and Development Expenses.* Research and development expenses were Cdn.\$17.2 million, or 1.5% of revenue, for the year ended December 31, 1999 compared to Cdn.\$12.9 million, or 2.0% of revenue, for the year ended December 31, 1998. The increase of Cdn.\$4.3 million was primarily due to the expansion of our activities and the addition of design centers acquired from Nortel.

*Amortization of Capital and Other Assets.* Amortization of capital and other assets amounted to Cdn.\$22.8 million, or 2.0% of revenue, for the year ended December 31, 1999, compared to Cdn.\$11.8 million, or 1.8% of revenue, for the year ended December 31, 1998. The increase of Cdn.\$11.0 million was mainly due to increased investments in capital assets.

*Financial Expenses, net.* Net financial expenses were Cdn.\$13.6 million for the year ended December 31, 1999 compared to Cdn.\$6.1 million for the year ended December 31, 1998. The increase of Cdn.\$7.5 million was primarily due to higher borrowings required to finance certain acquisitions and capital expenditures.

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*Income Taxes.* Income taxes totaled Cdn.\$27.4 million for the year ended December 31, 1999 compared to Cdn.\$15.3 million for the year ended December 31, 1998. Our effective income tax rate for 1999 was approximately 35.5% compared to approximately 36.4% for 1998. The decrease in our effective tax rate for the year ended December 31, 1999 was mainly attributable to higher tax deductions in 1999 partially offset by a higher proportion of revenue being generated by our operations in higher tax jurisdictions.

*Goodwill Amortization, Net of Income Taxes.* Goodwill amortization net of income taxes amounted to Cdn.\$3.9 million for the year ended December 31, 1999 compared to Cdn.\$1.3 million for the year ended December 31, 1998. This increase of Cdn.\$2.6 million is attributable to the significant number of acquisitions completed in 1999.

**Quarterly Results of Operations (Unaudited)**

The following tables set forth unaudited quarterly results prepared in accordance with Canadian GAAP for the ten quarters ended June 30, 2001, as well as such data expressed as a percentage of sales for each quarter. Historically, C-MAC has experienced some seasonal variation in revenue, with revenue typically being highest in the last two quarters and lowest in the first two quarters. This variation may be offset in part by internal growth and acquisitions. This information has been presented on the same basis as C-MAC's audited consolidated financial statements included elsewhere in this prospectus and, in C-MAC's opinion, includes all adjustments, consisting only of normal recurring adjustments, that C-MAC considers necessary to present fairly the unaudited quarterly results. This information should be read in conjunction with C-MAC's audited consolidated financial statements and the related notes appearing elsewhere in this document. The operating results for any quarter are

not necessarily indicative of results for any future period.

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**QUARTERLY RESULTS OF OPERATIONS  
(Unaudited)**

Thirteen-week periods ended

June 30, 2002, July 31, 2002, August 31, 2002, September 30, 2002, October 31, 2002, November 30, 2002, December 31, 2002

(in thousands of Canadian dollars, except earnings per share data)

**Consolidated  
Statement of Earnings**

Revenue	\$764,118	\$727,560	\$856,278	\$702,608	\$578,730	\$415,223	\$391,721	\$279,220	\$256,239	\$241,917
Operating expenses:										
Cost of goods sold	629,101	599,869	699,762	584,102	483,558	348,083	322,477	231,682	213,861	202,681
Selling and administrative	36,104	37,992	36,832	30,718	26,069	20,350	19,930	15,049	16,059	16,444
Research and development	17,885	18,361	18,168	9,875	7,682	5,738	6,801	3,693	3,194	3,508
Amortization of capital and other assets	18,382	18,369	15,685	11,309	9,702	7,374	6,853	5,489	5,245	5,257

Earnings from operations	62,646	52,969	85,831	66,604	51,719	33,678	35,660	23,307	17,880	14,027
Financial expenses (earnings)	2,995	3,200	(2,320)	(587)	7,449	4,645	5,676	3,118	2,787	2,008
Income taxes	20,424	17,507	27,410	25,349	16,582	10,438	10,311	7,475	5,494	4,119
Non-controlling interest										





Basic	86,295	86,268	84,356	77,477	68,511	67,759	59,831	58,630	58,453	58,413
Diluted	87,846	87,783	86,165	79,413	70,459	69,567	61,821	60,201	59,925	59,759

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**QUARTERLY RESULTS OF OPERATIONS**

(Unaudited)

Thirteen-week periods ended

June 30, 2001  
 March 31, 2001  
 December 31, 2000  
 September 30, 2000  
 July 1, 2000  
 April 1, 2000  
 December 31, 1999  
 October 3, 1999  
 July 3, 1999  
 April 3, 1999

(in percentage of revenue)

**Consolidated Statement of Earnings**

Revenue  
 100.0% 100.0% 100.0% 100.0% 100.0% 100.0% 100.0% 100.0% 100.0% 100.0% 100.0%

Operating expenses:

Cost of goods sold  
 82.3% 82.4% 81.7% 83.1% 83.6% 83.8% 82.3% 83.0% 83.5% 83.8%

Selling and administrative  
 4.7% 5.2% 4.3% 4.4% 4.5% 4.9% 5.1% 5.4% 6.3% 6.8%

Research and development  
 2.3% 2.5% 2.1% 1.4% 1.3% 1.4% 1.7% 1.3% 1.2% 1.5%

Amortization of capital and other assets  
 2.4% 2.5% 1.8% 1.6% 1.7% 1.8% 1.7% 2.0% 2.0% 2.2%

Earnings from operations  
 8.2% 7.3% 10.0% 9.5% 8.9% 8.1% 9.1% 8.3% 7.0% 5.8%

Financial expenses  
 0.4% 0.4% -0.3% -0.1% 1.3% 1.1% 1.4% 1.1% 1.1% 0.8%

Income taxes  
 2.7% 2.4% 3.2% 3.6% 2.9% 2.5% 2.6% 2.7% 2.1% 1.7%

Non-controlling interest



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**Liquidity and Capital Resources**

C-MAC's principal sources of liquidity have been cash provided by its operations, borrowings under its revolving bank credit facilities and the issuance of common shares and debentures. C-MAC's principal uses of cash have been to finance working capital, acquisitions and capital expenditures. C-MAC anticipates that these uses, particularly financing potential future acquisitions and the establishment of new production capacities will continue to be its principal uses of cash in the future.

During the twenty-six week period ended June 30, 2001 C-MAC's operating activities generated Cdn.\$140.7 million. During the twenty-six week period ended July 1, 2000, C-MAC's operating activities used Cdn.\$84.5 million, principally to support higher working capital requirements relating to revenue growth. Cash from earnings of Cdn.\$123.9 million and Cdn.\$66.3 million for the same periods were used principally to fund the growth in operations and acquisitions.

Net cash provided by financing activities for the twenty-six week period ended June 30, 2001 was Cdn.\$16.7 million as a result of a net increase of bank indebtedness compared to Cdn.\$246.4 million for the twenty-six week period ended July 1, 2000, as a result of a net increase in long-term debt of Cdn.\$114.7 million principally from borrowings under our revolving bank credit facilities, an increase in bank indebtedness of Cdn.\$195.0 million and an issuance of three million common shares for net proceeds of Cdn.\$181.1 million and cash from financing activities of Cdn.\$42.9 million.

Net cash used in investing activities for the twenty-six week period ended June 30, 2001 and the twenty-six week period ended July 1, 2000 was Cdn.\$79.2 million and Cdn.\$246.6 million, respectively. Investing activities consisted primarily of capital expenditures of Cdn.\$55.6 million in the twenty-six week period ended June 30, 2001, capital expenditures of Cdn.\$60.2 million and of business acquisitions of Cdn.\$169.6 million in the twenty-six week period ended July 1, 2000.

Net cash used in operating activities for the year ended December 31, 2000 was Cdn.\$184.2 million. Net cash provided by operating activities in the years ended December 31, 1999 and 1998 was Cdn.\$13.1 million and Cdn.\$37.1 million, respectively. Cash from earnings for the same periods were Cdn.\$196.8 million, Cdn.\$73.8 million and Cdn.\$47.1 million, respectively.

Net cash provided by financing activities for the years ended December 31, 2000, 1999 and 1998 was Cdn.\$1,260.8 million, Cdn.\$180.4 million and Cdn.\$196.8 million respectively. C-MAC's principal financing activities in 2000 included repayment of existing debt facilities, borrowings on its revolving bank credit facilities, the issuance of debentures and the issuances of common shares. C-MAC's principal financing activities in 1998 included increased borrowings, issuances of common shares and repurchases of common shares.

**Liquidity**

Net cash used in investing activities for the years ended December 31, 2000, 1999 and 1998 was Cdn.\$1,056.1 million, Cdn.\$172.6 million and Cdn.\$139.0 million, respectively. Investing activities in 2000, 1999 and 1998 included Cdn.\$892.1 million for acquisitions and Cdn.\$148.9 million for capital expenditures, Cdn.\$131.4 million for acquisitions and Cdn.\$40.0 million for capital expenditures and Cdn.\$115.6 million for acquisitions and Cdn.\$18.5 million for capital expenditures, respectively.

## Capital Resources

As of June 30, 2001, C-MAC had available credit facilities of Cdn.\$661 million of which approximately Cdn.\$270 million was drawn and had outstanding debentures of Cdn.\$110 million maturing in 2008. C-MAC also had a total of Cdn.\$278 million of cash and cash equivalents, working capital of Cdn.\$971 million and a current ratio of 3.94:1.

Based upon C-MAC's current level of operations, C-MAC believes that cash generated from operations, available cash and amounts available under its revolving bank credit facilities will be adequate to meet its debt service requirements, capital expenditures and working capital needs for at least the next 12 months.

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### New Accounting Standards

The Canadian Institute of Chartered Accountants (CICA) has approved two new standards that will, in the future, impact the business of C-MAC. Section 1581 of the CICA handbook addresses business combinations and Section 3062 addresses goodwill and other intangible assets. The most significant impact for the Company is anticipated to be the change to non-amortization of goodwill. Instead, goodwill will be periodically assessed for impairment.

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### TAX CONSIDERATIONS FOR C-MAC SECURITYHOLDERS

#### Canadian Tax Considerations for C-MAC Shareholders

In the opinion of Stikeman Elliott, Canadian counsel to C-MAC, the following is a summary of the principal Canadian federal income tax consequences which are generally applicable under the *Income Tax Act* (Canada) to a C-MAC shareholder who, for the purposes of such act and at all relevant times, holds C-MAC common shares and will hold any exchangeable shares of Exchangeco and shares of Solectron common stock as capital property, and who deals at arm's length with, and is not and will not be affiliated with, any of C-MAC, Solectron, Callco or Exchangeco. C-MAC common shares, exchangeable shares of Exchangeco and shares of Solectron common stock will generally constitute capital property to a holder thereof unless the holder holds such securities in the course of carrying on a business or has acquired such securities in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary does not apply to a C-MAC shareholder in respect of whom Solectron is or will be a foreign affiliate within the meaning of the *Income Tax Act* (Canada). It is assumed for the purposes of this summary that Exchangeco will be a taxable Canadian corporation within the meaning of the *Income Tax Act* (Canada) at all relevant times.

This summary also does not apply to C-MAC shareholders who own (or at the time of the arrangement will own) their C-MAC common shares indirectly through a holding company and who elect under the terms of the arrangement described herein to exercise the alternative allowing them to tender their holding company shares directly to Exchangeco instead of their C-MAC common shares. Such C-MAC shareholders should consult their own tax advisors as to the tax consequences to them of electing to exercise this alternative.

This summary is based upon the current provisions of the *Income Tax Act* (Canada), the regulations adopted thereunder and counsel's understanding of the current published administrative practices and policies of the Canada Customs and Revenue Agency, all in effect as of the date hereof. This summary also takes into account any proposed changes to the *Income Tax Act* (Canada) and regulations thereunder that are publicly announced by the Canadian Minister of Finance prior to the date hereof and assumes that all such changes will be enacted substantially as proposed. However, no assurances can be given that any such proposed changes to the *Income Tax Act* (Canada) and regulations will be enacted as proposed, or at all.

The *Income Tax Act* (Canada) contains mark-to-market provisions relating to securities held by certain financial institutions. This summary does not take into account such mark-to-market rules. C-MAC shareholders that are financial institutions for purposes of such rules should consult their own tax advisors.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for any proposed changes to the *Income Tax Act* (Canada) and regulations thereunder that are publicly announced by the Canadian Minister of Finance prior to the date hereof, does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, or any changes in the administrative practices of the Canada Customs and Revenue Agency. This summary does not take into account tax legislation of any province, territory or foreign jurisdiction. Provisions of provincial income tax legislation vary from province to province in Canada and may differ from federal income tax legislation. No advance income tax ruling has been sought or obtained from the Canada Customs and Revenue Agency to confirm the tax consequences of any of the transactions herein described.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal, business or tax advice to any particular C-MAC shareholder. Accordingly, C-MAC shareholders should consult their own tax advisors for advice with respect to the income tax consequences to them of the transactions described herein having regard to their own particular circumstances.**

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For purposes of the *Income Tax Act* (Canada), all amounts relating to the acquisition, holding or disposition of C-MAC common shares and holding and disposing of exchangeable shares of Exchangeco and shares of Solectron common stock must be expressed in Canadian dollars, including dividends, adjusted cost base and proceeds of disposition. Amounts denominated in United States dollars must be converted into Canadian dollars based on the prevailing United States dollar exchange rate at the time such amounts arise.

### **C-MAC Shareholders Resident in Canada**

The following portion of this summary is applicable to a C-MAC shareholder who, for the purposes of the *Income Tax Act* (Canada) and any applicable income tax treaty or convention, at all relevant times, is or is deemed to be a resident of Canada while holding C-MAC common shares, exchangeable shares or shares of Solectron common stock.

A C-MAC shareholder that is resident in Canada may elect to receive exchangeable shares, shares of Solectron common stock or a combination of the foregoing for such C-MAC shareholder's C-MAC common shares. The resulting consequences are discussed separately below. Certain C-MAC shareholders whose C-MAC common shares might not otherwise qualify as capital property may be able to make an irrevocable election in accordance with subsection 39(4) of the *Income Tax Act* (Canada) to have the C-MAC common shares and every Canadian security (as defined in the *Income Tax Act* (Canada)) owned by such C-MAC shareholder in the taxation year of the election and in all subsequent taxation years deemed to be capital property. Where a C-MAC shareholder makes a section 85 election in respect of C-MAC common shares, as described below, the exchangeable shares received in exchange may not be Canadian securities for this purpose. C-MAC shareholders who do not hold their C-MAC common shares as capital property should consult their own tax advisors for advice with respect to whether an election under subsection 39(4) is available and/or advisable in their particular circumstances.

#### *Receipt of Ancillary Rights and Exchangeable Share Rights*

A C-MAC shareholder who receives exchangeable shares of Exchangeco under the arrangement will also receive certain ancillary rights with respect to such exchangeable shares, as well as exchangeable share rights entitling holders of exchangeable shares to acquire additional exchangeable shares in certain circumstances and under specific terms and conditions. A C-MAC shareholder will be required to account for such ancillary rights and exchangeable share rights in determining the proceeds of disposition of such holder's C-MAC common shares. As a result, C-MAC shareholders receiving exchangeable shares pursuant to the arrangement will be required to determine the fair market value of the ancillary rights and exchangeable share rights received on the exchange along with the exchangeable shares on a reasonable basis for Canadian income tax purposes. \_\_\_\_\_ is of the view that both the ancillary rights and exchangeable share rights have a nominal fair market value. Any such determination of value, however, is not binding upon the Canada Customs and Revenue Agency. Counsel expresses no opinion as to the appropriateness or accuracy of this opinion. A reference to exchangeable shares of Exchangeco in the discussion that follows will be deemed to include a reference to the ancillary rights and exchangeable share rights, where applicable.

#### *Grant of Call Rights*

\_\_\_\_\_ is of the view that the rights to acquire the exchangeable shares of Exchangeco granted by C-MAC shareholders who receive exchangeable shares on the arrangement to Callco and Solectron, whichever the case may be, which are exercisable in the case of, *inter alia*, the exercise of the right to exchange exchangeable shares by a holder thereof for shares of Solectron common stock (including any related Solectron rights to acquire additional shares of Solectron common stock in certain circumstances and under specific terms and conditions), a redemption of exchangeable shares by Exchangeco, a liquidation of Exchangeco or a change in Canadian tax laws that allows holders of exchangeable shares who are Canadian residents to exchange their exchangeable shares on a tax deferred basis, have a nominal fair market value and that, accordingly, no amount should be allocated to such rights. Any such

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determination of value, however, is not binding upon the Canada Customs and Revenue Agency. Counsel expresses no opinion as to the appropriateness or accuracy of this opinion. Provided that the opinion with respect to the aforementioned call rights is correct, the granting of such rights will not result in any material adverse income tax consequences to a C-MAC shareholder who receives exchangeable shares on the arrangement. However, should the Canada Customs and Revenue Agency challenge this opinion and ultimately succeed in establishing that the call rights have a fair market value in excess of a nominal amount, C-MAC shareholders who receive exchangeable shares on the arrangement will realize a capital gain in an amount equal to the fair market value of such rights. The general tax treatment of capital gains and capital losses is discussed below under the heading *Taxation of Capital Gain or Capital Loss*.

### **Exchange of C-MAC Common Shares for Shares of Solectron Common Stock and Solectron Rights**

A C-MAC shareholder who exchanges C-MAC common shares for shares of Solectron common stock (including any related Solectron rights) will be considered to have disposed of such C-MAC common shares for proceeds of disposition equal to the sum of (i) the aggregate fair market value of the shares of Solectron common stock (including any related Solectron rights) acquired by such C-MAC shareholder on the exchange, and (ii) any cash received by such holder in respect of a fractional share of Solectron common stock. Such C-MAC shareholder will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of such C-MAC common shares, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the C-MAC shareholder of such C-MAC common shares immediately before the exchange (see *Taxation of Capital Gain or Capital Loss* below). The cost to a C-MAC shareholder of shares of Solectron common stock acquired on the exchange will be equal to the fair market value of such shares of Solectron common stock at the time of the acquisition, to be averaged at any given time with the adjusted cost base of any other shares of Solectron common stock held by the C-MAC shareholder as capital property for the purposes of determining the holder's adjusted cost base of such shares of Solectron common stock.

### **Exchange of C-MAC Common Shares for Exchangeable Shares, Ancillary Rights and Exchangeable Share Rights**

#### *Non-Rollover Transaction*

A C-MAC shareholder who exchanges C-MAC common shares for exchangeable shares of Exchangeco, ancillary rights and exchangeable share rights, and who does not make a joint election with Exchangeco under subsection 85(1) or 85(2) of the *Income Tax Act* (Canada) (as described below under the heading *Section 85 Election*) will be considered to have disposed of such C-MAC common shares for proceeds of disposition equal to the sum of (i) any cash received by such C-MAC shareholder in respect of a fractional exchangeable share, (ii) the fair market value of the exchangeable shares acquired by such C-MAC shareholder on the exchange, and (iii) the fair market value of the ancillary rights and exchangeable share rights acquired by such C-MAC shareholder on the exchange. As a result, such C-MAC shareholder will generally realize a capital gain (or capital loss) to the extent that such proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the C-MAC shareholder of the C-MAC common shares (See *Taxation of Capital Gain or Capital Loss* below). The cost to a holder of exchangeable shares acquired on the exchange will be equal to the fair market value of such shares, and will be averaged at any given time with the adjusted cost base of any other exchangeable shares held by the C-MAC shareholder as capital property for purposes of determining the holder's adjusted cost base of such exchangeable shares. The cost to the C-MAC shareholder of the ancillary rights and exchangeable share rights acquired on the exchange will be equal to the fair market value of such rights at the time of the exchange. For these purposes, the C-MAC shareholder will be required to determine the respective fair market values of such rights and exchangeable share rights received on the exchange on a reasonable basis. As stated under the heading *C-MAC Shareholders Resident in Canada Receipt of Ancillary Rights and Exchangeable Share Rights* above, \_\_\_\_\_ is of the view, and has advised counsel, that such rights will have only nominal value. As previously mentioned, however, such determination of value is not binding on the Canada Customs and Revenue Agency and

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counsel can express no opinion on matters of factual determination such as this. The cost of the ancillary rights and exchangeable share rights received by the C-MAC shareholder on the exchange must be averaged with the adjusted cost base to the C-MAC shareholder of any other such rights acquired by such holder other than on the exchange of C-MAC common shares.

*Rollover Transaction*

A C-MAC shareholder who is resident in Canada and is not exempt from tax under Part I of the *Income Tax Act* (Canada), and who exchanges C-MAC common shares for exchangeable shares, ancillary rights and exchangeable share rights may make a joint election with Exchangeco pursuant to subsection 85(1) of the *Income Tax Act* (Canada) (or, in the case of an eligible Canadian resident holder that is a partnership, pursuant to subsection 85(2) of the *Income Tax Act* (Canada)). Such election may result in the full or partial deferral of any capital gain otherwise arising on the exchange of such C-MAC common shares as described under the heading *Exchange of C-MAC Common Shares for Exchangeable Shares, Ancillary Rights and Exchangeable Share Rights – Non-Rollover Transaction* above. Provided that, on the date the exchange becomes effective, the adjusted cost base to an eligible Canadian resident holder of such holder's C-MAC common shares, plus any reasonable costs of disposition, equals or exceeds the sum of (i) any cash received in respect of a fractional exchangeable share, and (ii) the fair market value of the ancillary rights and exchangeable share rights acquired by such holder on the exchange, the eligible Canadian resident holder may elect so as to not realize a capital gain for Canadian income tax purposes on the exchange. The amount elected by a holder will be determined by each eligible Canadian resident holder who makes such a joint election, subject to the limitations set forth in the *Income Tax Act* (Canada) and described generally under the heading *Section 85 Election* below. **Unless the holder validly makes such a joint election with Exchangeco, the exchange of C-MAC common shares for exchangeable shares of Exchangeco on the arrangement will result in the recognition, for Canadian federal income tax purposes, of any accrued gains on the holder's C-MAC common shares.**

**Exchange of C-MAC Common Shares for a Combination of Shares of Solectron Common Stock and Exchangeable Shares of Exchangeco***Non-Rollover Transaction*

A C-MAC shareholder who exchanges C-MAC common shares for a combination of shares of Solectron common stock (including any related Solectron rights) and exchangeable shares of Exchangeco (including ancillary rights and exchangeable share rights) will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition for such C-MAC common shares, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the C-MAC shareholder of such C-MAC common shares immediately before the exchange. In the absence of a joint election under subsections 85(1) or 85(2) of the *Income Tax Act* (Canada) (as described below under *Section 85 Election*), a holder's proceeds of disposition for the C-MAC common shares will be equal to the sum of (i) any cash received by such holder in respect of a fractional share of Solectron common stock and a fractional exchangeable share, (ii) the aggregate fair market value, at the time of exchange, of any shares of Solectron common stock (including any related Solectron rights) and exchangeable shares (including ancillary rights and exchangeable share rights) received on the exchange (See *Taxation of Capital Gain or Capital Loss* below). The cost of shares of Solectron common stock, Solectron rights, exchangeable shares, ancillary rights and exchangeable share rights received by a C-MAC shareholder on the exchange will be the respective fair market values thereof at the time of the acquisition, and such costs will be averaged at any given time with the respective adjusted cost bases of any other shares of Solectron common stock, Solectron rights, exchangeable shares, ancillary rights and exchangeable share rights, respectively, held by the C-MAC shareholder as capital property for purposes of determining the holder's respective adjusted cost bases of such properties.

**Table of Contents***Rollover Transaction*

A C-MAC shareholder who is resident in Canada and is not exempt from tax under Part I of the *Income Tax Act* (Canada) and who receives a combination of exchangeable shares and shares of Solectron common stock (including any related Solectron rights) under the arrangement may obtain a full or partial tax deferral in respect of the disposition of C-MAC common shares by making a joint election with Exchangeco as described below under *Section 85 Election*. Subject to the limitations set forth in subsection 85(1) of the *Income Tax Act* (Canada) regarding the amount that may be elected by a holder for Canadian income tax purposes (which may not be less than the aggregate fair market value of any shares of Solectron common stock (including any related Solectron rights), ancillary rights and exchangeable share rights received), if the amount elected by an eligible Canadian resident holder is equal to the aggregate of the adjusted cost base, determined immediately before the disposition, of the C-MAC common shares disposed of and any reasonable costs of disposition, no capital gain or capital loss will be realized by such holder. To the extent that the amount elected in respect of such shares exceeds the aggregate of the adjusted cost base of the C-MAC

common shares disposed of and any reasonable costs of disposition thereof, such holder will realize a capital gain. **Unless the holder validly makes such an election with Exchangeco, the exchange of C-MAC common shares for shares of Solectron common stock and exchangeable shares of Exchangeco on the arrangement will result in the recognition, for Canadian federal income tax purposes, of any accrued gains on the holder's C-MAC common shares.** (See "Taxation of Capital Gain or Capital Loss" below).

### Section 85 Election

Subject to the limitations and conditions described below, Exchangeco will make a joint election under subsection 85(1) or subsection 85(2), as applicable, of the *Income Tax Act* (Canada) (and the corresponding provisions of any applicable provincial or territorial tax legislation) with a Canadian resident holder of C-MAC common shares who is not exempt from tax under Part I of the *Income Tax Act* (Canada) and who receives exchangeable shares of Exchangeco or a combination of exchangeable shares of Exchangeco and shares of Solectron common stock at the amount selected by such holder, subject to the limitations set forth in the *Income Tax Act* (Canada) (and those, if any, contained in corresponding provisions of any applicable provincial or territorial tax legislation). The joint election allows the eligible Canadian resident holder to elect an amount which, subject to the limitations set forth in the *Income Tax Act* (Canada) described generally below, will be treated for Canadian income tax purposes as such holder's proceeds of disposition of such C-MAC common shares. Neither Exchangeco nor the depository will be responsible for the proper completion or filing of any election and the eligible Canadian resident holder will be solely responsible for the payment of any late filing penalty. Exchangeco agrees only to execute any properly completed election and to forward such election by mail (within 30 days after the receipt thereof by the depository) to the eligible Canadian resident holder. **With the exception of execution of the election by Exchangeco, compliance with the requirements for a valid election will be the sole responsibility of the eligible Canadian resident holder making the election.** Accordingly, neither Exchangeco nor the depository will be responsible or liable for any taxes, interest, penalties, damages or expenses resulting from the failure by anyone to properly complete any election or to properly file such election within the time prescribed and in the form prescribed under the *Income Tax Act* (Canada) (or the corresponding provisions of any applicable provincial tax legislation).

In order to make an election, an eligible Canadian resident holder must provide to the depository, on behalf of Exchangeco, two signed copies of the necessary election forms on or before the day which is 90 days after the effective date of the arrangement, duly completed with the details of the number of C-MAC common shares transferred and the applicable amount elected for the purposes of the election. The forms will be returned to such holders, signed by Exchangeco, for filing by the eligible Canadian resident holder with the Canada Customs and Revenue Agency (or with the applicable provincial or territorial tax authority). Certain provincial jurisdictions may require that a separate joint election be filed for provincial income tax purposes. Exchangeco will also make a provincial joint election with an eligible Canadian resident holder under the provisions of any applicable provincial income tax legislation with

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similar effect to subsection 85(1) or subsection 85(2) of the *Income Tax Act* (Canada), subject to the same limitations and conditions described herein. Eligible Canadian resident holders should consult their own tax advisors to determine whether separate election forms must be filed with any provincial or territorial tax authority. It will be the sole responsibility of each eligible Canadian resident holder who wishes to make such an election to obtain the necessary provincial election forms and to submit such forms to the depository for execution by Exchangeco.

The relevant federal tax election form is Canada Customs and Revenue Agency Form T2057 (or, in the event that the C-MAC common shares are held as partnership property, Canada Customs and Revenue Agency Form T2058). For eligible Canadian resident holders subject to tax in Québec, Revenue Québec Form TP 518V (or, in the event that the C-MAC common shares are held as partnership property, Revenue Québec Form TP-529V) will also be required. A tax election package, consisting of the relevant federal and Québec tax election forms and a letter of instructions, may be obtained from the depository. An eligible Canadian resident holder interested in making an election should so indicate on the letter of transmittal and election form accompanying this document in the space provided therein and a tax election package will be sent to such holder.

Where C-MAC common shares are held in joint ownership and two or more of the co-owners wish to make an election, one of the co-owners designated for such purpose should file the designation and a copy of the Canada Customs and Revenue Agency Form T2057 with the Canada Customs and Revenue Agency (and where applicable, the corresponding Québec form with the Québec tax authorities) for each co-owner along with a list of all co-owners electing, which list should contain the address and social insurance number or tax account number of each co-owner. Where the C-MAC common shares are held as partnership property, a partner designated by the partnership must file one copy of the Canada Customs and Revenue Agency Form T2058 with the Canada Customs and Revenue Agency on behalf of all members of the partnership (and where applicable, the corresponding form in duplicate with the Québec tax authorities). Such Canada Customs and Revenue Agency Form T2058 (and corresponding Québec form, if applicable) must be accompanied by a list containing the name, address, social insurance number or tax account number of each partner as well as a letter signed by each partner authorizing the designated partner to complete



and file the form.

In general, where an election is made, the elected amount must comply with the following rules in respect of those C-MAC common shares that are the subject of the election:

(a) the elected amount may not be less than the sum of (i) the amount of any cash received in respect of a fractional Solectron common share and fractional exchangeable share, and (ii) the fair market value of any shares of Solectron common stock, Solectron rights, ancillary rights and exchangeable share rights received on the exchange;

(b) the elected amount may not be less than the lesser of the adjusted cost base to the holder of such holder's C-MAC common shares disposed of, as determined immediately before the time of the disposition, and the fair market value of the C-MAC common shares disposed of at that time; and

(c) the elected amount may not be greater than the fair market value at the time of the disposition of the C-MAC common shares so disposed of.

Elected amounts that are elected which do not comply with the foregoing limitations will be automatically adjusted pursuant to the provisions of the *Income Tax Act* (Canada).

Where an eligible Canadian resident holder and Exchangeco make an election, the tax treatment to the holder generally will be as follows:

(a) the holder's C-MAC common shares will be deemed to have been disposed of for proceeds of disposition equal to the elected amount;

(b) if the proceeds of disposition of the C-MAC common shares are equal to the aggregate of the adjusted cost base to the eligible Canadian resident holder of such holder's C-MAC common

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shares, as determined immediately before the exchange, and any reasonable costs of disposition, no capital gain or capital loss will be realized by such holder;

(c) to the extent that the proceeds of disposition of the C-MAC common shares exceed (or are less than) the aggregate of the adjusted cost base thereof to the eligible Canadian resident holder, as determined immediately before the exchange, and any reasonable costs of disposition, such holder will in general realize a capital gain (or capital loss) (See "Taxation of Capital Gain or Capital Loss" below); and

(d) the cost to an eligible Canadian resident holder of any shares of Solectron common stock, Solectron rights, ancillary rights and exchangeable share rights received on the exchange will be equal to the respective fair market values thereof at that time and the cost to such a holder of exchangeable shares received on the exchange will be equal to the amount by which the proceeds of disposition of the C-MAC common shares exchanged by the eligible Canadian resident holder (i.e. the elected amount) exceed the amount of the aggregate fair market value of any shares of Solectron common stock, Solectron rights, ancillary rights and exchangeable share rights received on the exchange.

In order for the Canada Customs and Revenue Agency (and where applicable, the Ministère du Revenu du Québec) to accept a tax election without a late filing penalty being paid by an eligible Canadian resident holder, the required tax election forms must be received by such revenue authorities on or before the day that is the earliest of the days on which either Exchangeco or the eligible Canadian resident holder is required to file an income tax return for the taxation year in which the exchange of the C-MAC common shares occurs. Solectron and Exchangeco have advised C-MAC and its counsel that the current taxation year of Exchangeco is scheduled to end on August 31, 2002. Thus, where the exchange occurs prior to December 31, 2001, the tax election forms will, in the case of an eligible Canadian resident holder who is an individual (other than a trust), generally have to be received by the Canada Customs and Revenue Agency on or before April 30, 2002 (being generally the last day for filing the tax returns for the individual's 2001 taxation year). Eligible Canadian resident holders other than individuals are urged to consult their own tax advisors as soon as possible respecting the deadlines applicable to their own particular circumstances. **However, regardless of such deadline, the tax election forms of an eligible Canadian resident holder must be received by depositary no later than the 90th day after the effective date of the arrangement. Exchangeco will have no obligations with respect to tax election forms received after that date.**

Any eligible Canadian resident holder who does not ensure that the depositary has received two duly completed tax election forms on or before the 90th day after the effective date of the arrangement will not be able to benefit from the rollover provisions of the *Income Tax Act* (Canada). Accordingly, all eligible Canadian resident holders who wish to enter into an election with Exchangeco should give their immediate attention to this matter. The instructions for requesting a tax election package are set out in the letter of transmittal and election form. Eligible Canadian resident holders are referred to Information Circular 76-19R3 and Interpretation Bulletin IT-291R2 issued by the Canada Customs and Revenue Agency for further information respecting the election. Eligible Canadian resident holders wishing to make the election should consult their own tax advisors. The comments herein with respect to such elections are provided for general assistance only. The law in this area is complex and contains numerous technical requirements.

As discussed above, \_\_\_\_\_ is of the view that the fair market value of the ancillary rights and exchangeable share rights is nominal. Accordingly, the tax election forms will be executed by Exchangeco on the basis that the fair market value of such rights is a nominal amount per exchangeable share issued on the exchange. It is possible, however, that the Canada Customs and Revenue Agency could take the position that the ancillary rights and exchangeable share rights have a fair market value in excess of a nominal amount (see C-MAC Shareholders Resident in Canada Receipt of Ancillary Rights and Exchangeable Share Rights above).

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### Exchangeable Shares of Exchangeco and Shares of Solectron Common Stock

#### *Dividends on Exchangeable Shares*

In the case of a C-MAC shareholder who is an individual, dividends received or deemed to be received on the exchangeable shares will be required to be included in computing the C-MAC shareholder's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from a corporation resident in Canada. Subject to the discussion below as to the denial of the dividend deduction, in the case of a C-MAC shareholder that is a corporation, other than a specified financial institution as defined in the *Income Tax Act* (Canada), dividends received or deemed to be received on the exchangeable shares will be included in computing the corporation's income and will generally be deductible in computing its taxable income. In the case of a C-MAC shareholder that is a specified financial institution, such a dividend will be deductible in computing its taxable income only if either: (i) the specified financial institution did not acquire the exchangeable shares in the ordinary course of the business carried on by such institution, or (ii) at the time of the receipt of the dividend by the specified financial institution, the exchangeable shares are listed on a prescribed stock exchange in Canada (which currently includes The Toronto Stock Exchange) and the specified financial institution either alone or together with persons with whom it does not deal at arm's length, and, in certain cases, either directly or through a trust or partnership of which such person is a beneficiary or member, does not receive (or is not deemed to receive) dividends in respect of more than 10% of the issued and outstanding exchangeable shares.

If Solectron or any other person with whom Solectron does not deal at arm's length including Exchangeco, is a specified financial institution at the time that dividends are paid on the exchangeable shares, subject to the exemption described below, dividends received or deemed to be received by a C-MAC shareholder that is a corporation will not be deductible in computing taxable income but will be fully includable in taxable income under Part I of the *Income Tax Act* (Canada). A corporation will generally be a specified financial institution for purposes of the *Income Tax Act* (Canada) if it is a bank, a trust company, a credit union, an insurance corporation or a corporation whose principal business is the lending of money to persons with whom the corporation is dealing at arm's length, or the purchasing of debt obligations issued by such persons or a combination thereof, or if it is a corporation controlled by or related to such entities. **Solectron has informed counsel that it is of the view that neither it nor any person with whom it does not deal at arm's length nor any partnership or trust of which it or the person is a member or beneficiary, respectively, is a specified financial institution at the current time, or will be a specified financial institution immediately after the time the transactions described herein become effective.** However, there can be no assurance that this status will not change prior to such time at which dividends are received or deemed to be received by a corporate shareholder holding exchangeable shares. This denial of the dividend deduction for a C-MAC shareholder that is a corporation will not apply if, at the time the dividends are received or deemed to be received, the exchangeable shares are listed on a prescribed stock exchange (which currently includes The Toronto Stock Exchange), Solectron and Callco are related to Exchangeco for the purposes of the *Income Tax Act* (Canada) and dividends are not paid to the recipient (together with persons with whom the recipient does not deal at arm's length or any trust or partnership of which the recipient or any such person is a beneficiary or member) in respect of more than 10% of the issued and outstanding exchangeable shares held by persons other than Solectron and its affiliates.

A C-MAC shareholder that is a private corporation (as defined in the *Income Tax Act* (Canada)) or any other corporation resident in Canada and controlled or deemed to be controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) may be liable under Part IV of the *Income Tax Act* (Canada) to pay a refundable tax of 33 1/3% on dividends received or deemed to be received on the exchangeable shares to the extent that such dividends are deductible in computing the C-MAC shareholder's taxable income. A

C-MAC shareholder that is a Canadian-controlled private corporation (as defined in the *Income Tax Act (Canada)*) may be liable to pay an additional refundable tax of 6 2/3% on dividends or deemed dividends that are not deductible in computing taxable income.

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### *Dividends on Shares of Solectron Common Stock*

Dividends on shares of Solectron common stock will be required to be included in the recipient's income for Canadian income tax purposes. Such dividends received by a C-MAC shareholder who is an individual will not be subject to the gross-up and dividend tax credit rules in the *Income Tax Act (Canada)*. A C-MAC shareholder that is a corporation will include such dividends in computing its income and generally will not be entitled to deduct the amount of such dividends in computing its taxable income. A C-MAC shareholder that is a Canadian-controlled private corporation may be liable to pay an additional refundable tax of 6 2/3% on such dividends. United States non-resident withholding tax on dividends may be eligible for foreign tax credit or deduction treatment where applicable under the *Income Tax Act (Canada)*. See the commentary below under the heading *United States Federal Tax Considerations for C-MAC Shareholders*.

### *Redemption or Retraction of Exchangeable Shares*

On the redemption (including a retraction) of an exchangeable share by Exchangeco, the holder of that exchangeable share will be deemed to have received a dividend equal to the amount, if any, by which the redemption proceeds (the fair market value at that time of shares of Solectron common stock received by the shareholder from Exchangeco on the redemption plus the amount of any declared but unpaid dividends on the exchangeable share prior to the date of such redemption) exceed the paid-up capital (for purposes of the *Income Tax Act (Canada)*) of the exchangeable share at the time the exchangeable share is so redeemed. The amount of any such deemed dividend will be generally subject to the tax treatment described above under *Dividends on Exchangeable Shares*. On the redemption, the holder of an exchangeable share will also be considered to have disposed of the exchangeable share for proceeds of disposition equal to the redemption proceeds less the amount of any deemed dividend. A holder will in general realize a capital gain (or a capital loss) equal to the amount by which the adjusted cost base to the holder of the exchangeable share is less than (or exceeds) such proceeds of disposition, net of any reasonable costs of disposition (see *Taxation of Capital Gain or Capital Loss* below). In the case of a C-MAC shareholder that is a corporation, in some circumstances, the amount of any deemed dividend may be treated as proceeds of disposition and not as a dividend.

### *Disposition of Exchangeable Shares other than on a Redemption or Retraction*

On the disposition or deemed disposition or exchange of an exchangeable share by a holder, including on the exchange of an exchangeable share by the holder thereof with Callco or Solectron for shares of Solectron common stock (including any related Solectron rights), other than on a redemption (including a retraction), the holder will in general realize a capital gain (or a capital loss) to the extent the proceeds of disposition of the exchangeable share, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the holder of the exchangeable share. For these purposes, where exchangeable shares are acquired by Callco or Solectron for shares of Solectron common stock, the proceeds of disposition will be the aggregate of the fair market value, at the time of the exchange, of the shares of Solectron common stock received on the exchange. The proceeds of disposition may also include the amount of any declared but unpaid dividend on the exchangeable share prior to the date of such disposition unless such dividend is required to be included in computing income of the holder as a dividend. Holders should consult their own tax advisors in this regard (see *Taxation of Capital Gain or Capital Loss* below).

Because of the existence of the rights to acquire the exchangeable shares granted to Callco and Solectron, as well as the holder's right to exchange the exchangeable shares for shares of Solectron common stock (including any related Solectron rights) and the right to an automatic exchange of the exchangeable shares in certain circumstances, a holder of exchangeable shares cannot control whether such holder will receive shares of Solectron common stock by way of a redemption (including a retraction) of the exchangeable shares by Exchangeco or by way of purchase of the exchangeable shares by Callco or Solectron.

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As described above, the Canadian federal income tax consequences of a redemption (including a retraction) differ from those of a purchase.

On October 18, 2000 the Minister of Finance announced that the department of Finance would consider future amendments to the *Income Tax Act* (Canada) to allow holders of shares of a Canadian corporation to exchange such shares for shares of a non-Canadian corporation on a tax-deferred rollover basis. It is possible in that certain circumstances, these contemplated amendments, if enacted into law, could, in the future, allow a holder of exchangeable shares to exchange such shares for shares of Solectron common stock on a tax- deferred basis. **No specifics have been announced regarding these contemplated amendments and in particular with respect to the various requirements which would have to be satisfied in order to permit a holder of exchangeable shares to exchange such shares on a tax-deferred basis or whether these requirements could be satisfied in other circumstances.** In addition, if changes were enacted in the future to federal and Quebec tax laws which would allow an exchange of exchangeable shares for shares of Solectron common stock on a tax-deferred rollover basis, the arrangement provides that Solectron or Callco, as the case may be, has the right to acquire the exchangeable shares in consideration for shares of Solectron common stock (and any related Solectron rights). This right can only be exercised by Solectron or Callco in limited circumstances and only to the extent that any exchange of exchangeable shares by a holder as a result of the exercise of this right by Solectron or Callco would occur on a tax-deferred basis for holders of exchangeable shares.

#### *Acquisition and Disposition of Shares of Solectron Common Stock*

The cost of shares of Solectron common stock received on the redemption (including a retraction) or exchange of exchangeable shares will be equal to the fair market value of such shares of Solectron common stock at the time of such event, to be averaged with the adjusted cost base of any other shares of Solectron common stock held at that time by the holder as capital property.

A disposition or deemed disposition of shares of Solectron common stock by a holder will generally result in a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the holder of those shares of Solectron common stock immediately before the disposition (see *Taxation of Capital Gain or Capital Loss* and *Proposed Amendments Relating to Foreign Investment Entities - Solectron Common Shares* below).

#### **Taxation of Capital Gain or Capital Loss**

Pursuant to the *Income Tax Act* (Canada), a C-MAC shareholder will be required to include in income for the year of disposition one-half of any capital gain (a taxable capital gain ) and will generally be entitled to deduct one-half of any capital loss (an allowable capital loss ) from taxable capital gains realized in the year by the C-MAC shareholder or in any subsequent year to the extent and in the circumstances described in the *Income Tax Act* (Canada). In addition, the portion of any such allowable capital loss, computed in accordance with the rules provided for in the *Income Tax Act* (Canada), which is not otherwise deducted from taxable capital gains realized in the year, may be deducted from taxable capital gains realized in any of the three preceding years to the extent and in the circumstances described in the *Income Tax Act* (Canada). Any such capital loss may, in certain circumstances, be reduced by the amount of any dividends, including deemed dividends, which have been received by a C-MAC shareholder on such shares to the extent and in the manner provided for in the *Income Tax Act* (Canada). Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns such shares, or where a trust or partnership of which a corporation is a beneficiary or a member is a member of a partnership or a beneficiary of a trust that owns such shares.

Capital gains realized by an individual or trust, other than certain trusts, may give rise to alternative minimum tax under the *Income Tax Act* (Canada). A C-MAC shareholder that is a Canadian-controlled private corporation (as defined in the *Income Tax Act* (Canada)) may be liable to pay an additional refundable tax of 6 2/3% on taxable capital gains.

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##### *Foreign Property Information Reporting*

In general, a specified Canadian entity , as defined in the *Income Tax Act* (Canada), for a taxation year or fiscal period whose total cost amount of specified foreign property , as defined in the *Income Tax Act* (Canada), at any time in the year or fiscal period exceeds \$100,000, is required to file an information return for the year or period disclosing prescribed information, including the cost amount, any dividends received in the year, and any gains or losses realized in the year, in respect of such property. With some exceptions, a taxpayer resident in Canada in the year will be a specified Canadian entity. Exchangeable shares and shares of Solectron common stock will constitute specified foreign property to a holder. Accordingly, holders of exchangeable shares and shares of Solectron common stock should consult their own advisors regarding compliance with these rules.

##### **Dissenting C-MAC Shareholders**

A C-MAC shareholder who exercises the statutory right to dissent with respect to the arrangement described herein is entitled, if the arrangement becomes effective, to receive the fair value of the C-MAC common shares held by such dissenting C-MAC shareholder. The dissenting shareholder will be considered to have disposed of the C-MAC common shares for proceeds of disposition equal to the amount received by such shareholder less the amount of any deemed dividend referred to below and any interest awarded by a Court (see *Taxation of Capital Gain or Capital Loss* above). As any amount received by a dissenting shareholder will be paid by C-MAC, the dissenting shareholder will also be deemed to receive a taxable dividend equal to the amount by which the amount received (other than in respect of interest awarded by a Court) exceeds the paid-up capital (for purposes of the *Income Tax Act* (Canada)) of such shareholder's C-MAC common shares. In the case of a C-MAC shareholder that is a corporation, in some circumstances, the amount of any such deemed dividend may be treated as proceeds of disposition and not as a dividend. Any interest awarded to a dissenting shareholder by a Court will be included in such shareholder's income for Canadian income tax purposes.

### **C-MAC Optionholders**

The following portion of this summary is applicable to holders of options to acquire C-MAC common shares who are resident or deemed to be resident in Canada, who deal at arm's length with, and are not affiliated with, any of C-MAC, Solectron, Callco or Exchangeco, who are current or former employees of C-MAC (or any subsidiary thereof), who deal at arm's length with such corporation and who received their options to acquire C-MAC common shares in respect of, in the course of, or by virtue of, such employment at a time when C-MAC was not a Canadian-controlled private corporation within the meaning of the *Income Tax Act* (Canada).

#### *Exercise of C-MAC Options*

C-MAC optionholders who exercise their options to acquire C-MAC common shares prior to the time the arrangement described herein becomes effective will be subject to income tax consequences arising on such exercise which are not addressed in this summary and which may be relevant to a C-MAC optionholder's decision as to whether to exercise his or her options to acquire C-MAC common shares prior to such time. C-MAC optionholders who are considering the exercise of their options should consult their own tax advisors to determine the tax consequences to them of such exercise.

#### *Exchange of C-MAC Options for Solectron Options*

The terms of the arrangement provide that options to acquire C-MAC common shares that are not exercised prior to the time the arrangement becomes effective will be exchanged for options to acquire shares of Solectron common stock. A holder of an option to acquire C-MAC common shares who exchanges such option for an option to acquire shares of Solectron common stock will not be considered to have disposed of the option to acquire C-MAC common shares provided that (i) the only consideration received by the holder on the exchange is an option to acquire shares of Solectron common stock, and

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(ii) the total value of shares of Solectron common stock the holder is entitled to acquire under the option to acquire shares of Solectron common stock immediately after the exchange (in excess of the total amount payable by the holder to acquire the shares of Solectron common stock) does not exceed the total value of the C-MAC common shares the holder was entitled to acquire under the option to acquire C-MAC common shares immediately before the exchange (in excess of the amount payable by the holder to acquire the C-MAC common shares). As the only consideration a holder of an option to acquire C-MAC common shares will receive on the exchange of such option will be an option to acquire shares of Solectron common stock and as \_\_\_\_\_ has advised counsel that the values referred to in (ii) above will be equal, no disposition should arise on the exchange of an option to acquire C-MAC common shares for an option to acquire shares of Solectron common stock under the arrangement.

### **C-MAC Shareholders Not Resident in Canada**

The following portion of the summary is applicable to holders of C-MAC common shares who, for purposes of the *Income Tax Act* (Canada) and any applicable income tax treaty or convention, have not been and will not be resident or deemed to be resident in Canada at any time while holding C-MAC common shares and who do not use or hold and are not deemed to use or hold their C-MAC common shares or shares of Solectron common stock in carrying on a business in Canada. Special rules, which are not discussed in this summary, may apply to a non-resident C-MAC shareholder that is an insurer carrying on business in Canada and elsewhere.

#### *Disposition or Exchange of C-MAC Common Shares*

A non-resident C-MAC shareholder will not be subject to capital gains tax under the *Income Tax Act* (Canada) on the exchange of C-MAC common shares for shares of Solectron common stock (including any related Solectron rights) provided that the C-MAC common shares either do not constitute taxable Canadian property or constitute taxable Canadian property that is treaty-protected property of the holder for purposes of the *Income Tax Act* (Canada). Such holder will not be subject to income tax under the *Income Tax Act* (Canada) on a sale or other disposition of shares of Solectron common stock provided such shares do not constitute taxable Canadian property.

Generally, C-MAC common shares or shares of Solectron common stock will not be taxable Canadian property to a non-resident holder at a particular time provided in the case of C-MAC common shares that the C-MAC common shares are not deemed to be taxable Canadian property to the holder pursuant to the provisions of the *Income Tax Act* (Canada) and one C-MAC common shares or shares of Solectron common stock shares are listed on a prescribed stock exchange (which currently includes The Toronto Stock Exchange), and the holder, persons with whom such holder does not deal at arm's length, or the holder together with such persons, has not owned (or had under option or an interest in) 25% or more of the issued shares of any class or series of the capital stock of C-MAC or Solectron at any time during the five-year period immediately preceding the particular time. Even if the C-MAC common shares or shares of Solectron common stock are considered to be taxable Canadian property, such shares will be considered treaty-protected property of a holder at any time for purposes of the *Income Tax Act* (Canada) if any income or gain from the disposition of such shares by the holder at that time would be exempt from tax in Canada under the terms of an applicable income tax treaty or convention. **C-MAC shareholders should consult their own tax advisors with respect to the availability of any relief under the terms of any applicable income tax treaty or convention in their particular circumstances.**

#### *Dissenting Shareholders*

Where a non-resident C-MAC shareholder receives an amount of interest or a taxable dividend upon the exercise of a statutory right to dissent to the implementation of the arrangement (see *C-MAC Shareholders Resident in Canada* *Dissenting C-MAC Shareholders* ) such amount will be subject to Canadian withholding tax at a rate of 25% unless the rate is reduced under the provisions of an applicable income tax treaty or convention.

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### **Proposed Amendments Relating to Foreign Investment Entities**

On August 2, 2001, the Minister of Finance of Canada released revised draft legislation addressing the taxation of investments in non-resident entities, called *foreign investment entities* . In general, the proposed rules would apply to persons owning shares, or rights to acquire shares, of a foreign investment entity that are not exempt interests as defined. If Solectron is a foreign investment entity, the shares of Solectron common stock and exchangeable shares of Exchangeco (referred to collectively as the Solectron securities) would potentially be subject to the proposed rules unless they constitute exempt interests. Under the current proposal, the proposed rules will initially take effect for a holder's 2002 taxation year. The proposed rules would require an annual determination of whether Solectron is a foreign investment entity and, if it is such an entity, whether the Solectron securities satisfy the exempt interest exemption referred to above.

For the 2002 taxation year and subsequent taxation years, if Solectron is a foreign investment entity at the end of a given taxation year and the Solectron securities do not constitute an exempt interest, a C-MAC shareholder who continues to hold Solectron securities would be required to include in (or deduct from) income, on an annual basis, any increase (or decrease) in the value of the Solectron securities during the year. The taxation of any capital gain that has accrued to December 31, 2001 on the Solectron securities will be deferred until such securities are disposed of. Dividends received or deemed to be received by the holder on the Solectron securities would continue to be taxed in the manner described above under the heading *Exchangeable Shares of Exchangeco and Shares of Solectron Common Stock* *Dividends on Exchangeable Shares* and *Dividends on Shares of Solectron Common Stock* .

Solectron would not constitute a foreign investment entity at a particular time, and accordingly these proposed rules would not apply to holders of Solectron securities, if the carrying value of Solectron's investment property is not greater than one-half of the carrying value of all of its property, or Solectron's principal business is not an investment business , as contemplated by these new rules.

In any event, these rules will not apply to a holder as long as the holder's Solectron securities constitute an exempt interest . A holder's Solectron securities will constitute an exempt interest as long as Solectron is a resident of the United States and the Solectron securities are widely held and actively traded and listed on a prescribed stock exchange (which currently includes the New York Stock Exchange and The Toronto Stock Exchange) throughout the period during which the holder holds Solectron securities, unless it is reasonable to conclude that the holder had a tax avoidance motive in acquiring the Solectron securities. For these purposes, a holder will be considered to have a tax avoidance motive in acquiring the Solectron securities if one of the main reasons for acquiring the Solectron securities includes obtaining a benefit

attributable to income derived from investment property, to profits or gains from the disposition of investment property or to an increase in value of investment property and the deferral or reduction of tax that would have been payable by the holder had such holder realized such income, profits or gains.

The determination of whether Solectron is a foreign investment entity and whether the Solectron securities constitute an exempt interest must be made on an annual basis at the end of Solectron's taxation year, although no assurances can be given in this regard.

### **Eligibility for Investment in Canada**

Provided the exchangeable shares are listed on a prescribed stock exchange in Canada (which currently includes The Toronto Stock Exchange), the exchangeable shares and exchangeable share rights will be qualified investments under the *Income Tax Act* (Canada) for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. Shares of Solectron common stock (including any related Solectron rights) will be qualified investments under the *Income Tax Act* (Canada) for such plans provided such shares remain listed on the New York Stock Exchange (or are listed on another prescribed stock exchange). The ancillary rights will not be qualified investments under the *Income Tax Act* (Canada). However, \_\_\_\_\_ is of the view that the fair market value of such ancillary rights is nominal. Any such

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determination of value, however, is not binding upon the Canada Customs and Revenue Agency. It is possible that the Canada Customs and Revenue Agency could take the position that the ancillary rights have a fair market value in excess of a nominal amount (see C-MAC Shareholders Resident in Canada Receipt of Ancillary Rights and Exchangeable Share Rights above). Based on such view, there should be no material consequences under the *Income Tax Act* (Canada) to registered retirement savings plans, registered retirement income funds or deferred profit savings plans holding such non-qualified investments. Registered education savings plans holding such non-qualified investments may, however, realize adverse consequences regardless of the fair market value of such non-qualified investments.

Provided the exchangeable shares are listed on a prescribed stock exchange in Canada (which currently includes The Toronto Stock Exchange) and provided Exchangeco maintains a substantial Canadian presence within the meaning of subsection 206(1.1) of the *Income Tax Act* (Canada), the exchangeable shares and exchangeable share rights will not be foreign property under the *Income Tax Act* (Canada) for trusts governed by registered pension plans, registered retirement savings plans, registered retirement income funds, deferred profit savings plans or for certain other persons to whom Part XI of the *Income Tax Act* (Canada) is applicable. The ancillary rights will be foreign property under the *Income Tax Act* (Canada). However, \_\_\_\_\_ is of the view that the fair market value of such ancillary rights is nominal. However, any such determination of value is not binding on the Canada Customs and Revenue Agency. Counsel expresses no opinion as to the appropriateness or accuracy of the opinion. It is possible that the Canada Customs and Revenue Agency could take the position that the ancillary rights have a fair market value in excess of a nominal amount. Shares of Solectron common stock (including any related Solectron rights) will be foreign property under the *Income Tax Act* (Canada).

### **United States Federal Income Tax Considerations for C-MAC Shareholders**

In the opinion of Davis Polk & Wardwell, U.S. tax counsel to C-MAC, and Wilson Sonsini Goodrich & Rosati, P.C., U.S. tax counsel to Solectron, the following describes the material United States federal income tax consequences to U.S. Holders (as defined below) who receive Solectron common stock and to Non-U.S. Holders (as defined below, and together with U.S. Holders, Holders) who receive exchangeable shares or Solectron common stock, all pursuant to the arrangement.

This discussion is limited to Holders who hold their C-MAC common shares as capital assets. It does not describe all of the tax consequences that may be relevant to a Holder in light of the Holder's particular circumstances or to Holders subject to special rules, such as:

certain financial institutions;

insurance companies;

tax-exempt entities;

Holders who acquire C-MAC common shares through the exercise of employee stock options or otherwise as compensation;

dealers in securities or foreign currencies;

persons holding C-MAC common shares as part of a hedge;

U.S. Holders whose functional currency is not the U.S. dollar; or

persons subject to the alternative minimum tax.

This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as in effect on the date of this document, and all of which are subject to change, retroactively or prospectively. This summary assumes that C-MAC common shares are held as capital assets and is for general information only.

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**Accordingly, Holders are urged to consult their tax advisors with regard both to the application of the United States federal income tax laws to their particular situations and to any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.**

### **Tax Consequences to U.S. Holders**

As used herein, the term "U.S. Holder" means a beneficial owner of C-MAC common shares that is, for United States federal income tax purposes:

an individual citizen or resident of the United States;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof;

an estate the income of which is subject to United States federal income tax regardless of its source; or

a trust, in general, if (x) it is subject to the primary supervision of a United States court and the control of one or more United States persons or (y) it has made an election to be treated as a United States person.

The term "U.S. Holder" also includes certain former citizens and residents of the United States. If a partnership holds common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership.

The following discussion applies only to U.S. Holders who receive Solectron common stock in exchange for their C-MAC common shares. This discussion does not address U.S. Holders who are Canadian Residents and who elect to receive exchangeable shares pursuant to the arrangement. Such U.S. Holders should consult their tax advisors concerning the tax consequences of the transaction.

### ***Exchange of C-MAC Common Shares for Solectron Common Stock***

The exchange of C-MAC common shares for Solectron common stock pursuant to the arrangement will be a taxable event for United States federal income tax purposes. Consequently, upon the exchange, a U.S. Holder will recognize gain or loss equal to the difference between (i) the sum of the fair market value, as of the exchange date, of the Solectron common stock received in the exchange and any cash received in lieu of fractional shares and (ii) such U.S. Holder's tax basis in its C-MAC common shares. In the case of a U.S. Holder who dissents from the arrangement, such gain or loss will be equal to the difference between the amount of cash received and such U.S. Holder's tax basis in its C-MAC common shares surrendered in the exchange. Gain or loss on the exchange of C-MAC common shares will generally be capital gain or loss, and will be long-term capital gain or loss if at the time of the exchange the U.S. Holder held its C-MAC common shares for more than one year. The deductibility of capital losses is subject to limitations. The tax basis of Solectron common stock received by a U.S. Holder will be equal to the fair market value of such stock on the exchange date. The holding period for such stock will begin on the day after the exchange date. Certain noncorporate Holders may be subject to backup withholding on cash payments received in the transaction. Please refer to "Backup Withholding and Information Reporting" below.



**Tax Consequences to Non-U.S. Holders**

As used herein, the term *Non-U.S. Holder* means any person who holds C-MAC common shares other than a person who is a U.S. Holder.

***Sale or Exchange of C-MAC Common Shares, Solectron Common Stock or Exchangeable Shares***

A Non-U.S. Holder generally will not be subject to United States federal income tax on any gain realized as a result of an exchange of C-MAC common shares for exchangeable shares, Solectron common stock, cash or any combination thereof pursuant to the arrangement, or on any gain realized as a result of

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a subsequent sale or exchange of exchangeable shares or Solectron common stock, unless (i) such gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or, if a tax treaty applies, is attributable to a permanent establishment of the Non-U.S. Holder in the United States; or (ii) in the case of gain recognized by an individual Non-U.S. Holder, such individual is present in the United States for 183 days or more during the taxable year of disposition and certain other conditions are met. Non-U.S. Holders meeting either (i) or (ii) above will generally be taxed in the same manner as U.S. Holders (see *Tax Consequences to U.S. Holders* above).

***Dividends Paid on Solectron Common Stock and Exchangeable Shares***

*Dividends on Solectron Common Stock.* Dividends, if any, paid to a Non-U.S. Holder of Solectron common stock will generally be subject to United States withholding tax at a rate of 30%, or such lower rate as provided by an applicable treaty between the United States and the country of residence of the Non-U.S. Holder, unless the dividends are effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or, if a tax treaty applies, are attributable to a permanent establishment of the Non-U.S. Holder in the United States. Non-U.S. Holders receiving such effectively connected dividends generally will be taxed in the same manner as are U.S. Holders, at ordinary United States federal income tax rates. A Non-U.S. Holder may be required to satisfy certain certification requirements to claim treaty benefits or otherwise claim a reduction of, or exemption from, the United States withholding tax described above. Any effectively connected income of a corporate Non-U.S. Holder may be subject to an additional *branch profits tax*.

*Dividends on Exchangeable Shares.* At the current time, Solectron and its affiliates do not intend to withhold any amounts in respect of United States withholding tax from dividends, if any, paid with respect to the exchangeable shares. However, no statutory, judicial or administrative authority exists that directly addresses the United States federal income tax treatment of the exchangeable shares and, therefore, such treatment is subject to significant uncertainty. If dividends on the exchangeable shares were determined to constitute income from United States sources, Non-U.S. Holders of exchangeable shares likely would be subject to United States withholding tax at a rate of 30%, or such lower rate as provided by an applicable treaty between the United States and the country of residence of the Non-U.S. Holder.

Under the Canada-United States Income Tax Treaty, dividends from United States sources distributed to residents of Canada are subject to a maximum withholding rate of 15%.

**Backup Withholding and Information Reporting**

Generally, Solectron must report annually to the Internal Revenue Service (the *IRS*) the amount of dividends paid to or proceeds received by the recipient from the sale of Solectron's stock, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the Holder. Pursuant to tax treaties or other agreements, the IRS may make its reports available to tax authorities in the recipient's country of residence.

United States backup withholding tax is imposed on applicable payments to persons that fail to establish that they are entitled to an exemption or to provide a correct taxpayer identification number and other information to the payer. This backup withholding tax is imposed at a rate of 30.5% through December 31, 2001, and at a rate of 30% during 2002 and 2003, with further reductions thereafter.

Under current Treasury Regulations, the payment of the proceeds of the disposition of common stock to or through the United States office of a broker is subject to information reporting and backup withholding unless the holder certifies its non-United States status under penalties of perjury or otherwise establishes an exemption. Generally, the payment of the proceeds of the disposition by a Non-U.S. Holder of common stock outside the United States to or through a foreign office of a broker will not be subject to backup withholding but will be subject to information

reporting requirements if the broker is:

a United States person;

a controlled foreign corporation for United States federal income tax purposes;

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a foreign person 50% or more of whose gross income for certain periods is from the conduct of a United States trade or business; or

a foreign partnership if at any time during its tax year, (a) one or more of its partners are United States persons, as defined for United States federal income tax purposes, who in the aggregate hold more than 50% of the income or capital interests in the partnership, or (b) the foreign partnership is engaged in a United States trade or business;

unless the broker has documentary evidence in its files of the holder's non-United States status and certain other conditions are met, or the holder otherwise establishes an exemption. Neither backup withholding nor information reporting generally will apply to a payment of the proceeds of a disposition of common stock by or through a foreign office of a foreign broker not subject to the preceding sentence.

Backup withholding is not an additional tax. Rather, the United States income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the IRS.

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**COMPARISON OF SHAREHOLDER RIGHTS**

*In the event that the transaction is consummated, holders of C-MAC common shares will have their C-MAC common shares exchanged for shares of Solectron common stock or, in the case of Canadian residents who validly so elect, exchangeable shares and certain ancillary rights or a combination thereof. Those who elect to receive exchangeable shares and certain ancillary rights will have the right to exchange such shares for an equivalent number of shares of Solectron common stock.*

*Solectron is incorporated under the Delaware General Corporation Law and, accordingly, is governed by Delaware law and the Solectron certificate of incorporation and bylaws. C-MAC is incorporated under the Canada Business Corporations Act and, accordingly, is governed by the laws of Canada and the C-MAC articles and bylaws. Exchangeco was amalgamated under the laws of New Brunswick but it is intended that it will be continued under the Canada Business Corporations Act and, accordingly, as of the effective time of the arrangement, will be governed by the laws of Canada and the Exchangeco articles and bylaws.*

*While the rights and privileges of stockholders of a Delaware corporation are, in many instances, comparable to those of shareholders of a Canada Business Corporations Act corporation, there are certain differences. The following is a summary discussion of the most significant differences in shareholder rights. These differences arise from differences between Delaware law and the Canada Business Corporations Act and between the Solectron certificate of incorporation and bylaws and the C-MAC articles and bylaws. This summary is not intended to be complete and is qualified in its entirety by reference to Delaware law, Canadian law and the governing corporate instruments of Solectron and C-MAC. For a description of the respective rights of the holders of shares of Solectron common stock and C-MAC common shares see, respectively, *Solectron Capital Stock* and *C-MAC Share Capital*.*

**Required Vote for Certain Transactions**

Delaware law requires the affirmative vote of a majority of the outstanding stock entitled to vote thereon to authorize any merger, consolidation, dissolution or sale, lease or exchange of all or substantially all of the assets of a corporation, except that, unless required by its certificate of incorporation: (i) no authorizing shareholder vote is required of a corporation surviving a merger if (A) such corporation's certificate of incorporation is not amended in any respect by the merger, (B) each share of stock of such corporation outstanding immediately

prior to the effective date of the merger will be an identical outstanding or treasury share of the surviving corporation after the effective date of the merger, and (C) either no shares of common stock of the surviving corporation and no shares, securities or obligations convertible into such stock are to be issued or delivered in the merger, or the shares of common stock of the surviving corporation to be issued in the merger plus those initially issuable upon conversion of any other shares, securities or obligations to be issued in the merger do not exceed 20% of such corporation's outstanding common stock immediately prior to the effective date of the merger; and (ii) in certain limited circumstances, no authorizing shareholder vote is required of a corporation to authorize a merger with or into a single direct or indirect wholly-owned subsidiary of such corporation. Shareholder approval is also not required under Delaware law for mergers or consolidations in which a parent corporation merges or consolidates with a subsidiary of which it owns at least 90% of the outstanding shares of each class of stock.

Under the *Canada Business Corporations Act*, certain extraordinary corporate actions, such as certain amalgamations (other than with a direct or indirect wholly-owned subsidiary), continuances, and sales, leases or exchanges of all or substantially all the property of a corporation other than in the ordinary course of business, and other extraordinary corporate actions such as liquidations, dissolutions and (if ordered by a court) arrangements, are required to be approved by special resolution. A special resolution is a resolution passed at a meeting by not less than two-thirds of the votes cast by the shareholders who voted in respect of the resolution. In certain cases, a special resolution to approve an extraordinary corporate action is also required to be approved separately by the holders of a class or series of shares, including in certain cases a class or series of shares not otherwise carrying voting rights.

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### **Cumulative Voting**

Under Delaware law, cumulative voting in the election of directors is not mandatory, and for cumulative voting to be effective it must be expressly provided for in the certificate of incorporation. Solectron's certificate of incorporation provides for cumulative voting. In an election of directors under cumulative voting, each share of stock normally having one vote is entitled to a number of votes equal to the number of directors to be elected. A shareholder may then cast all such votes for a single candidate or may allocate them among as many candidates as the shareholder may choose. Without cumulative voting, the holders of a majority of the shares present at an annual meeting would have the power to elect all the directors to be elected at that meeting, and no person could be elected without the support of holders of a majority of the shares.

Under Canadian law, unless a corporation's articles provide otherwise, there is no cumulative voting for the election of directors. C-MAC's articles do not provide for cumulative voting.

### **Calling a Stockholder Meeting**

Under Delaware law, special meetings of the stockholders may be called by the board of directors or by any other person as may be authorized to do so by the certificate of incorporation or the bylaws of the corporation. According to the Solectron bylaws, Solectron's board of directors, chairman of the board, president, secretary, or holders of shares entitled to cast not less than 10% of the votes at the meeting may call a special meeting of the Solectron stockholders.

Under the *Canada Business Corporations Act*, the holders of not less than 5% of the issued shares of a corporation that carry the right to vote at the meeting sought to be held may requisition the directors to call a meeting of shareholders. Upon meeting the technical requirements set out in the *Canada Business Corporations Act* for making such a requisition, the directors of the corporation must call a meeting of shareholders. If they do not, the shareholders who made the requisition may call the meeting.

### **Amendment of Certificate of Incorporation or Articles of Incorporation**

Under Delaware law, the certificate of incorporation of a Delaware corporation generally may be amended by approval of the board of directors of the corporation and the affirmative vote of the holders of a majority of the outstanding shares entitled to vote on the amendment. Any amendment of a provision of the certificate of incorporation requiring a higher vote, or having certain effects on a class or series of a class of shares, may only be altered, amended or repealed if authorized by such higher vote or by such class or series of a class, respectively.

Solectron's certificate of incorporation reserves Solectron's right to amend, alter, change or repeal any provision contained in the certificate of incorporation, in the manner prescribed by Delaware law, and does not impose any supermajority voting requirements.

Under the *Canada Business Corporations Act*, any amendment to the articles generally requires approval by special resolution.

## **Amendment of Bylaws**

Under Delaware law, stockholders entitled to vote have the power to adopt, amend or repeal bylaws. In addition, a corporation may, in its certificate of incorporation, confer such power upon the board of directors.

Solectron's bylaws provide that its bylaws may be adopted, amended or repealed by a majority of the stockholders entitled to vote. Solectron has, in its certificate of incorporation, conferred the power to adopt, amend or repeal bylaws upon its directors as well. The fact that this power has been conferred upon the directors does not divest or limit the stockholders' power to adopt, amend or repeal the bylaws.

The *Canada Business Corporations Act* provides that unless the articles or bylaws otherwise provide, the directors may, by resolution, make, amend or repeal any bylaws that regulate the business or affairs of

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a corporation. Where the directors make, amend or repeal a bylaw, they are required under the *Canada Business Corporations Act* to submit the bylaw, amendment or repeal to the shareholders at the next meeting of shareholders, and the shareholders may confirm, reject or amend the bylaw, amendment or repeal by an ordinary resolution, which is a resolution passed by a majority of the votes cast by shareholders who voted in respect of the resolution. If the directors of a corporation do not submit a bylaw, an amendment or a repeal to the shareholders at the next meeting of shareholders, the bylaw, amendment or repeal will cease to be effective, and no subsequent resolution of the directors to adopt, amend or repeal a bylaw having substantially the same purpose and effect is effective until it is confirmed or confirmed as amended by the shareholders.

## **Dissenters' or Appraisal Rights**

Under Delaware law, holders of shares of any class or series have the right, in certain circumstances, to dissent from a merger or consolidation by demanding payment in cash for their shares equal to the fair value (exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation) of such shares, as determined by a court in an action timely brought by the corporation or the dissenters. Delaware law grants dissenters appraisal rights only in the case of mergers or consolidations and not in the case of a sale or transfer of assets or a purchase of assets for stock, regardless of the number of shares being issued. Further, no appraisal rights are available for shares of any class or series that are listed on a national securities exchange or designated as a national mar