SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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MPC CORP

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

☐ **TRANSITIONAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 0-115404

MPC CORPORATION

(Name of registrant as specified in its charter)

COLORADO	**84-1577562**
(State or other jurisdiction of incorporation or organization)	(IRS Employer identification No.)

906 E. Karcher Rd., Nampa, ID 83687
(Address of principal executive offices)

(208) 893-3434
(Registrant' s telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b‑2 of the Exchange Act).

Yes ☐ No ☒

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As of April 30, 2008 there were 34,195,510 shares of the issuer' s no par value Common Stock outstanding.

INDEX

		Page No.
	PART I - FINANCIAL INFORMATION	3
ITEM 1	FINANCIAL STATEMENTS	3
	Condensed Consolidated Balance Sheets	3
	Unaudited Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2008 and 2007	4
	Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2008 and 2007	5
	Notes to Interim Condensed Consolidated Financial Statements (unaudited)	6
ITEM 2	MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	22
ITEM 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	38
ITEM 4T	CONTROLS AND PROCEDURES	39
	PART II - OTHER INFORMATION	40
ITEM 1	LEGAL PROCEEDINGS	40
ITEM 1A	RISK FACTORS	40
ITEM 6	EXHIBITS	42

A NOTE ABOUT FORWARD-LOOKING STATEMENTS

The statements, other than statements of historical fact, included in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended and within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "seek," "could," "should," "continues," or "believe," or the negative or other variations thereof. We believe that the expectations reflected in such forward-looking statements are accurate. However, we cannot provide assurance that such expectations will occur. Our actual future performance could differ materially from such statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results and events to differ materially. Our Annual Report on Form 10-K for the year ended December 31, 2007 describes many of the significant factors that could cause actual results and events to differ materially and that constitute material risks to our business. You should carefully review the risk factors set forth in such Form 10-K, as well as those described in this report. Forward-looking statements apply only as of the date of this report; as such, they should not be unduly relied upon for current circumstances. Except as required by law, we are not obligated to release

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publicly any revisions to these forward-looking statements that might reflect events or circumstances occurring after the date of this report or those that might reflect the occurrence of unanticipated events.

PART I – FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

MPC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands except share data)

	March 31, 2008	December 31, 2007
	(unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,817	$ 9,009
Restricted cash	9,898	9,852
Accounts receivable, net	53,381	86,056
Inventories, net	71,688	62,050
Prepaid maintenance and warranty costs	9,063	10,699
Other current assets	1,188	1,146
Total Current Assets	149,035	178,812
Non-Current Assets		
Property and equipment, net	10,112	10,697
Goodwill	45,255	45,255
Acquired intangibles, net	26,134	28,455
Long-term portion of prepaid maintenance and warranty costs	1,577	1,388
Other assets	2,582	1,668
Total Non-Current Assets	85,660	87,463
TOTAL ASSETS	$ 234,695	$ 266,275
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 74,001	$ 61,079
Accrued expenses	20,121	26,928
Accrued licenses and royalties	6,291	5,084
Current portion of accrued warranties	24,108	24,700
Current portion of deferred revenue	31,634	33,357
Notes payable and debt	42,485	64,249
Derivative financial instruments at estimated fair value	1,478	1,590
Total Current Liabilities	200,118	216,987
Long Term Liabilities		
Non-current portion of accrued warranties	14,204	16,491
Non-current portion of deferred revenue	27,317	25,848

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Derivative warrant liability	303	634
Total Long Term Liabilities	41,824	42,973
TOTAL LIABILITIES	241,942	259,960
COMMITMENTS AND CONTINGENCIES		
PREFERRED STOCK, Series B, 260,000 shares authorized, 249,171 issued and outstanding at 2008 and 2007	6,308	6,308
SHAREHOLDERS' EQUITY		
Preferred Stock, no par value; 100,000 shares authorized; no shares issued and outstanding at 2008 and 2007	–	–
Preferred Stock, Series A, 640,000 shares authorized; 626,546 issued and outstanding at 2008 and 2007	9,008	9,008
Common Stock, no par value, 100,000,000 shares authorized; 34,175,866 and 33,948,489 shares issued and outstanding at 2008 and 2007, respectively	85,444	85,029
Accumulated Deficit	(108,007)	(94,030)
Total Shareholders' Equity (Deficit)	(13,555)	7
TOTAL LIABILITIES AND EQUITY	$ 234,695	$ 266,275

The accompanying notes are an integral part of the condensed consolidated financial statements.

MPC CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except for per share data)

	Three Months ended March 31,	
	2008	2007 (1)
Revenue	$ 123,707	$ 56,751
Cost of revenue	108,715	50,561
Gross margin	14,992	6,190
Operating expenses		
Research and development expense	1,071	497
Selling, general and administrative expense	24,126	9,831
Depreciation and amortization	2,949	770
Total operating expenses	28,146	11,098
Operating loss	(13,154)	(4,908)
Other (income) expense		
Interest expense, net	1,266	1,519
Change in estimated fair value of derivative financial instruments	(443)	(1,246)

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Total other (income) expense, net	823	273
Net loss	$ (13,977)	$ (5,181)
Loss per common share:		
Basic	$ (0.41)	$ (0.41)
Diluted	$ (0.41)	$ (0.41)
Common shares used to compute net loss per share:		
Basic	34,067,054	12,694,606
Diluted	34,067,054	12,694,606

(1) The results of the Gateway Professional Business have been consolidated effective October 1, 2007, the date the acquisition by MPC Corporation became effective and therefore the results of the Professional Businesses are not included for periods prior to October 1, 2007.

The accompanying notes are an integral part of the condensed consolidated financial statements.

MPC CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2008	**2007 (1)**
OPERATING ACTIVITIES		
Net loss	$ (13,977)	$ (5,181)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	1,411	698
Amortization of acquired intangibles	2,320	453
Amortization of deferred loan costs	–	243
Change in estimated fair value of derivative financial instruments	(443)	(1,246)
Stock compensation on vesting of RSUs	322	61
Provision for bad debt	752	(19)
Other	2	–
Changes in assets and liabilities		
Accounts receivable	31,923	12,114
Inventory	(9,638)	(2,722)
Prepaid maintenance & warranties	1,447	(1,606)
Other current assets	(42)	220
Other non-current assets	(914)	–
Accounts payable and accrued liabilities	6,127	(2,360)
Accrued licenses and royalties	1,207	654
Accrued warranties	(2,879)	(96)
Deferred revenue	(254)	2,013
Net cash provided by operating activities	17,364	3,226
INVESTING ACTIVITIES		

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Purchase of property and equipment	(834)	(75)
Proceeds from the sale of fixed assets	6	–
Net cash used in investing activities	(828)	(75)
FINANCING ACTIVITIES		
Net activity under financing facility	(19,193)	(6,679)
Restricted cash related to letters of credit and financing facility	(46)	208
Payment of notes payable	(2,489)	–
Net cash used in financing activities	(21,728)	(6,471)
Net cash decrease for period	(5,192)	(3,320)
Cash at beginning of period	9,009	4,839
Cash at end of period	$ 3,817	$ 1,519
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,386	$ 896
Income taxes paid	0	0

(1) The results of the Gateway Professional Business have been consolidated effective October 1, 2007, the date the acquisition by MPC Corporation became effective and therefore the results of the Professional Businesses are not included for periods prior to October 1, 2007.

The accompanying notes are an integral part of the condensed consolidated financial statements

MPC CORPORATION
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The terms "we" "us" and "out" or the "company" as used in this quarterly report refer on a consolidated basis to MPC Corporation and to its wholly-owned subsidiaries, including MPC Computers, LLC, ("MPC Computers") which we acquired through a merger in July of 2005 and MPC-Pro, LLC ("MPC Pro") which acquired the Professional Business from Gateway Inc. on October 1, 2007.

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

We were formed as HyperSpace Communications, Inc. as a Colorado-based company, and completed an initial public offering in October 2004. In July 2005, we acquired MPC Computers, LLC, or MPC Computers, which became a wholly-owned subsidiary and our primary business. MPC Computers is an enterprise IT hardware business providing products and services to customers in mid-sized businesses, government agencies and education organizations. In January 2007, we changed our name to MPC Corporation. On October 1, 2007, MPC Corporation, through our wholly-owned subsidiary MPC-Pro, purchased from Gateway Inc. ("Gateway") and Gateway Technologies Inc., Gateway' s Professional Division, the portion of Gateway' s Consumer Direct Division that markets business-related products, and a portion of the Customer Care & Support department that provides technical services to customers of the Professional and Consumer Direct Divisions (collectively, the "Professional Business"). The Professional Business is primarily engaged in the sale, resale and marketing of desktop computer systems, laptops, servers, networking gear and other peripherals, and replacement parts to educational institutions, government entities (federal, state and local), value-added resellers and certain other resellers, and small business sales generated by Gateway' s Internet website and phone centers. The purchase has substantially increased the size of our business.

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Our primary business is providing PC-based products and services to mid-sized businesses, government agencies and education organizations. We manufacture and market ClientPro® desktop PCs, TransPort® notebook PCs, NetFRAME® servers and DataFRAME™ storage products. In addition we manufacture and market the "E-series" of desktops, notebooks, servers and storage products under a one-year limited license agreement with Gateway. We also provide hardware-related support services such as installation, technical support, parts replacement, and recycling. In addition to PCs, servers, and storage products, we also fulfill our customers' requirements for third party products produced by other vendors including printers, monitors and software.

We serve the federal government, state/local government & education ("SLE"), and mid-size enterprise markets. This focus enables us to tailor our operating model to better support the needs of our customers for customized products, services and programs. We sell directly to our customers and use a build-to-order manufacturing process that we believe is an efficient means to provide customized computing solutions.

The accompanying consolidated financial statements consolidate the accounts of MPC Corporation and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. References to a fiscal year refer to the calendar year in which such fiscal year commences. The fiscal year of MPC Computers and MPC-Pro ends on the Saturday closest to December 31. The floating fiscal year-end typically results in a 52-week fiscal year, but will occasionally give rise to an additional week resulting in a 53-week fiscal year.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Information and Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. These financial statements include the accounts of MPC Corporation and all of its wholly-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited condensed consolidated financial statements and related notes contained in our 2007 Annual Report on Form 10-K. The comparative balance sheet and related disclosures at December 31, 2007 have been derived from the audited balance sheet and consolidated footnotes referred to above.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments of a recurring nature that are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the interim periods presented in these unaudited interim condensed consolidated financial statements are not necessarily indicative of results to be expected for the full year.

The preparation of our condensed consolidated financial statements in conformity with GAAP necessarily requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the balance sheet dates, and the reported amounts of revenues and costs during the reporting periods. Actual results could differ from those estimates. On an ongoing basis, we review our estimates based on information that is currently available. Changes in facts and circumstances may cause us to revise estimates.

Our significant estimates include the collectability of receivables and corresponding allowance for doubtful accounts, the reserve needed for possible future returns and discounts which may be granted, the carrying value and usefulness of inventory and the related inventory reserves, long-lived asset useful lives and impairment, estimated future volatility in our stock price, the timing and amount of future warranty and other product obligation expenses, the recognition of warranty revenue and the cost and settlement of current litigation or items in dispute.

Cash and Cash Equivalents

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Cash equivalents consist of short-term investments that have a maturity of three months or less at the date of purchase. We had no cash equivalents at March 31, 2008 and December 31, 2007.

Restricted cash

Restricted cash at March 31, 2008 and December 31, 2007 includes $3.6 million and $3.5 million respectively held as collateral under our receivables financing facility, and $6.3 million held as collateral for outstanding letters of credit.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. We maintain an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate reserve against losses resulting from collecting less than full payment on receivables. Overdue accounts are reviewed, and an additional allowance is recorded when determined necessary to state receivables at an estimated realizable value. In judging the adequacy of the allowance for doubtful accounts, we consider multiple factors including historical bad debt experience, the general economic environment, the aging of our receivables, and the financial condition of the customer. A considerable amount of judgment is required when assessing the realization of receivables, including assessing the probability of collection and the current creditworthiness of each customer. The allowance for doubtful accounts totaled $3.5 million and $2.7 million respectively, as of March 31, 2008 and December 31, 2007.

Inventory

Inventory is stated at the lower of cost or market, with cost determined on an average cost basis approximating first in first out (FIFO). We regularly evaluate the realizability of our inventory based on a combination of factors including the following: historical usage rates, forecasted sales or usage, estimated service period, product end-of-life dates, estimated current and future market values, service inventory requirements and new product introductions, as well as other factors. If circumstances related to our inventories change, estimates of the realizability of inventory could materially change. At March 31, 2008 and December 31, 2007, our inventory valuation allowance totaled $13.9 million and $12.3 million and was recorded as a reduction of inventory in the consolidated balance sheets. Inventory balances, net of valuation allowances, at March 31, 2008 and December 31, 2007 are:

(In thousands)	March 31, 2008	December 31, 2007
Raw Materials	$ 43,019	$ 46,569
Work in Process	476	100
Finished Goods	28,193	15,381
Total Inventory	$ 71,688	$ 62,050

Prepaid Maintenance and Warranty Costs

Prepaid maintenance and warranty costs include amounts paid to third party software vendors, outsourced providers of warranty fulfillment services and technology insurance vendors for which the related revenue has been deferred. These costs are recognized ratably with the related revenue.

Business Combinations

We account for business combinations under the purchase accounting method. The cost of an acquired company is assigned to the tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired requires us to make estimates and use valuation techniques when market value is not readily available.

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Any excess of purchase price over the fair value of the tangible and net intangible assets acquired is allocated to goodwill. During the three months ended March 31, 2008, we had no changes to the preliminary purchase price allocation of our October 1, 2007 acquisition of the Professional Business.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of assets acquired less liabilities assumed in a business acquisition. Our acquisitions of MPC Computers and the Professional Business gave rise to goodwill. We account for goodwill in accordance with Statement of Accounting Standards ("SFAS") 142, *Goodwill and Other Intangible Assets*. SFAS 142 requires that goodwill no longer be amortized and that goodwill be tested annually for impairment or more frequently if events and circumstances warrant. We conduct goodwill impairment tests annually every October 31 or more frequently if facts and circumstances indicate such assets may be impaired. We completed our annual assessment in accordance with SFAS 142 in 2007 and determined that there was no impairment.

Acquired Intangibles, net

Other intangible assets are accounted for in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* which requires that intangible assets with estimable useful lives be amortized over their estimated useful lives, and be reviewed for impairment when changes in circumstances indicate that their carrying amounts are in excess of their estimated fair value. Acquired intangibles are amortized principally using accelerated methods over their estimated useful lives ranging from 1 to 10 years.

Long-Lived Assets

Equipment and software are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives, primarily three to five years. Additions, improvements and major renewals are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term. Equipment held for lease is depreciated over the initial term of the lease to the equipment' s estimated residual value.

We assess the recoverability of our long-lived assets whenever adverse events or changes in circumstances or business climate indicate that expected undiscounted future cash flows related to such long-lived assets may not be sufficient to support the net book value of such assets. If undiscounted cash flows are not sufficient to support the recorded assets, impairment is recognized to reduce the carrying value of the long-lived assets to their estimated fair value. Cash flow projections are subject to a degree of uncertainty and are based on management' s estimate of future performance. Additionally, in conjunction with the review for impairment, the remaining estimated lives of certain of our long-lived assets are assessed.

Deferred Revenue

Deferred revenue includes amounts billed to or received from customers for which revenue has not been recognized. Deferred revenue results from the sale of enhanced and extended warranties, which are deferred and recognized as the related services are provided, which generally range from 3-5 years. Enhanced warranties run concurrent with our standard warranties. Our enhanced/extended warranties are deferred based on guidance provided in Technical Bulletin 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*, and are valued based on the list price, net of discounts offered to the customer. Deferred revenue also includes deferred software maintenance revenues for which we are the primary obligor that are recognized over the term of the contract, which is generally one year.

Accrued Warranties

We record warranty liabilities at the time of sale for the estimated costs that may be incurred under its standard limited warranty. The specific warranty terms and conditions vary depending upon the product sold, but generally include technical support, repair parts, labor over a period ranging from 90 days to five years. Factors that affect the warranty liability include the number of installed units currently under warranty,

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historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy warranty obligations. We regularly evaluate our estimate to assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary. If circumstances change, or a dramatic change in the failure rates were to occur, the estimate of the warranty accrual could change significantly.

Concentrations

A concentration of credit risk may exist with respect to trade receivables, particularly customers within the U.S. Federal Government. We perform ongoing credit evaluations on a significant number of our customers and collateral from our customers is generally not required. Seven customers accounted for approximately 23% of trade receivables as of March 31, 2008 and were either agencies of, or resellers to, the federal government.

A concentration of risk may exist with respect to our suppliers. We purchase certain products from single sources. In some cases, alternative sources of supply are not available. In other instances, we have established a procurement relationship with a single source if we determine that it makes business sense. In both of these situations, if the supply by a critical single-source supplier were interrupted or suspended, our ability to ship products in a timely manner will be adversely affected. In cases where alternative suppliers are available, the establishment and procurement from these alternative suppliers will result in delays and losses of sales, which will have an adverse effect on our operating results.

Revenue Recognition

We recognize revenue on hardware and peripherals, net of an allowance for estimated returns, when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed and determinable, and collectability is reasonably assured. Delivery is not considered to have occurred until both title and risk of loss transfer to the customer, provided that no significant obligations remain. For FOB destination agreements, which include all sales to the federal government and some sales to state, local and education customers, we defer the cost of product revenue for in-transit shipments until the goods are delivered assuming all other revenue recognition criteria have been met. In-transit product shipments to customers are included in inventory.

Net revenue includes sales of hardware, software and peripherals, and services (including extended service contracts and professional services). These products and services are sold either separately or as part of a multiple-element arrangement. We allocate revenue from multiple-element arrangements to the elements based on the relative fair value of each element, which is generally based on the sales price of each element when sold separately. The allocation of fair value for a multiple-element software arrangement is based on vendor specific objective evidence ("VSOE"). Revenue associated with undelivered elements is deferred and recorded when delivery occurs. The value of maintenance services on software sales is determined based on stated renewal rates and a comparison of the stated price of maintenance to software sold in a related transaction. To the extent we do not have VSOE from separate post contract support sales, we defer the software and the maintenance over the term of the agreement. Service revenue from software maintenance and support are recognized ratably over the maintenance term, which in most cases is one year. Term licenses are recognized ratably over the term of the related arrangement.

Revenue from extended warranty and service contracts, for which we are obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. In multiple element arrangements that include extended warranty and service contracts, we use the separation guidance provisions of Technical Bulletin 90-1 *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts* to determine fair value. Revenue from sales of third-party extended warranty and service contracts for which we are not obligated to perform is recognized on a net basis at the time of sale.

We recorded revenue net of sales taxes. Such taxes are considered current liabilities and are included in accrued expenses until paid.

Shipping Costs

Shipping and handling costs are included in cost of revenue in the accompanying consolidated statements of operations for all periods presented.

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Royalties

We have royalty-bearing license agreements allowing us to sell certain hardware and software products and to use certain patented technology. Royalty costs are accrued and included in cost of revenue when the related revenue is recognized or amortized over the period of benefit when the license terms are not specifically related to units shipped.

Research and Development Costs

Research and development costs are expensed as incurred, in accordance with SFAS No. 2, *Accounting for Research and Development Costs.* Research, development, and engineering expenses primarily include payroll and headcount related costs, contractor fees, infrastructure costs, and administrative expenses directly related to research and development support.

Income Taxes

We recognize deferred tax assets and liabilities based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. We make no provision for income taxes because, since inception, we have not been profitable. We have a net operating loss carry forward available to offset future federal and state income taxes.

Stock Based Compensation – Stock Options

During the first quarter of fiscal 2006, we adopted the provisions of and accounted for stock-based compensation in accordance with the SFAS 123R *Share-Based Payments,* which replaced SFAS 123 and supersedes APB 25. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. All of our stock options were vested as of December 31, 2005, and we ceased using stock options as a compensation tool.

Stock Based Compensation – Restricted Stock Units

We issue restricted stock units (“RSUs”) as stock based compensation to members of our Board of Directors and employees. We record non-cash compensation expense over the requisite service period of the RSUs determined by the number of units granted multiplied by the fair market value at the date of grant less an estimate for pre-vesting forfeitures. Compensation expense for RSUs issued is classified on the statement of operations as operating expense. During the three months ended March 31, 2008 and 2007, we recorded $322 thousand and $61 thousand respectively, in stock compensation expense for RSUs.

Basic and Diluted Income (Loss) Per Share

We apply the provisions of SFAS No. 128, *Earnings Per Share*. Basic income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted income (loss) per share is computed by dividing net income (loss), as adjusted by the impact of potentially dilutive securities, by the combination of the weighted average number of common shares outstanding and all potentially dilutive common shares outstanding during the period using the treasury stock method unless the inclusion of such shares is anti-dilutive. Our potentially dilutive securities primarily consist of convertible debentures, stock warrants, restricted stock units, and stock options. For the three months ended March 31, 2008 and 2007, all potentially dilutive common shares totaling 37,593,047 and 40,173,165, respectively, were excluded from the computation of diluted loss per share because inclusion of such shares would have had an anti-dilutive effect on diluted loss per share.

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Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The most significant was the reclassification of depreciation expense of $381 thousand related to production equipment to cost of revenue from depreciation and amortization expense. The reclassification had no impact on the reported net loss for the three months ended March 31, 2007.

New Accounting Pronouncements

New Accounting Standards

In December, 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations*. SFAS No. 141R will significantly change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will change the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Noncontrolling interests (formerly known as “minority interests” − see SFAS No. 160 discussion below) will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;
- In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

SFAS No. 141R also includes a substantial number of new disclosure requirements. The statement applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In December, 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51.* SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent’ s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 clarifies that changes in a parent’ s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, SFAS No. 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. The statement is effective for us during the first quarter of 2009. We currently do not have noncontrolling interests.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133*. SFAS 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative

Instruments and Hedging Activities; and (c) derivative instruments and related hedged items affect an entity’ s financial position, financial performance, and cash flows. SFAS 161 is effective for us during the first quarter of 2009. We are currently evaluating the impact of the

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adoption of the enhanced disclosures requirements of SFAS 161 and currently do not expect the adoption to have a material impact on its consolidated financial statements.

In March 2008, the FASB affirmed the consensus of FASB Staff Position ("FSP") APB 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, which applies to all convertible debt instruments that have a ' 'net settlement feature' ' ; which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. FSP APB 14-a requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuer' s nonconvertible debt borrowing rate. Previous guidance provided for accounting for this type of convertible debt instrument entirely as debt. FSP APB 14-a is effective for us during the first quarter of 2009. We are currently evaluating the impact the adoption of FSP APB 14-a may have on our consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets.* This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets.* The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141R, and other U.S. generally accepted accounting principles. This FSP is effective for us during the first quarter of 2009. We are currently evaluating the impact the adoption of FSP FAS 142-3-a may have on our consolidated financial statements.

Recently Adopted Accounting Standards

In September 2006, the FASB issued SFAS No. 157 *Fair Value Measurement*, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosure requirements about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. Measurement of financial assets and financial liabilities was effective for us beginning in fiscal year 2008. Two FSPs on this Statement were subsequently issued. On February 12, 2008, FSP No. 157-2 delayed the effective date of this Statement for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. This FSP is effective for us in fiscal year 2009. On February 14, 2008, FSP No. 157-1 excluded SFAS No. 13, *Accounting for Leases,* and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS Statement No. 141, *Business Combinations* or SFAS No. 141(R), *Business Combinations*, regardless of whether those assets and liabilities are related to leases. This FSP was effective upon our initial adoption of SFAS No. 157. The adoption of SFAS No. 157 relating to financial assets and financial liabilities did not have a material impact on our financial position or results of operations. We do not expect the impact of SFAS No. 157 related to nonfinancial assets and nonfinancial liabilities will have a material impact on our financial position or results of operations. See Note 6 – "Derivative Warrant Liabilities and Convertible Debentures – Fair Value Measurements" for disclosures regarding our fair value measurements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement 115*. SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value, which are not currently required to be measured at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings at each subsequent reporting date. SFAS No. 159 was effective for us beginning in the first quarter of fiscal year 2008. We adopted SFAS No. 159 as of January 1, 2008 and elected not to measure any additional financial instruments or other items at fair value.

NOTE 3 ACCRUED WARRANTIES

We accrue for warranty liabilities at the time of the sale for estimated costs that may be incurred under the basic limited warranty. Changes in our aggregate accrued warranty are presented in the following table.

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(In thousands)	Three months ended March 31, 2008	2007
Accrued warranties at beginning of the period	$ 41,191	$ 4,347
Cost accrued for new warranties	4,232	191
Service obligation honored	(7,009)	(326)
Accretion of interest under purchase accounting	(102)	39
Accrued warranties at end of the period	$ 38,312	$ 4,251

NOTE 4. DEFERRED REVENUE

We offer our customers an option of extended or enhanced warranties. Deferred revenue results from amounts billed to or received from customers for which the warranty revenue is deferred and recognized as the related services are provided, which generally range from 3-5 years. Deferred revenue also includes deferred software maintenance revenues that are recognized over the term of the contract, which is generally one year. A schedule of our deferred revenue, including changes in deferred revenue from extended and enhanced warranties is as follows:

(In thousands)	Three months ended March 31, 2008	2007
Deferred revenue for extended and enhanced warranties, beginning of the period	$ 48,173	$ 32,408
Additions to deferred revenue for new extended and enhanced warranties sold	8,236	3,099
Revenue recognized for extended and enhanced warranties	(7,060)	(2,317)
Deferred revenue for extended and enhanced warranties, end of the period	49,349	33,190
Deferred software maintenance revenue, end of the period	9,602	7,410
Total deferred revenue	$ 58,951	$ 40,600

NOTE 5 NOTES PAYABLE AND DEBT

(In thousands)	March 31, 2008	December 31, 2007
Wells Fargo Receivables Advance Facility	$ 40,721	$ 59,914
Debt Incurred in Acquisition	105	279
Convertible Bridge Loans	300	300
Payable to Gateway	431	862
Payable to Lessor	343	844
Payable to TPV	–	1,176
Payable to Wacom Technology Corporation	585	874
Total Notes Payable and Debt	$ 42,485	$ 64,249

Wells Fargo Receivables Advance Facility

On November 16, 2006, MPC Computers entered into an agreement with Wells Fargo Business Credit, Inc. (“Wells Fargo”) for an accounts receivable assignment and advance facility (“Receivables Advance Facility”). Under the facility, as amended in February 2007, MPC Computers may assign to Wells Fargo, and Wells Fargo may purchase, Accounts (as defined in the Receivables Advance Facility). Wells Fargo will advance 90% of the value of the purchased Accounts. Wells Fargo may adjust the advancement percentage at any time in its commercially reasonable discretion upon prior notice to us. Wells Fargo will advance an additional 7.5% of the face amount of currently outstanding Accounts assigned to Wells Fargo, provided that the total advance does not exceed 97.5% of the face amount of any Account (the “Temporary Advance”), and increase the advance rate on new Accounts assigned to Wells Fargo to 98% of the amount of the Accounts for a

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period of eight weeks (the “Special Facility Period”). MPC Computers must repay the difference between the Advance and the Temporary Advance within four weeks after termination of the Special Facility Period. Failure to repay amounts advanced under the Special Facility would constitute an event of default under the Agreements. At any time when the Temporary Advance has been paid in full for a minimum of 60 days, MPC Computers may request that the Special Facility be reinstated for another eight week period with repayment to be made within four weeks.

On October 1, 2007, MPC-Pro and GCI (which was acquired by MPC-Pro in connection with the acquisition of the Professional Business), each entered into an Account Purchase Agreement with Wells Fargo. Under these

agreements, MPC-Pro and GCI may assign to Wells Fargo, and Wells Fargo may purchase from MPC-Pro and GCI, Accounts (as defined in the Agreements). Wells Fargo will advance to MPC-Pro and GCI 90% of the value of the purchased Accounts. Wells Fargo may adjust the advancement percentage at any time in its commercially reasonable discretion upon prior notice to MPC-Pro and GCI. In addition, MPC-Pro, Gateway, GCI and Wells Fargo entered into an Intercreditor Agreement (the “Intercreditor Agreement”). The Intercreditor Agreement provides Gateway with a junior security interest in accounts receivable generated on or after the October 1, 2007 acquisition of the Professional Business, inventory, and all other property of MPC-Pro and GCI as specified in the agreement to secure the payment of obligations owing to Gateway under the Transition Services Agreement (the “TSA Obligations”). Wells Fargo and MPC-Pro agreed to set aside certain accounts receivable for the payment of the TSA Obligations (the “Gateway Blocked Accounts”). On March 27, 2008 the Intercreditor Agreement was amended to provide that there will be Gateway Blocked Accounts in up to the following amounts: (i) there will be no Gateway Blocked Accounts through April 17, 2008; (ii) on or after April 18, 2008, a face amount equal to the obligations owing to Gateway under the Transition Agreement for the applicable week (the “Gateway Weekly Payoff Amounts”) minus $10.0 million; and (iii) on or after May 27, 2008, a face amount equal to the Gateway Weekly Payoff Amounts for the applicable week minus $5.0 million. The amendment also provides that, if, after June 30, 2008, there is a remaining positive balance of the Gateway Weekly Payoff Amounts, Gateway may provide a statement to MPC-Pro indicating the positive balance, and Wells Fargo will hold but not purchase Gateway Blocked Accounts submitted to it by MPC-Pro and GCI in a face amount equal to the remaining positive balance.

We pay fees equal to the Wells Fargo Prime Rate (as defined in the Receivables Advance Facility), plus 0.75% per annum (the “Wells Fargo Discount”) multiplied by the total amount of Accounts purchased and not yet paid by our customers, computed daily. The effective rate at March 31, 2008 was 6%. The minimum monthly fee to be paid in aggregate by MPC Corporation affiliates to Wells Fargo is determined by multiplying the Wells Fargo Discount, by $2.5 million.

Wells Fargo has the right to require that we re-purchase the Accounts in the event our customer does not pay the receivable within a timeframe specified under the Receivables Advance Facility, if a material customer dispute arises or in the event of a default under the Receivables Advance Facility. The Receivables Advance Facility is subject to customary default provisions. Wells Fargo has discretion under the Receivables Advance Facility as to the Accounts purchased and the percentage advanced after submission of the Account for approval. Wells Fargo is not obligated to buy any Account from us that Wells Fargo does not deem acceptable in its sole discretion. There is no minimum amount of Accounts to be purchased by Wells Fargo under the Receivables Advance Facility. The facility is secured by substantially all of our assets. The Receivables Advance Facility is for a term of three (3) years terminating November 14, 2009. Early termination fees apply if the Receivables Advance Facility is terminated before the end of its term. The Receivables Advance Facility also provides for a $3.6 million collateral account for the benefit of Wells Fargo for repayment of any obligations arising under the Receivables Advance Facility.

On April 1, 2008, Wells Fargo provided an advance to MPC-Pro in the amount of $3.5 million (the “MPC-Pro Advance”). The MPC-Pro Advance is to be repaid by May 31, 2008, and is in addition to other amounts provided to us by Wells Fargo under the terms of our Account Purchase Agreements with Wells Fargo. We agreed to pay to Wells Fargo an advance fee in the amount of $15 thousand for the MPC-Pro Advance. Interest on the MPC-Pro Advance will be at Wells Fargo Prime Rate plus 1.25%.

On April 10, 2008, MPC-Pro, GCI, and Gateway delivered to Wells Fargo an instruction letter that modified certain terms of the Intercreditor Agreement. The letter confirmed that a requirement under the Intercreditor Agreement to maintain a controlled collateral account in the

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amount of $1.5 million eliminated. Additionally, the letter confirmed that Wells Fargo is not required to hold certain Gateway funds in trust as previously required under the Intercreditor Agreement. The impact of the instruction letter was to release approximately $1.0 million to us that was held in the controlled collateral account.

In April 2008, we were informed by Wells Fargo that Wells Fargo had over advanced approximately $1.4 million to us as a result of an oversight in the application of cash receipts received against several relatively small invoices outstanding since late 2007. We have agreed with Wells Fargo to repay the $1.4 million over advance in four equal weekly payments starting June 6, 2008.

Note Payable to Gateway

On December 6, 2007, MPC-Pro entered into an unsecured promissory note payable to Gateway (the "Promissory Note") in the amount of $1.3 million as part of the consideration for the acquisition of the Professional Business. The Promissory Note was executed pursuant to the Asset Purchase Agreement which contemplated the parties executing the Promissory Note at a point in the future when the principal amount had been determined. The

Promissory Note is dated effective October 1, 2007, which was the closing date of the transaction under the Asset Purchase Agreement. The principal amount of the Promissory Note was calculated pursuant to terms set forth in the Asset Purchase Agreement. The principal amount was due in three equal bi-monthly installments plus interest at 8% per annum beginning December 1, 2007 and ending on April 1, 2008. The note payable was fully paid on April 1, 2008.

Debt Incurred in Acquisition

Debt incurred in connection with the acquisition of MPC Computers of $370 thousand was due July 25, 2006, including any unpaid interest, which is accrued at 5% per annum. There is no assurance that we will be successful in renegotiating the terms of these notes. The holders have the right, at any time prior to payment, to convert all or any part of the then outstanding balance of principal and interest under these notes into shares of common stock at the conversion price of $3.00 per share, which was determined at the date of issuance. The common stock underlying these notes is covered by a registration rights agreement. We filed the registration statement with the SEC on November 8, 2006 and it was declared effective on June 28, 2007. During the year ended December 31, 2007, we repaid and settled $91 thousand of the debt and related interest and recognized a gain of $52 thousand as we settled for less than the amounts due. During the first quarter of 2008, we made further payments and settlements with the holders. As of March 31, 2008, $105 thousand remains outstanding to one holder who is the Chief Financial Officer of MPC Corporation.

Convertible Bridge Loans

Convertible Bridge Loans were issued prior to our IPO. The outstanding amount was due April 2006, including any unpaid interest which is accrued at 12% per annum. The holder has the right, at any time prior to repayment, to convert all or any part of the then outstanding balance of principal and interest under these notes into shares of common stock at the conversion price of $3.50 per share. The notes include detachable warrants for purchase of common stock. The value of the warrants was recorded as interest expense in 2004. All of our assets at MPC Corporation collateralize the notes. These notes have registration rights. In May 2006, we repaid principal and interest to one note holder. There are two remaining note holders who have not yet been repaid. We are in default of the repayment terms on these notes, and the default interest provision of 18% has been accruing on these notes since April 15, 2006. We have been in discussions with these note holders about an extension to repay the amounts due. There is no assurance that we will be successful in renegotiating the terms of these notes.

Warrants and convertible debt issued in connection with financing activities are subject to the provisions of Emerging Issues Task Force ("EITF") Issue 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.* EITF 00-19 provides that derivatives should be classified as either equity or a liability. If the derivative is determined to be a liability, the liability is fair valued each reporting period with the changes recorded to the consolidated balance sheet and consolidated statement of operations. In

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regard to the convertible debt set out above, we determined that the embedded conversion option qualified as equity under EITF 00-19 and would not be subject to bifurcation from the host instrument.

Payable to Lessor

MPC Computers is a party to a commercial lease with Micron Technology dated April 30, 2001 (as amended, the "Lease") under which we lease our primary manufacturing facility in Nampa, Idaho. A Fifth Amendment to the Lease deferred our rent payment obligations due or to become due between January 16, 2006 and May 31, 2007, without incurring late charges, provided that we pay base rent and other amounts (the "Extended Rent Obligation") under the Lease at any time before May 31, 2007. The total amount of the Extended Rent Obligation payable on May 31, 2007 was $2.5 million and had been recorded as an accrued liability. We had paid only $500 thousand of the Extended Rent by May 31, 2007.

On July 2, 2007, MPC Computers entered into a Sixth Amendment to the Lease of this manufacturing facility. The Sixth Amendment to Lease provides that MPC Computers will pay the balance of the Extended Rent Obligation in twelve equal monthly installments in the amount of $174 thousand, including interest at the annual rate of 12%. If any installment is not made, MPC Computers will incur a late charge of 5% of the amount of such installment, and interest shall increase to an annual default rate of 18%. The Sixth Amendment also provides that MPC Computers will pay the full amount of the Extended Rent Obligation in the event equity investment funds are received in an amount that exceeds $12.0 million. Additionally, if MPC Computers unrestricted cash and cash equivalents balance, combined with available lines of credit, exceeds $5.0 million at any time after January 1, 2008, the monthly installment amount increases to $348 thousand until the total Extended Rent Obligation is paid in full. In addition to making the Extended Rent Obligation payments, MPC Computers is obligated to pay current rent and all other

Lease obligations as they become due and payable, including property taxes per the terms of the Lease.

Payable to TPV

On June 30, 2007, we entered into a settlement agreement with TPV International (USA), Inc. and Top Victory Electronics (FUJIANG) Co., Ltd (collectively "TPV"). Under the agreement we agreed to pay TPV $2.1 million over a period of twelve months with interest at 8%. The agreement provides for monthly payments of $120 thousand for six months and $254 thousand thereafter. The settlement amount had been previously recorded as accounts payable. The payable to TPV was fully repaid on February 1. 2008.

Payable to Wacom

In August 2007, we settled a case with Wacom Technology Corporation ("Wacom"). We agreed to pay Wacom $1.2 million in payments of $100 thousand per month beginning September, 2007 plus interest of 5%.

NOTE 6 DERIVATIVE WARRANT LIABILITIES AND CONVERTIBLE DEBENTURES

Derivative warrant liabilities and convertible debentures consist of the following:

	March 31, 2008		
	Derivative Warrants	Convertible Debentures	
(In thousands)	Fair Value	Fair Value	Face Value
New Convertible Debentures and Warrants	$ 1	$ 43	$ –
September 29, 2006 Financing	302	1,435	1,353
	$ 303	$ 1,478	$ 1,353

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(In thousands)	December 31, 2007		
	Derivative Warrants	Convertible Debentures	
	Fair Value	Fair Value	Face Value
New Convertible Debentures and Warrants	$ 1	$ 42	$ –
September 29, 2006 Financing	633	1,548	1,353
	$ 634	$ 1,590	$ 1,353

New Convertible Debentures and Warrants

On September 6, 2006, we entered into a securities purchase agreement with certain existing investors and new investors pursuant to which we sold convertible debentures for an aggregate of $4.6 million. Additionally, the investors of April 24, 2006 Bridge Loan exchanged $5.0 million face value of their convertible debentures plus $226 thousand of accrued interest thereon into the New Convertible Debentures and the existing and new investors received 4,924,500 warrants. The debentures become convertible into shares of common stock at a conversion price of $0.75 per share. The warrants allow the purchase of our common stock for $1.10 per share and are for a term of 5 years. The debentures accrue interest at 8% per annum after shareholder approval was obtained in December 2006. The aggregate principal amount becomes due and payable September 6, 2009. In the event that the debentures are not repaid on the maturity date, we will be in default and the debentures will begin to accrue interest at a rate of 22% per annum or the maximum amount permitted by law, whichever is less. The debentures contain various customary events of default as well as negative covenants that, among other things, prohibit us from incurring additional debt.

We issued to one of the investors additional warrants to purchase up to 360,000 shares of common stock for $1.10 per share. The terms of these warrants are identical to the warrants issued as part of the financing. The warrants were accounted for as additional consideration given to the investors as part of the financing. In connection with this financing, we issued 546,000 warrants with a 5-year term to the placement agent to purchase our common stock for $1.10 per share.

Both the debentures and the warrants contain provisions limiting conversion and exercise, or issuance of shares in lieu of interest, as the case may be, in the event that the holder' s beneficial ownership of our common stock would exceed 9.99%. We concurrently entered into a registration rights agreement with the investors that required us to register all of the common stock issued and underlying the securities sold to investors. The registration rights agreement contains customary indemnification and contribution provisions. We filed the registration statement with the SEC on November 8, 2006 and it was declared effective on June 28, 2007. Not all of the common stock underlying the debentures and warrants were registered under the registration statement due to blocker provisions

imposed by certain investors on their registrable shares and from a reduction in the number of shares as required by the SEC. We believe we have substantially fulfilled our obligation under the registration rights agreement and will register the remaining unregistered shares when the blocker provisions are waived by the investors and when allowed by the SEC.

On March 5, 2007, we obtained amendments and waivers to the registration rights agreement and the debentures. Pursuant to a letter agreement, the majority of the investors, including Crestview Capital Master, LLC ("Crestview") and Toibb Investment LLC ("Toibb") agreed to waive the penalty provisions for not yet having an effective registration statement, and to extend the dates for filing a registration statement and all related deadlines, including the date by which the initial registration statement must be declared effective by the SEC, by 120 days. The investors in this offering also agreed that no Event of Default is presently deemed to have occurred under the debentures. The 120-day extension period lapsed, and the registration statement was not declared effective until June 28, 2007.

On October 1, 2007, we entered into an Amendment No. 1 to the Convertible Debenture with each of Crestview and Toibb pursuant to which their respective Convertible Debentures were converted into Series A Preferred Stock.

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The New Convertible Debentures are hybrid financial instruments that embody certain features that met the definition of derivative financial instruments and required bifurcation under SFAS No. 133. Embedded derivatives that require bifurcation are required to be combined into one compound derivative financial instrument and carried at fair value as derivative liabilities. The 4,924,500 of detachable warrants, and related anti-dilution protection features were evaluated as freestanding derivative financial instruments under EITF 00-19, which provides the guidelines for equity classification. The warrants did not possess all of the conditions for equity classification due to the registration rights that require the delivery of registered shares, and did not provide for a mechanism for settlement should we be unable to deliver registered shares; in these instances, net-cash settlement is presumed. As such, the detachable warrants were required to be carried as liabilities at fair value. The warrants issued to the placement agent possessed all of the conditions for equity classification and were therefore classified as equity.

We applied the provisions of SFAS 155 for the New Convertible Debentures and Warrants as a hybrid instrument that contains an embedded derivative that would otherwise have to be bifurcated. The entire hybrid instrument was therefore initially recorded at fair value and subsequent changes in fair value were recognized in earnings.

In determining the fair value of our freestanding derivative financial instruments we assumed an expiration term of 3.44 years, a volatility of 75.23% and interest rate of 2.46%. The estimated fair value of these derivative instruments at March 31, 2008 and December 31, 2007 are as follows:

(In thousands)	Fair Value of Debt	Fair Value of Warrants	Total
March 31, 2008	$ 43	$ 1	$ 44
December 31, 2007	$ 42	$ 1	$ 43

September 29, 2006 Financing

On September 29, 2006 we entered into a securities purchase agreement with certain existing investors and new investors pursuant to which we agreed to sell convertible debentures for an aggregate of $4.9 million. The majority of the transaction closed October 4, 2006. The investors also received an aggregate of 2,468,125 warrants to purchase our common stock. The debentures become convertible into shares of common stock at a conversion price of $0.75 per share. The warrants allow the purchase of our common stock for $1.10 per share and are for a term of 5 years. The debentures accrue interest at 8% per annum after shareholder approval was obtained in December 2006 and the aggregate principal amount becomes due and payable September 29, 2009. In the event that the debentures are not repaid on the maturity date, we will be in default and the debentures will begin to accrue interest at a rate of 22% per annum or the maximum amount permitted by law, whichever is less. The debentures contain various customary events of default as well as negative covenants that, among other things, prohibit us from incurring additional debt.

Both the debentures and the warrants contain provisions limiting conversion and exercise, or issuance of shares in lieu of interest, as the case may be, in the event that the holder’ s beneficial ownership of our common stock would exceed 9.99%. We concurrently entered into a registration rights agreement with the investors that requires us to register all of the common stock issued and underlying the securities sold to the investors. The registration rights

agreement contains customary indemnification and contribution provisions. The terms, conditions, features and accounting treatment of these debentures and warrants are substantially identical to the New Convertible Debentures and Warrants.

We filed the registration statement with the SEC on November 8, 2006, and it was declared effective on June 28, 2007. Not all of the common stock underlying the debentures and warrants was registered under this registration statement due to the large number of shares of common stock to be registered relative to the number of shares of our common stock then outstanding. In order to register the shares on a Form S-3,

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the SEC required that we reduce in the number of shares being registered. We believe we have substantially fulfilled our obligations under the registration rights agreement and will register the remaining unregistered shares as required by the registration rights agreement and as allowed by the SEC.

We did not obtain any amendments or waivers from these investors and as a result, as of February 1, 2007, we began incurring liquidated damages under the registration rights agreement at the rate of 1.5% of the aggregate amount invested per month until the registration statement was declared effective on June 28, 2007. These liquidated damages must be paid in cash, and they accrue interest at a rate of 18% per annum. We notified the investors that we are unable to pay the interest and will accrue the interest if unpaid to their account. There is no assurance that they will allow us to defer payment of the liquidated damages. Since we have not paid all of the interest or penalties due under the debentures or the registration rights agreement, a holder could declare the debentures to be in default and accelerate the debt due under the debentures. If this were to happen, the debentures would accrue interest at the rate of 22% per annum. We may be required to pay interest or other required payments in cash rather than stock and could be forced to use our limited cash to redeem all or a portion of the outstanding debentures.

In connection with this financing, we issued 499,867 warrants with a 5-year term to the placement agent to purchase our common stock for $1.10 per share.

In determining the fair value of our freestanding derivative financial instruments we assumed an expiration term of 3.52 years, a volatility of 76.76% and an interest rate of 2.46%. In the determination of the fair value of the convertible debentures, we assumed an equivalent volatility of 99.24%, interest rate of 9.67% and yield rate of 28.16%. The estimated probability of a dilutive financing transaction occurring is based on management' s estimate of such a transaction in the future. The estimated fair value of these derivative instruments at March 31, 2008 and December 31, 2007 are as follows:

(In thousands)	Fair Value of Debt	Fair Value of Warrants	Total
March 31, 2008	$ 1,435	$ 302	$ 1,737
December 31, 2007	$ 1,548	$ 633	$ 2,181

Fair Value Measurements

On January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair-value measurements. SFAS No. 157 does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. Although the adoption of SFAS 157 did not materially impact our financial condition, results of operations or cash flows, we are required to provide additional disclosures within our condensed consolidated financial statements regarding our derivative warrant liabilities and convertible debenture liabilities.

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels one and two of the hierarchy) and the reporting entity' s own assumptions about market participant assumptions (unobservable inputs classified within level three of the hierarchy).

- Level one inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.

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- Level two inputs are inputs other than quoted prices included in level one that are observable for the asset or liability, either directly or indirectly. Level two inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability, other than quoted prices, such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

- Level three inputs are unobservable inputs for the asset or liability, which are typically based on an entity' s own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable, (Levels 1 and 2), and unobservable (Level 3). Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The valuation of our derivative warrant liabilities is determined using Level 2 inputs, using a Black-Scholes Merton (BSM) model. The BSM model considers (i) time value, (ii) risk-free interest rates, (iii) volatility factors, and (iv) current market and contractual prices. The valuation of our embedded conversion features is determined using Level 2 inputs, using the Flexible Monte-Carlo (FMC) model. The FMC model considers (i) time value, (ii) risk-adjusted interest inputs, (iii) credit-risk inputs, (iv) volatility factors, and (v) current market and contractual prices for the underlying amounts.

As of March 31, 2008, we had no other financial instruments requiring fair value measurement.

NOTE 7 SERIES B PREFERRED STOCK

In connection with the acquisition of the Professional Business, we issued 5,602,454 shares of MPC Corporation common stock totaling approximately 19.9% of our outstanding common stock as of the Closing Date, and 249,171 shares of MPC Corporation Series B Preferred Stock convertible into 4,983,416 shares of our common stock. All MPC Corporation Series B Preferred Stock issued to Gateway converts to MPC Corporation common stock upon (i) shareholder approval by a majority of the MPC Corporation common shareholders and (ii) at such time as the shares may be converted without causing Gateway' s ownership of our common stock to exceed 19.9% (the "Series B Automatic Conversion Event"). Gateway agreed to vote in favor of the Series B Automatic Conversion Event. In the event shareholder approval is not obtained, all outstanding shares of Series B Preferred Stock shares are to be redeemed by MPC Corporation at 1.5 times the closing price times the number of shares of our common stock into which the Series B Preferred Stock is then convertible. The MPC Corporation Series B Preferred Stock is participating, non-voting, and has a liquidation preference equal to $.00000001 per share.

In accounting and valuing for the Series B Preferred Stock, we considered the guidance of EITF D-98 *Classification and Measurement of Redeemable Securities.* Under the terms of the Asset Purchase Agreement, Gateway has agreed to vote in favor of the conversion of the Series B Preferred Stock. In addition, our management will vote in favor of the conversion and believes that, based on discussions with our significant investors, they will also vote in favor of the conversion. Management also believes that the cash redemption of the Series B Preferred Stock would be a significant financial strain to our company and be detrimental to our shareholders' investment. Based on these factors, we believe it is very unlikely that shareholder approval of the conversion of the Series B Preferred Stock to common stock will not be obtained and shares redeemed in cash. Other features of the Series B Preferred Stock, such as the liquidation preference, were considered de minimis in the assessment of the value of the stock. Therefore, in accordance with EITF D-98, the Series B Preferred Stock is recorded and carried at its fair value at initial date of issue. In the event the Series B Conversion Event is not approved and it becomes probable that the Series B Preferred Stock will be redeemed in cash, we will recognize changes in redemption value immediately as they occur and adjust the carrying value of the Series B Preferred Stock to equal the redemption value at the end of each reporting period.

The MPC Corporation Common shares and MPC Corporation Series B Preferred Stock issued to Gateway were valued at $7.1 million and $6.3 million, respectively, based on volume-weighted average of MPC Corporation' s closing common stock price of $1.2657 per share over a six business day period, from August 30, 2007 through September 7, 2007. Such period included two business days prior to the date of the Asset Purchase Agreement on September 4, 2007 and two business days after our September 5, 2007 announcement of the transaction. The

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MPC Corporation Series B Preferred Stock was valued based on the common-equivalent number of shares that would be issued following the Series B Automatic Conversion Event.

NOTE 8 SERIES A PREFERRED STOCK

As a condition to close under the Asset Purchase Agreement for the acquisition of the Professional Business, MPC Corporation was to have raised at least $9.0 million in additional cash and cash equivalents through the conversion of outstanding convertible securities, the exercise of warrants or the sale of additional equity securities, as measured relative to our cash and cash equivalents as of the September 4, 2007 date of the Asset Purchase Agreement. This condition was modified to raising at least $8.0 million under a Letter Agreement dated October 1, 2007 (the "Letter Agreement") among the parties to the Asset Purchase Agreement. In satisfaction of this condition, on October 1, 2007 we raised $8.3 million from the exercise for cash of $1.10 warrants issued in connection with two private placement financings in September 2006 that included the issuance of convertible debentures.

In connection with the obligation under the Letter Agreement, two MPC Corporation investors, Crestview and Toibb, intended to exercise their warrants and convertible debentures, but because of their large holdings, their beneficial ownership of our common stock, as defined in Rule 13d-3 as promulgated under the Securities Exchange Act of 1934, as amended, could have exceeded 9.99%. As such, on October 1, 2007, we entered into an Amendment No. 1 to Convertible Debenture with each of Crestview and Toibb (the "Debenture Amendments"), pursuant to which their respective Convertible Debentures due on September 6, 2009 were amended such that the debentures were convertible into shares of Series A Preferred Stock. Additionally, MPC Corporation and both Crestview and Toibb agreed that, upon the exercise of their warrants prior to the Closing, we would issue (i) common stock only to the extent that their beneficial ownership reaches 9.99% and (ii) the number of shares of MPC Corporation Series A Preferred Stock that will convert into a number of shares of MPC Corporation common stock equal to the difference between the number of shares of common stock such holder would receive if all of such holder' s warrants were exercised for our common stock and the number of shares of our common stock such holder actually received in order to avoid exceeding 9.99% beneficial ownership. Additionally, on October 1, 2007, we entered into an amendment to the Registration Rights Agreement dated as of September 6, 2006 with Crestview and Toibb such that the registration and other rights applicable to shares of common stock issuable upon conversion of their debentures apply equally to the shares of common stock issuable on conversion of the Series A Preferred Stock issued pursuant to the Debenture Amendments.

In conjunction with the exercise of the $1.10 warrants and our obligations under the Letter Agreement, on October 1, 2007, 7,545,352 warrants were exercised, $11.0 million in face value of convertible debentures were converted plus accrued interest and penalties thereon, and we issued 12,912,166 shares of MPC Corporation common stock and 626,546 shares of MPC Corporation Series A Preferred Stock. The MPC Corporation Series A Preferred Stock is convertible into 12,530,925 shares of MPC Corporation common stock. The MPC Corporation Series A Preferred Stock is participating, non-voting, and has a liquidation preference equal to $.00000001 per share. Each share of MPC Corporation Series A Preferred Stock will automatically convert to MPC Corporation common stock at such time the conversion would not cause the beneficial ownership to exceed 9.99% beneficial ownership.

NOTE 9 RELATED PARTY TRANSACTIONS

In connection with the acquisition of the Professional Business, on October 1, 2007 MPC-Pro entered into a Transition Services Agreement (the "TSA") with Gateway. During the three months ended March 31, 2008, MPC-Pro paid Gateway $1.1 million for accounting, human resource, manufacturing, procurement, marketing, information technology, and other specified services under the terms of the TSA. Under the TSA, Gateway also undertook certain buy/sell activities related to components on behalf of MPC, which includes procuring components from component suppliers, selling of such components to original design manufacturers ("ODMs") for manufacture of finished goods that are ordered from ODMs by Gateway, and the subsequent selling of such finished goods to MPC-Pro (the "Buy/Sell Activity"). In addition to the Buy/Sell activity under the TSA, MPC-Pro acquired certain additional component inventory from Gateway. During the three months ended March 31, 2008, payments to Gateway under the Buy/Sell Activity and purchases of such component inventory totaled $21.3 million. At March 31, 2008 we had accounts payable to Gateway totaling $13.1 million, related to the Buy/Sell activity and purchases of inventory and related services.

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In connection with the acquisition of the Professional Business, MPC-Pro issued to Gateway a promissory note in the amount of $1.3 million (the "Promissory Note"). During the three months ended March 31, 2008, MPC-Pro paid to Gateway $12 thousand of interest and $431 thousand of principal under the Promissory Note. The payable to Gateway was $431 thousand at March 31, 2008. See Note 5 "Notes Payable and Debt-Note Payable to Gateway".

During the three months ended March 31, 2008, MPC-Pro provided certain manufacturing services to Gateway, and charged Gateway $1.8 million for such services. At March 31, 2008, the receivable from Gateway for such services was $0.5 million.

MPC-Pro leases from Gateway 45,552 square feet of office space in North Sioux City, South Dakota. During the three months ended, MPC-Pro paid Gateway lease payments totaling $170 thousand.

We are indebted to Curtis Akey, our chief financial officer, under the terms of a promissory note dated April 13, 2007 for services provided prior to his employment with us. As of March 31, 2008, the outstanding balance under the promissory note was $105 thousand plus $16 thousand of accrued interest which amount is currently due and payable. See Note 5 "Notes Payable and Debt-Debt Incurred in Acquisition."

NOTE 10 COMMITMENTS AND CONTINGENCIES

Letters of Credit

On March 31, 2008 and December 31, 2007, we had outstanding letters of credit totaling $6.3 million. The letters of credit were fully collateralized with cash on deposit at the issuing bank.

Litigation

Phillip Adams & Associates, LLC

We are a defendant in a lawsuit, alleging infringement of certain patents, relating to floppy disk controllers, owned by Phillip Adams & Associates, LLC. We were added to this suit by an amended complaint filed on May 31, 2005 in the U.S. District Court, District of Utah. We have tendered indemnification demands to certain of our component suppliers. Because the case is still in the discovery phase, we are not able to determine the financial impact, if any, arising from an adverse result in the matter.

Other Matters

On December 17, 2007, the General Services Administration (GSA) served MPC Computers with a subpoena to provide records regarding sales under our GSA Multiple Award Schedule contract. The subpoena relates to an industry-wide investigation into alleged non-compliance with the Trade Agreements Act. We are currently investigating the matter and responding to the subpoena. The matter is in the preliminary stages and we cannot predict an outcome at this time. Our non-compliance could lead to imposition of penalties and termination of the contract. The termination of the contract could lead to loss of substantial revenues from the federal government.

We are involved in various other legal proceedings from time to time in the ordinary course of our business. We are not currently subject to any other legal proceedings that we believe will have a material impact on our business. However, due to the inherent uncertainties of the judicial process, we are unable to predict the ultimate outcome or financial exposure, if any, with respect to these matters.

NOTE 11 SUBSEQUENT EVENTS

Agreements with Flextronics

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On April 14, 2008, we entered into a Manufacturing Services Agreement (the “MSA”) with Flextronics Computing Mauritius Limited (“Flextronics”). Under the MSA, Flextronics will perform procurement, supply chain management, manufacturing, assembly and testing for MPC Corporation at the Flextronics manufacturing facility in Juarez, Mexico. Transition of operations from our Nashville, Tennessee manufacturing facilities to Juarez is expected to be completed by December 31, 2008. The MSA provides for Flextronics to achieve certain cost reduction targets, during the first twelve months following August 31, 2008 that are expected to provide cost savings to MPC Corporation. If the cost reduction targets are not achieved, our sole remedy is to terminate the MSA if Flextronics fails to cure the default.

In addition, on a one-time basis, Flextronics will purchase certain materials and inventory at the Nashville facility. If Flextronics does not use the materials and inventory within a 12 month period, we must buy back the materials. Additionally, a division of Flextronics also agreed to acquire certain of our manufacturing equipment for a cash payment of $1 million subject to MPC Corporation’ s possible retention of the manufacture of a computing platform.

We are responsible for applicable Nashville facility closure and related costs. It is presently anticipated that the employment of approximately 145 personnel from the Nashville facility will be terminated.

On May 8, 2008, MPC-Pro entered into an Inventory Purchase Agreement (the “IPA”) with Flextronics. Under the IPA, Flextronics will purchase approximately $8.7 million of certain inventory currently located at our Nashville facility which we expect MPC-Pro will then repurchase from Flextronics over the 90 day period following the agreement date for production at our Nashville facility. Any remaining inventory after the 90 day period must be repurchased by MPC-Pro. Flextronics will charge a monthly interest cost of 1.5% per month on the outstanding inventory not repurchased by MPC-Pro in addition to a monthly management fee.

AMEX Notification

On May 8, 2008, the American Stock Exchange (“AMEX”) notified us that we have failed to satisfy a continued listing rule. Specifically, the notice from AMEX states that we are not in compliance with Section 1003(a) (i) of the AMEX Company Guide in that we have stockholder’ s equity of less than $2 million and have sustained losses from continuing operations or net losses in two of its three most recent fiscal years.

The AMEX notice requires that by June 9, 2008, we submit a plan (the “Plan”) advising AMEX of action we have taken, or will take, that would bring us into compliance with the listing standards by November 9, 2009 (the “Plan Period”). The Plan is required to include specific milestones, quarterly financial projections, and details related to any strategic initiatives that we plan to complete. AMEX will evaluate the Plan and make a determination as to whether we have made a reasonable demonstration of an ability to regain compliance with the continued listing standards within specified timeframes, in which case the Plan will be accepted. If the Plan is accepted, we may be able to continue listing during the Plan Period, during which time we will be subject to periodic review to determine whether we are making progress consistent with the Plan. If the Plan is not accepted or if we do not make progress consistent with the Plan during the Plan Period, AMEX will initiate delisting procedures as appropriate.

Previously, we resolved a continued listing deficiency initially identified in an AMEX notice received in April 2006. As reported in our Form 8-K filed October 29, 2007, we are subject to the provisions of Section 1009(h) for a period of twelve months from such date, which provides for the method of evaluation and appropriate action by AMEX staff should we fall below the continued listing standards during that period. Depending on the circumstances, such action includes truncating procedures related to compliance with the continued listing standards or immediately initiating delisting proceedings.

ITEM 2. MANAGEMENT’ S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management’ s discussion and analysis of the results of operations and financial condition should be read in conjunction with the financial statements and related notes included in Item 1 of this report and with our Annual Report in Form 10-K for the year ended December 31, 2007.

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OVERVIEW AND EXECUTIVE SUMMARY

We were formed as HyperSpace Communications, Inc. in 2001 as a Colorado-based company, and completed an initial public offering in October 2004. In July 2005, we acquired MPC Computers, an enterprise IT hardware business providing products and services to customers in mid-sized businesses, government agencies and education organizations. In January 2007, we changed our name to MPC Corporation. On October 1, 2007, we purchased, through our wholly-owned subsidiary MPC-Pro, from Gateway and Gateway Technologies, its Professional Division, the portion of the Consumer Direct Division that markets business-related products to target businesses with less than 100 employees, and the portion of the Customer Care & Support department that provides technical services to customers of the Professional and Consumer Direct Divisions (collectively, the "Professional Business"). This acquisition significantly increased the scale of our business as Gateway' s Professional Business had reported revenue of $895 million in 2006 as compared to our revenue of $285 million in 2006. We believe that the increased scale will enable us to better compete with our larger competitors including Dell, HP and Lenovo.

We acquired the entire catalog of products and services from the Professional Business as well as a portion of Gateway' s Consumer Direct business. We now make the complete product line available to both MPC Computers and former Gateway customers. We also assumed operation of Gateway' s final assembly facility in Nashville, TN. With the completion of the acquisition, we have operations in Idaho, South Dakota and Tennessee. The Professional Business is operated under MPC-Pro.

While our business has expanded significantly with the acquisition of the Professional Business, on a combined basis both MPC Computers' revenues and the Professional Business' revenues have declined in each of the years from 2005 to 2007. We expect this declining trend in revenue to continue through 2008, driven largely by lower unit volumes and declining prices.

Professional Business Transition Issues

During the transition of the Professional Business IT and manufacturing systems from Gateway to MPC Computers' existing systems in February, 2008, we experienced material delays in manufacturing and customer deliveries, which resulted in much lower than expected shipment volumes and revenues in the first quarter of 2008 as compared to the fourth quarter of 2007. We also experienced delays in deliveries of parts needed for service and support-related matters. Our manufacturing delays limited and stopped production at times over approximately a three week period at our Nashville manufacturing facility. The delays were caused by a number of issues, including but not limited to, inaccurate bills of materials for our manufacturing processes, inadequate inventory procurement, routing problems which resulted in parts shortages, and order entry errors by our newest sales professionals from the Professional Business that caused some orders to be delayed in getting to our manufacturing floor. As part of the transition, we moved the manufacture of portable personal computers that had historically been manufactured in China to our Nashville facility, causing the transition-related issues we encountered to have a more pronounced effect on our operations.

Our delays in manufacturing and customer deliveries, and service and support issues we have encountered, have caused our inventory and accounts payable to grow materially during the transition and throughout the quarter, as well. Prior to the commencement of the transition, we did not expect a significant slowing of our manufacturing process and shipments, and as a result we procured more raw material inventory to support our anticipated production than the amount we actually needed to fulfill customer orders. The issues which slowed and stopped production in our Nashville manufacturing facility also impacted our procurement of peripheral product, such as monitors, speakers, and key boards, from third party vendors. Inaccuracies in our bills of materials, parts shortages and order entry errors resulted at times in systems being built in our Nashville facility for which we could not invoice our customers because certain peripheral product from third party vendors had not been properly procured and shipped to our customers. As a result, our finished goods inventory increased dramatically from $15.4 million as of December 31, 2007 to $28.2 million as of March 31, 2008. In addition, during the quarter, a change in policy by certain of our vendors caused us to procure and carry additional inventory stock that we had not needed to carry in the prior quarter. Previously, these vendors had stocked and managed inventory near our Nashville manufacturing plant, allowing us to procure that inventory as needed to manufacture our products. These vendors eliminated their inventory stocks near our plant during the first quarter. They had been willing to provide inventory to Gateway in this manner, but are unwilling to continue providing inventory under this policy with us. Also, during the

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transition we experienced system issues and part delivery delays in our customer service and support area, causing us to procure additional parts to support customer relationships, and resulting in some replacement parts not reaching our customers in a timely manner.

As a result of the issues we encountered during the transition, we have lost some Professional Business customer relationships we had hoped to retain, and it is probable that we will lose additional Professional Business customers. Our inability to retain customers of the Professional Business will likely result in lower than anticipated revenues for the combined company during 2008. The Professional Business customers may choose to buy products from our competitors rather than us if they perceive that our competitors provide better delivery times, higher quality, better service, greater financial strength or other factors.

Our liquidity is highly dependent upon our sales and the advance of cash to us by Wells Fargo on the accounts receivable from those sales. The delays in our manufacturing during the transition significantly impacted our shipments and sales to our customers. As a result, the advance of cash from our Wells Fargo financing facility significantly declined during the transition, requiring us to fund a significant portion of our operations from our operations and limited existing cash reserves. Delays in our manufacturing or service and support fulfillment have caused us to prepay for production and service parts at times, or pay to have parts expedited to our plants and depots to alleviate these shortages. We also delayed payments to certain vendors,, which may impact our ability to obtain or maintain vendor credit. To the extent we are unable to purchase parts and components on a timely basis in the future, we may lose orders in backlog and related customers, which could have a further adverse and materially negative effect on our sales and liquidity.

Recent Agreements with Flextronics

On April 14, 2008, we entered into a Manufacturing Services Agreement (the “MSA”) with Flextronics Computing Mauritius Limited (“Flextronics”). Under the MSA, Flextronics will perform procurement, supply chain management, manufacturing, assembly and testing for MPC Corporation at the Flextronics manufacturing facility in Juarez, Mexico. Transition of operations from our Nashville, Tennessee manufacturing facilities to Juarez is expected to be completed by December 31, 2008. The MSA provides for Flextronics to achieve certain cost reduction targets, during the first twelve months following August 31, 2008 that are expected to provide cost savings to MPC Corporation. If the cost reduction targets are not achieved, our sole remedy is to terminate the MSA if Flextronics fails to cure the default.

In addition, on a one-time basis, Flextronics will purchase certain materials and inventory at the Nashville facility. If Flextronics does not use the materials and inventory within a 12 month period, we must buy back the materials. Additionally, a division of Flextronics also agreed to acquire certain of our manufacturing equipment for a cash payment of $1 million subject to MPC Corporation’ s possible retention of the manufacture of a computing platform.

We are responsible for applicable Nashville facility closure and related costs. It is presently anticipated that approximately 145 personnel from the Nashville facility will be terminated.

On May 8, 2008, MPC-Pro entered into an Inventory Purchase Agreement (the “IPA”) with Flextronics. Under the IPA, Flextronics will purchase approximately $8.7 million of certain inventory currently located at our Nashville facility which we expect MPC-Pro will then repurchase from Flextronics over the 90 day period following the agreement date for production at our Nashville facility. Any remaining inventory after the 90 day period must be repurchased by MPC-Pro. Flextronics will charge a monthly interest cost of 1.5% per month on the outstanding inventory not repurchased by MPC-Pro in addition to a monthly management fee.

AMEX Notification

On May 8, 2008, the American Stock Exchange (“AMEX”) notified us that we have failed to satisfy a continued listing rule. Specifically, the notice from AMEX states that we are not in compliance with Section 1003(a) (i) of the AMEX Company Guide in that we have stockholder’ s equity of less than $2 million and have sustained losses from continuing operations or net losses in two of its three most recent fiscal years.

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The AMEX notice requires that by June 9, 2008, we submit a plan (the "Plan") advising AMEX of action we have taken, or will take, that would bring us into compliance with the listing standards by November 9, 2009 (the "Plan Period"). The Plan is required to include specific milestones, quarterly financial projections, and details related to any strategic initiatives that we plan to complete. AMEX will evaluate the Plan and make a determination as to whether we have made a reasonable demonstration of an ability to regain compliance with the continued listing standards within specified timeframes, in which case the Plan will be accepted. If the Plan is accepted, we may be able to continue listing during the Plan Period, during which time we will be subject to periodic review to determine whether we are making progress consistent with the Plan. If the Plan is not accepted or if we do not make progress consistent with the Plan during the Plan Period, AMEX will initiate delisting procedures as appropriate.

Previously, we resolved a continued listing deficiency initially identified in an AMEX notice received in April 2006. As reported in our Form 8-K filed October 29, 2007, we are subject to the provisions of Section 1009(h) for a period of twelve months from such date, which provides for the method of evaluation and appropriate action by AMEX staff should we fall below the continued listing standards during that period. Depending on the circumstances, such action includes truncating procedures related to compliance with the continued listing standards or immediately initiating delisting proceedings.

Current Business

Our primary business is providing PC-based products and services to mid-sized businesses, government agencies and education organizations. We use a build-to-order manufacturing process and a direct sales model that we believe is an efficient means to provide customized computing solutions to our customers. We manufacture and market ClientPro® desktop PCs, TransPort® notebook PCs, NetFRAME® servers and DataFRAME™ storage products. In addition, we manufacture and market the "E-series" of desktops, notebooks, servers and storage products under a one-year limited license agreement with Gateway. We also provide hardware-related support services such as installation, technical support, parts replacement, and recycling. We believe that the quality of our service and support differentiates us from our competitors. In addition to PCs, servers, and storage products, we also fulfill our customers' requirements for third party products produced by other vendors, including peripherals and software.

Strategic Plans and Other Initiatives

With the purchase of the Professional Business we have expanded our enterprise IT hardware business of providing products and services to customers in mid-sized businesses, government agencies and education organizations. This acquisition has expanded our business in the education and state/local government markets in particular, resulting in a more balanced product mix that is less reliant on the federal government business. The acquisition has also expanded our product line, including a more competitive line of notebook PCs and convertible tablet PCs. To successfully combine our existing operations with the newly acquired Professional Business, we have set forth the following key initiatives:

- Successfully integrate the new Professional Business with our existing operations, including:
    - Transitioning from Gateway branded products to MPC branded products;
    - Consolidating our product lines and continuing ongoing research and development activities;
    - Completing the integration of our customer care and support functions;
    - Integrating our administrative and financial functions, including the combining of our various licensing and royalty functions;
- Satisfy and retain Professional Business customers;
- Carefully manage our liquidity to maximize our use of funds;
- Focus on supplier relationships, reduce procurement costs due to our larger scale, and improve the utilization of vendor credit;
- Utilize the Gateway brand name until our license to use the name expires in September 2008, while enhancing the MPC Computers brand name in our various markets; and
- Institute lower cost operating methodologies and practices in our overall operations.

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In addition to integrating and maximizing the return from our acquisition of the Professional Business, we continue to focus on the following:

- Gross margin improvement initiatives, including the reduction of product returns, freight costs, manufacturing costs, and costs associated with customer evaluation units;
- Increasing the liquidity in our business and improving our financial position;
- Continuing to make our operations more cost efficient;
- Seeking ways to sell and distribute our products more effectively;
- Penetrating segments of the U.S. federal government where we have historically not made significant sales;
- Continuing to focus on higher margin business such as servers and storage devices; and
- Working with our vendors to maintain current credit terms and obtain further credit extensions or larger lines of credit.

We cannot give assurance that these initiatives will achieve the intended results. Our failure to achieve these initiatives and others could have a material adverse effect on our business and financial condition.

RESULTS OF OPERATIONS (unaudited) **(In millions)**	**Three Months ended March 31,**		
	2008	**2007 (1)**	**% Change**
Revenue	$ 123.7	$ 56.8	*117.8%*
Cost of revenue	108.7	50.6	*114.8%*
Gross margin	15.0	6.2	*141.9%*
Gross margin %	*12.1%*	*10.9%*	
Operating expenses			
Research and development expense	1.1	0.5	*120.0%*
Selling, general and administrative expense	24.1	9.8	*145.9%*
Depreciation and amortization	3.0	0.8	*275.0%*
Total operating expenses	28.2	11.1	*154.1%*
Operating expenses as a % of revenue	*22.8%*	*19.5%*	
Operating loss	(13.2)	(4.9)	*169.4%*
Operating loss as a % of revenue	*-10.7%*	*-8.6%*	
Other (income) expense			
Interest expense, net	1.2	1.5	
Change in estimated fair value of derivative financial instruments	(0.4)	(1.2)	
Total other expense	0.8	0.3	
Net loss	$ (14.0)	$ (5.2)	

(1) The results of the Professional Business have been consolidated effective October 1, 2007, the date the acquisition by MPC Corporation became effective, and therefore the results of the Professional Business are not included for periods prior to October 1, 2007.

OPERATING RESULTS

The results of the Professional Business have been consolidated effective October 1, 2007, the date the acquisition by MPC Corporation became effective, and therefore the results of the Professional Business are not included for periods prior to October 1, 2007.

Revenue

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Revenue for the three months ended March 31, 2008 was $123.7 million, an increase of $66.9 million or 117.8% compared to the same period in 2007. The increase was due to additional revenue of $77.7 million from the results of operations of the Professional Business which was acquired October 1, 2007. The increase in revenue for 2008 was partially offset by a decline in revenue by MPC Computers of $10.8 million due in part to lower unit sales and declining sales prices because of competitive pressures. In addition, our revenue for the first quarter was impacted by transition issues of the Professional Business IT and manufacturing systems from Gateway to MPC Computers' existing systems during February 2008. The transition issues limited and stopped production at times over a three-week period at our Nashville manufacturing facility. The delays were caused by a number of issues, including but not limited to, inaccurate bills of materials for our manufacturing processes, inadequate inventory procurement, routing problems that resulted in parts shortages, and order entry errors that caused some orders to be delayed in getting to our manufacturing floor. Inaccuracies in our bills of materials, parts shortages and order entry errors resulted at times in systems being built in our Nashville facility which we then could not invoice because core peripheral product from third party vendors had not been properly procured and shipped to our customers.

Historically, revenue for MPC Computers and the Professional Business has been the lowest during the first quarter and increases during the remaining quarters of the year due to the buying seasons of the education, federal, state, and local governments in those quarters. We expect this trend to continue and our revenue to increase over the remaining quarters of 2008. Our revenue backlog at March 31, 2008 and December 31, 2007 was $48.2 million and $47.7 million respectively.

Revenue from MPC Computers has declined from 2005 to 2007 and in the first quarter of 2008. Revenue from the Professional Business has also been declining during the same periods. For the three months ended March 31, 2007, Gateway reported revenue of $155.7 million for the Professional Division. Economies of scale play an important role in the PC industry. Our major competitors have significantly larger operations and stronger brand recognition than we do, and generally have stronger financial positions. We believe that our acquisition of the Professional Business will help us to address our disadvantages in economies of scale, but there can be no assurance that our downward revenue trend will be reversed. Based on current trends, revenue for the combined business will be lower in 2008 than 2007 on a pro forma basis.

Gross Margin

Our gross margin as a percent of revenue for the three months ended March 31, 2008 was 12.1% as compared to 10.9% for the same period in 2007. The increase in gross margin was primarily due to an increase in revenue and gross margin from the Professional Business wherein the greater volume reduced the impact of our fixed costs of manufacturing. Overall, our margins were negatively impacted from the transition issues of the Professional Business, as we provided a higher than expected level of discounts to retain some of our customers, along with increased procurement expenses for expedited overseas raw materials shipments and interruptions to our supply chain.

Research and Development Expense

Research, development and engineering expense for the three months ended March 31, 2008 totaled $1.1 million, an increase of $0.6 million from the same period in 2007. This increase is due primarily to an increase in the research and development activities as a result of the acquisition of the Professional Business.

Selling, General and Administrative Expense (SG&A)

For the three months ended March 31, 2008, SG&A expense was $24.1 million, an increase of $14.3 million or 145.9% from the same period in 2007. The increase was due to additional SG&A expense as a result of the acquisition and integration of the Professional Business.

Depreciation and Amortization

Depreciation and amortization consists of depreciation of property and equipment and the non-cash amortization of acquired intangibles from our acquisition of MPC Computers in July 2005 and the Professional Business in October 2007. For the three months ended March 31, 2008,

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depreciation and amortization expense was $3.0 million, a $2.2 million increase from the comparable period in 2007. The increase is due primarily to the amortization of intangibles and depreciation of property and equipment acquired in connection with the acquisition of the Professional Business. We anticipate an increase in depreciation and amortization expense during the remainder of 2008 due to the outsourcing of the manufacturing of our Nashville facility to Flextronics and the resulting reduction of the estimated useful lives of equipment, leasehold improvements and software at the facility. We have not yet completed our analysis of the impact of the increased depreciation and amortization on the future results of operations for 2008.

Interest expense, net

Interest expense for the three months ended March 31, 2008 was $1.2 million, a decline of $0.3 million from the comparable period in 2007. The decline was principally due to a reduction in the effective interest rate on outstanding advances under our Wells Fargo Receivables Advance Facility.

Change in Estimated Fair Value of Derivative Financial Instruments

Our convertible debentures and warrants are derivative financial instruments that are carried at fair value as derivative liabilities. See Note 6 – "Derivative Warrant Liabilities and Convertible Debentures" in Notes to Interim Condensed Consolidated Financial Statements in Item 1 of this report for more information regarding these financial

instruments. During the three months ended March 31, 2008 and 2007, we recognized non-cash income of $0.4 million and $1.2 million, respectively, primarily related to a decline in the fair value of these derivative financial instruments as a result of a decrease in the market price of our stock during the first quarter of 2008. In addition, during the year ended December 31, 2007 approximately 91% and 83%, respectively of outstanding debentures and warrants were converted or exercised which significantly reduced the impact of the changes of the remaining outstanding derivatives upon our results of operations in 2008.

Significant estimates and assumptions are used in the determination of the fair values of these derivative financial instruments. The fair values are determined in part by, and will fluctuate with, the market value of our stock. If the market price of our stock increases during a period, the fair value of the derivatives is expected to increase and will adversely affect our earnings. A decline in the market price of our stock will cause a decrease in fair value of the derivatives and have a positive impact to earnings. The change in the fair value of these derivative financial instruments has no impact on our cash flows.

Income taxes

We make no provision for income taxes because, since inception, we have not been profitable. We have a net operating loss carry-forward available to offset future federal and state income tax expenses to an amount that approximates our accumulated deficits. Our net operating loss carry-forward will expire in varying amounts from 2022 to 2027. The utilization of the net operating loss carry-forward as an offset to future taxable income is subject to the limitations under US federal income tax laws. One such limitation is imposed where there is a greater than 50% change in ownership of our company.

OFF BALANCE SHEET ARRANGEMENTS

We have no off the balance sheet arrangements.

GUARANTEES

During our normal course of business, we have made certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to customers and licensees in connection with the use, sale and/or license of our products, (ii) indemnities to lessors in connection with our facility leases for certain claims arising from

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such facilities or leases, (iii) indemnities to vendors and service providers pertaining to claims based on our negligence or willful misconduct, (iv) indemnities involving the accuracy of representations in certain contracts, and (v) guarantees to certain vendors and creditors for balances owed. The duration of these indemnities and commitments in certain cases may be indefinite. The majority of these indemnities and commitments do not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities and commitments in the accompanying consolidated financial statements.

NEW AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The following is a discussion of the significant new accounting standards that have been issued that may have an impact to our consolidated financial statements or disclosures upon adoption. To the extent possible, we have evaluated and have formed a conclusion regarding the potential impact of each of these standards. In addition, we adopted two accounting standards during the first quarter of 2008. The impact of the adoption of each of these standards is discussed below.

New Accounting Standards

In December, 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations*. SFAS No. 141R will significantly change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will change the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Noncontrolling interests (formerly known as “minority interests” − see SFAS No. 160 discussion below) will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired

contingencies;
- In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

SFAS No. 141R also includes a substantial number of new disclosure requirements. The statement applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In December, 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51.* SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent’ s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 clarifies that changes in a parent’ s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, SFAS No. 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. The statement is effective for us during the first quarter of 2009. We currently do not have noncontrolling interests.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133*. SFAS 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures

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regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities; and (c) derivative instruments and related hedged items affect an entity' s financial position, financial performance, and cash flows. SFAS 161 is effective for us during the first quarter of 2009. We are currently evaluating the impact of the adoption of the enhanced disclosures requirements of SFAS 161 and currently do not expect the adoption to have a material impact on its consolidated financial statements.

In March 2008, the FASB affirmed the consensus of FASB Staff Position ("FSP") APB 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, which applies to all convertible debt instruments that have a ' 'net settlement feature' ' ; which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. FSP APB 14-a requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuer' s nonconvertible debt borrowing rate. Previous guidance provided for accounting for this type of convertible debt instrument entirely as debt. FSP APB 14-a is effective for us during the first quarter of 2009. We are currently evaluating the impact the adoption of FSP APB 14-a may have on our consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets.* This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets.* The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141R, and other U.S. generally accepted accounting principles. This FSP is effective for us during the first quarter of 2009. We are currently evaluating the impact the adoption of FSP FAS 142-3 may have on our consolidated financial statements.

Recently Adopted Accounting Standards

In September 2006, the FASB issued SFAS No. 157 *Fair Value Measurement*, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosure requirements about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. Measurement of financial assets and financial liabilities was effective for us beginning in fiscal year 2008. Two FSPs on this Statement were subsequently issued. On February 12, 2008, FSP No. 157-2 delayed the effective date of this Statement for nonfinancial assets and nonfinancial liabilities that are

recognized or disclosed at fair value in the financial statements on a nonrecurring basis. This FSP is effective for us in fiscal year 2009. On February 14, 2008, FSP No. 157-1 excluded SFAS No. 13, *Accounting for Leases,* and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS Statement No. 141, *Business Combinations* or SFAS No. 141(R), *Business Combinations*, regardless of whether those assets and liabilities are related to leases. This FSP was effective upon our initial adoption of SFAS No. 157. The adoption of SFAS No. 157 relating to financial assets and financial liabilities did not have a material impact on our financial position or results of operations. We do not expect the impact of SFAS No. 157 related to nonfinancial assets and non financial liabilities will have a material impact on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement 115*. SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value, which are not currently required to be measured at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings at each subsequent reporting date. SFAS No. 159 was effective for us beginning in the first quarter of fiscal year 2008. We adopted SFAS No. 159 as of January 1, 2008 and elected not to measure any additional financial instruments or other items at fair value.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

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We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of GAAP financial statements requires certain estimates, assumptions, and judgments to be made that may affect our consolidated statement of financial position and results of operations. Critical accounting estimates are those that are most important and material to our financial condition and results of operations and require management' s most difficult, subjective, or complex judgments, often as a result of the need to estimate matters that are inherently uncertain. We believe our most critical accounting policies and estimates relate to revenue recognition, including reserves needed for possible future returns and discounts; the carrying value and usefulness of inventory and related inventory reserves; the timing and amount of future warranty obligations; accounting for derivative financial instruments; and the impairment of acquired intangible assets. We have discussed the development, selection, and disclosure of our critical accounting policies and use of estimates with the Audit Committee of our Board of Directors. These critical accounting policies and our other accounting policies are described in Note 2 of "Notes to Interim Condensed Consolidated Financial Statements" included in "Item 1 − Financial Statements."

Revenue Recognition

We frequently enter into sales arrangements with customers that contain multiple elements or deliverables such as hardware, software, peripherals, and services. Judgments and estimates are critical to ensure compliance with GAAP. These judgments relate to the allocation of the proceeds received from an arrangement to the multiple elements, the determination of whether any undelivered elements are essential to the functionality of the delivered elements, and the appropriate timing of revenue recognition. We offer extended warranty and service contracts to customers that extend and/or enhance the technical support, parts, and labor coverage offered as part of the base warranty included with the product. Revenue from separately priced extended warranty and service contracts, for which we are obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract. The amount recognized on a periodic basis within this term is based on management' s best estimate of how it will perform its obligations in future periods. This is based on past historic trends and other factors likely to have a future impact on warranty claims. The actual rate of warranty claims could differ materially from management' s estimates.

We record reductions in revenue in the current period for estimated future product returns related to current period sales. Management analyzes historical returns, current trends, changes in customer demand and acceptance of our products when evaluating the adequacy of the sales returns allowances in any accounting period. If actual returns exceed estimated returns, we would be required to record additional reductions to revenue which would affect earnings in the period the adjustments are made.

Inventory Valuation

We operate in a business environment subject to rapid changes in technology and customer demand. We record write-downs for components and products which have become obsolete or are in excess of anticipated demand or net realizable value. Historically, these write-downs have primarily related to warranty inventory. We perform an

assessment of inventory each quarter, which includes a review of, among other factors, inventory on hand and forecast requirements, product life cycle (including end of life product) and development plans, component cost trends, product pricing and quality issues. Based on this analysis, we record an adjustment for excess and obsolete inventory. We may be required to record additional write-downs if actual demand, component costs or product life cycles differ from estimates, which would affect earnings in the period the write-downs are made.

Warranty Liabilities

We record warranty liabilities at the time of sale for the estimated costs that may be incurred under our standard limited warranty. The specific warranty terms and conditions vary depending upon the product sold but generally include technical support, parts, and labor over a period ranging from 90 days to three years. Factors that affect our warranty liability include the number of installed units currently under warranty, historical and anticipated rates of warranty claims on those units, and the average cost of claims on our installed base to satisfy our warranty obligation. The anticipated rate of warranty claims is the primary factor impacting our estimated warranty obligation. The other factors are less significant due to the fact that the average remaining aggregate warranty period of the covered installed base is approximately 12 months,

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repair parts are generally already in stock or available at pre-determined prices, and labor rates which are fairly predictable and historically have not fluctuated significantly from period to period.   Warranty claims are relatively predictable based on historical experience of failure rates. If actual results differ from our estimates, we revise our estimated warranty liabilities to reflect such changes. Each quarter, we reevaluate our estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Derivative Financial Instruments

The accounting for convertible debt with derivative features is highly complex, subject to a number of accounting pronouncements and subject to broad interpretations. Determination of the treatment of these convertible debt instruments is based on current interpretation of the facts, treatment by other companies and discussion with industry experts. Management is also required to make highly subjective estimates of future share price volatility, the probability of future events and effective discount rates. Changes in the fair value of our derivative financial instruments have had a material impact in our results of operations. Among other factors, the fair value of our derivative financial instruments is affected by the market value of our common stock. Increases in the market price of our common stock will adversely impact our financial results.   Declines in the market value of our common stock will have a positive impact. The changes in the fair value of these derivatives have no impact on our cash flows.

Valuation of Acquired Intangible Assets

The estimates used by management in determining the impairment of acquired intangible assets is a critical accounting estimate susceptible to change from period to period. It requires management to make assumptions about future cash flows over future years and utilize an estimated discount rate. Management' s assumptions about future cash flows involve significant judgment because actual operating levels have fluctuated in the past and may continue to do so in the future and economic conditions may change. Also, the adoption of any new strategic plan inherently involves uncertainty. A significant adverse change in our business could result in a future impairment of the value of our acquired intangible assets.

Business Combinations

We account for business combinations under the purchase accounting method. The cost of an acquired company is assigned to the tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired requires us to make estimates and use valuation techniques when market value is not readily available. Any excess of purchase price over the fair value of the tangible and net intangible assets acquired is allocated to goodwill.

LIQUIDITY AND CAPITAL RESOURCES

We have two principal sources of liquidity: (i) existing cash and cash equivalents and (ii) our Wells Fargo Receivables Advance Facility. As of March 31, 2008, we had unrestricted cash and cash equivalents of $3.8 million and an additional $9.9 million of restricted cash consisting of $3.6 million held as collateral under our receivables advance facility and $6.3 million held as collateral for outstanding letters of credit.

We face considerable constraints with respect to our liquidity and working capital that have materially impacted our business and may continue to impact our business. As of March 31, 2008, we had current assets of $149.0 million

and current liabilities (exclusive of deferred revenue which is not yet earned) totaling $168.5 million. At March 31, 2008 our shareholder' s deficit was $13.6 million. Our operations have not generated positive annual cash flows since our initial public offering in 2004.

Background

We have had insufficient revenues and gross margins to sustain our operations, incurred ongoing operating losses and interest expense on our debt, and have expended cash to support financing initiatives. Since inception, we have financed our operations through the private

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placements of equity securities, convertible debt, loans from our founder and other members of our Board of Directors, short-term loans, a line of credit and net proceeds of $7.1 million from our IPO. From December 2005 to February 2006, we raised approximately $12.6 million, prior to expenses and commissions, through warrant exercises. In conjunction with the acquisition of the Professional Business from Gateway, we raised $8.3 million from the exercise for cash of $1.10 warrants issued in connection with two private placement financings in September 2006 that included the issuance of convertible debentures.

Our financing under the Receivables Advance Facility is dependent upon our sales volume and related receivables to assign to Wells Fargo. Historically, our sales volume has been lower during the first two quarters of the year and increases during the third and fourth quarters due to the federal-buying season. Additionally, the Professional Business transition issues discussed above have impeded our sales to Professional Business customers. Periods of lower revenue volume and lower related receivables reduce our assignment of receivables, borrowing capacity, and our ability to cover our operating expenses.

Because our liquidity has been constrained, we have managed our cash position by extending payments to suppliers, some of whom have placed us on credit hold, reduced credit lines or placed us on a pre-pay position for their products. On many occasions this has delayed delivery of components to our manufacturing facility until payments were made. We have also received notices of default, threatened litigation and litigation from numerous suppliers, but have generally cured the defaults or settled the amount owed or otherwise managed the supplier relationship.

Liquidity

(In millions)

	March 31, 2008	December 31, 2007
Cash and cash equivalents	$ 3.8	$ 9.0
Restricted cash	9.9	9.8
Total	$ 13.7	$ 18.8

Cash Flow Activity

(In millions)

	Three Months Ended March 31,	
	2008	2007
Net cash provided (used) by:		
Operating activities	$ 17.3	$ 3.2
Investing activities	(0.8)	(0.1)
Financing activities	(21.7)	(6.4)
Increase (decrease) in cash	$ (5.2)	$ (3.3)

- ***Operating Activities***

During the three months ended March 31, 2008, we generated $17.3 million from operating activities consisting of a net loss of $9.5 million as adjusted for $4.5 million of non-cash items including depreciation and amortization expense, income from the increase in fair value of derivative financial instruments and other non-cash items. In addition, operating activities provided $27.0 million from a decrease in working capital, primarily from a $31.9 million decline in accounts receivable, a $6.1 million increase in accounts payable offset by a $9.6 million increase in inventory and a $2.9 million decrease in accrued warranties. The decline in accounts receivable was principally the result of a consecutive decline in sales from the fourth quarter of 2007 and the first quarter of 2008 and collections on the 2007 year end receivables. The increase in inventory was due to the Professional Business Transaction issues and the procurement of more raw material inventory to support our anticipated production than the amount actually needed to fulfill customer orders.

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During the three months ended March 31, 2007, we generated $3.2 million from operating activities consisting of a net loss of $5.0 million as adjusted for $0.2 million of non-cash items including depreciation and amortization expense, income from the increase in fair value of derivative financial instruments and other non-

cash items. In addition, operating activities provided $8.2 million from a decrease in working capital, primarily from a decrease in accounts receivable offset by an increase in inventory and a decrease in accounts payable and accrued expenses.

- ***Investing Activities***

Investing activities for the three months ended March 31, 2008 included $0.8 million in purchase of equipment.

We had no significant investing activities during the three months ended March 31, 2007.

- ***Financing Activities***

During the three months ended March 31, 2008, financing activities used $21.7 million consisting of a $19.2 million reduction in net borrowings under the Wells Fargo Receivables Advance Facility and $2.5 million in payments on notes payable.

During the three months ended March 31, 2007, financing activities used net cash of $6.4 million. Our net borrowings under the Wells Fargo Receivable Advance Facility declined $6.6 million. In addition, restricted cash related to collateralized letters of credit and the Receivable Advance Facility declined $0.2 million.

Liquidity and cash flows for 2008

As previously discussed under "Professional Business Transition Issues" of this Item, during the transition of the Professional Business IT and manufacturing systems from Gateway to MPC Computers' existing systems in February, 2008, we experienced material delays in manufacturing and customer deliveries, which resulted in lower than expected shipment volumes and revenues in the first quarter of 2008 as compared to the fourth quarter of 2007. These issues have materially impacted our liquidity, and caused a material deterioration in our working capital from December 31, 2007 through March 31, 2008. We are currently seeking to expand credit lines with many of our current vendors, and to obtain credit lines from vendors with whom we have not previously done business as a means to continue to fund our operations in the near term. Yet we continue to extend payment to a number of our vendors well beyond normal payment terms. Certain of these vendors, and existing vendors, have requested letters of credit to secure credit lines. We are currently negotiating with other vendors, and anticipate providing additional letters of credit or other forms of credit enhancement to secure our credit lines with certain vendors. In April 2008, we entered into the Flextronics agreement and anticipate an increase in liquidity from the sale of our inventory to Flextronics and have received an increase in our credit line with Flextronics. Continuing to provide letters of credit or other credit enhancement to vendors constrains our liquidity as we are required to cash collateralize the letters of credit or otherwise incur costs to provide credit enhancement and there can be no assurance that we will be successful in obtaining sufficient vendor credit in the future. Any inability to maintain adequate liquidity in the future or inability to integrate our IT systems on a timely basis may do significant harm to vendor relationships, and could cause us to experience credit holds, require that we pre-pay for products, and/or cause suppliers to refuse to deliver components or terminate supply arrangements, any of which could have a material adverse effect on our financial condition and results of operations.

Other specific issues which are relevant to understanding 2008 cash flows include:

- ***Financing activities***

  We expect to fully utilize available financing under our Wells Fargo Receivables Advance Facility to the extent possible in 2008. In connection with the Professional Business transition issues in the first quarter of 2008, we encountered liquidity issues requiring additional financing. We amended our Intercreditor Agreement to temporarily remove restrictions on our Receivables Advance

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Facility. The restrictions were previously reserved for payment of amounts due to Gateway, and provided approximately $15 million in funding from the Receivables Advance Facility. In addition, on April 1, 2008, Wells Fargo provided an advance to MPC-Pro in the amount of $3.5 million (the "MPC-Pro Advance"). The MPC-Pro Advance is to be repaid by May 31, 2008, and is in addition to other amounts provided to us by Wells Fargo under the terms of our Account Purchase Agreement. We also amended the Transition Services Agreement with Gateway to extend the payments due on the payable to Gateway through June, 2008.

In addition, we were recently informed by Wells Fargo that Wells Fargo had over advanced approximately $1.4 million to us as a result of an oversight in the application of cash receipts received against several

relatively small invoices outstanding since late 2007. We have researched Wells Fargo' s claim, and determined that in fact Wells Fargo had over funded us by $1.4 million. We have agreed with Wells Fargo to repay the $1.4 million over advance in four equal weekly payments starting June 6, 2008.

Our sales are seasonal and typically increase during our second, third and fourth quarters. We anticipate an increase in sales will require additional working capital which we will obtain through Temporary Advances under the Receivables Advance Facility allowing us to borrow up to approximately 98% of our purchased accounts. The Temporary Advances are of limited duration which may require us to seek other sources of cash. We are looking at opportunities to sell assets, such as certain types of inventory and machinery and equipment and expand or enhance vendor credit where possible. We launched initiatives to further improve our margins beginning in January 2008. We are focusing on material costs, returns, freight costs, manufacturing productivity and costs as areas of opportunity to improve our gross margin and operating margin, including through our recent agreement signed with Flextronics in April 2008. We continue to be active in cost management and continuing seek ways to run our business more cost effectively.

We do not anticipate proceeds from the exercise of warrants, unless there is a significant increase in the market price of our common stock. We expect some conversions of our Series A Preferred Stock and our Series B Preferred Stock to MPC Corporation Common Stock during 2008 upon shareholder approval. The conversions have no cash flow impact.

- ***Capital expenditures***

  Historically, we have not had material capital expenditures and do not currently anticipate significant capital expenditures in 2008.

- ***Income taxes***

  From our inception through December 31, 2007, we have generated losses for both financial reporting and tax purposes. As a result, for income tax return, we may utilize approximately $36.9 million of net operating loss carryforwards, which begin to expire in 2022 and are available as late as 2027. We believe these net operating loss carryforwards are subject to an annual limitation on their use of $967 thousand pursuant to IRC Section 382. However, we have not yet completed our analysis of additional limitations, if any, resulting from the acquisition of the Professional Business and the conversion of debentures and exercise of warrants in 2007. For the year ended December 31, 2008, in addition to our loss carryforward limitation, taxable income may be reduced by all losses incurred in 2007 after the October 1, 2007 acquisition of the Professional Business.

We may need to raise a considerable amount of additional funds to satisfy vendor payment obligations and fund our business if we do not generate sufficient cash flows from operations and losses continue. There can be no assurance that we will be able to secure additional sources of financing on terms acceptable to us or at all. Even if we do obtain additional funding, the amount of such funding may not be sufficient to fully address all of our liquidity constraints. Continuing liquidity constraints could negatively and materially impact our business and results of operations.

Capital Resources

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Wells Fargo Receivables Advance Facility

On November 16, 2006, we entered into an agreement with Wells Fargo Business Credit, Inc. ("Wells Fargo") for an accounts receivable assignment and advance facility ("Receivables Advance Facility") that replaced our prior line of credit with Wachovia Capital Finance Corporation (Western). Under the new facility, as amended in February 2007, we may assign to Wells Fargo, and Wells Fargo may purchase from us, Accounts (as defined in the Receivables Advance Facility). Wells Fargo will advance 90% of the value of the purchased Accounts. Wells Fargo may adjust the advancement percentage at any time in its commercially reasonable discretion upon prior notice to us. Wells Fargo will advance an additional 7.5% of the face amount of currently outstanding Accounts assigned to Wells Fargo, provided that the total advance does not exceed 97.5% of the face amount of any Account (the "Temporary Advance"), and increase the advance rate on new Accounts assigned to Wells Fargo to 98% of the amount of the Accounts for a period of eight weeks (the "Special Facility Period"). We must repay the difference between the Advance and the Temporary Advance within four weeks after termination of the Special Facility Period. Failure to repay amounts advanced under the Special Facility would constitute an event of default under the Agreements. At any time when the Temporary Advance has been paid in full for a minimum of 60 days, we may

request that the Special Facility be reinstated for another eight week period with repayment to be made within four weeks.

On October 1, 2007, MPC-Pro and Gateway Companies Inc ("GCI") (which was acquired by MPC-Pro in connection with the acquisition of the Professional Business), each entered into an Account Purchase Agreement with Wells Fargo. Under these agreements, MPC-Pro and GCI may assign to Wells Fargo, and Wells Fargo may purchase from MPC-Pro and GCI, Accounts (as defined in the Agreements). Wells Fargo will advance to MPC-Pro and GCI 90% of the value of the purchased Accounts. Wells Fargo may adjust the advancement percentage at any time in its commercially reasonable discretion upon prior notice to MPC-Pro and GCI. In addition, MPC-Pro, Gateway, GCI, and Wells Fargo entered into an Intercreditor Agreement (the "Intercreditor Agreement"). The Intercreditor Agreement provides Gateway with a junior security interest in accounts receivable generated on or after the October 1, 2007 acquisition of the Professional Business, inventory, and all other property of MPC-Pro and GCI as specified in the agreement to secure the payment of obligations owing to Gateway under the Transition Services Agreement (the "TSA Obligations"). Wells Fargo and MPC-Pro agreed to set aside certain accounts receivable for the payment of the TSA Obligations (the "Gateway Blocked Accounts"). On March 27, 2008 the Intercreditor Agreement was amended to provide Gateway Blocked Accounts up to the following amounts: (i) there will be no Gateway Blocked Accounts through April 17, 2008; (ii) on or after April 18, 2008, a face amount equal to the obligations owing to Gateway under the Transition Agreement for the applicable week (the "Gateway Weekly Payoff Amounts") minus $10.0 million; and (iii) on or after May 27, 2008, a face amount equal to the Gateway Weekly Payoff Amounts for the applicable week minus $5.0 million. The amendment also provides that, if, after June 30, 2008, there is a remaining positive balance of the Gateway Weekly Payoff Amounts, Gateway may provide a statement to MPC-Pro indicating the positive balance, and Wells Fargo will hold but not purchase Gateway Blocked Accounts submitted to it by MPC-Pro and GCI in a face amount equal to the remaining positive balance.

We will pay fees equal to the Wells Fargo Prime Rate (as defined in the Receivables Advance Facility), plus 0.75% per annum (the "Wells Fargo Discount") multiplied by the total amount of Accounts purchased and not yet paid by our customers, computed daily. The effective rate at March 31, 2008 was 6%. The minimum monthly fee to be paid in aggregate by MPC Computers affiliates to Wells Fargo is determined by multiplying the Wells Fargo Discount, by $2.5 million.

Wells Fargo has the right to require that we re-purchase the Accounts in the event our customer does not pay the receivable within a timeframe specified under the Receivables Advance Facility, if a material customer dispute arises or in the event of a default under the Receivables Advance Facility. The Receivables Advance Facility is subject to customary default provisions. Wells Fargo has discretion under the Receivables Advance Facility as to the Accounts purchased and the percentage advanced after submission of the Account for approval. Wells Fargo is not obligated to buy any Account from us that Wells Fargo does not deem acceptable in its sole discretion. There is no minimum amount of Accounts to be purchased by Wells Fargo under the Receivables Advance Facility. The facility is secured by substantially all of our assets. The Receivables Advance Facility is for a term of three (3) years terminating November 14, 2009. Early termination fees apply if the Receivables Advance Facility is terminated before the end of its term. The Receivables Advance Facility also

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provides for a $3.5 million collateral account for the benefit of Wells Fargo for repayment of any obligations arising under the Receivables Advance Facility

On April 1, 2008, Wells Fargo provided an advance to MPC-Pro in the amount of $3.5 million (the "MPC-Pro Advance"). The MPC-Pro Advance is to be repaid by May 31, 2008, and is in addition to other amounts provided to us by Wells Fargo under the terms of our Account Purchase Agreements with Wells Fargo. We agreed to pay to Wells Fargo an advance fee in the amount of $15 thousand for the MPC-Pro Advance. Interest on the MPC-Pro Advance will be at Wells Fargo Prime Rate plus 1.25%.

On April 10, 2008, MPC-Pro, GCI, and Gateway delivered to Wells Fargo an instruction letter that modified certain terms of the Intercreditor Agreement. The letter confirmed that a requirement under the Intercreditor Agreement to maintain a controlled collateral account in the amount of $1.5 million eliminated. Additionally, the letter confirmed that Wells Fargo is not required to hold certain Gateway funds in trust as previously required under the Intercreditor Agreement. The impact of the instruction letter was to release approximately $1.0 million to us that was held in the controlled collateral account.

In April 2008, we were informed by Wells Fargo that Wells Fargo had over advanced approximately $1.4 million to us as a result of an oversight in the application of cash receipts received against several relatively small invoices outstanding since late 2007. We have agreed with Wells Fargo to repay the $1.4 million over advance in four equal weekly payments starting June 6, 2008.

New Convertible Debentures and Warrants

On September 6, 2006, we entered into a securities purchase agreement with certain existing investors and new investors pursuant to which we sold convertible debentures for an aggregate of $4.6 million. Additionally, the investors of the April 24, 2006 bridge loan exchanged $5 million face value of their convertible debentures plus accrued interest thereon into the new convertible debentures and the existing and new investors received 4,924,500 additional warrants. The debentures become convertible into shares of common stock at a conversion price of $0.75 per share. The warrants allow the purchase of our common stock for $1.10 per share and are for a term of 5 years. The debentures accrue interest at 8% per annum after shareholder approval was obtained in December 2006 and the aggregate principle amount becomes due and payable September 6, 2009. In the event that the debentures are not repaid on the maturity date, we will be in default and the debentures will begin to accrue interest at a rate of 22% per annum or the maximum amount permitted by law, whichever is less. The debentures contain various customary events of default as well as negative covenants that, among other things, prohibit us from incurring additional debt.

We issued to one of the investors additional warrants to purchase up to 360,000 shares of common stock for $1.10 per share. The terms of these warrants are identical to the warrants issued as part of the financing. The warrants were accounted for as additional consideration given to the investors as part of the financing. In connection with this financing, we issued 546,000 warrants with a 5-year term to the placement agent to purchase our common stock for $1.10 per share.

Both the debentures and the warrants contain provisions limiting conversion and exercise, or issuance of shares in lieu of interest, as the case may be, in the event that the holder' s beneficial ownership of our common stock would exceed 9.99%. We concurrently entered into a registration rights agreement with the investors that required us to register all of the common stock issued and underlying the securities sold to investors. The registration rights agreement contains customary indemnification and contribution provisions. We filed the registration statement with the SEC on November 8, 2006 and it was declared effective on June 28, 2007. Not all of the common stock underlying the debentures and warrants were registered under the registration statement due to blocker provisions imposed by certain investors on their registrable shares and from a reduction in the number of shares as required by the SEC. We believe we have substantially fulfilled our obligation under the registration rights agreement and will register the remaining unregistered shares when the blocker provisions are waived by the investors and when allowed by the SEC.

On March 5, 2007, we obtained amendments and waivers to the registration rights agreement and the debentures. Pursuant to a letter agreement, the majority of the investors, including Crestview Capital Master, LLC and Toibb Investment LLC agreed to waive the penalty provisions for not yet having an effective registration statement, and to extend the dates for filing a registration statement and all related

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deadlines, including the date by which the initial registration statement must be declared effective by the SEC, by 120 days. The investors in this offering also agreed that no Event of Default is presently deemed to have occurred under the debentures. The 120-day extension period lapsed, and the registration statement was not declared effective until June 28, 2007. For the year ended December 31, 2007, we incurred liquidated damages of $346 thousand under the registration rights agreement related to the delay in the effectiveness of our registration statement.

During the year ended December 31, 2007, we issued 8,798,986 shares of common stock and 626,546 shares of Series A Preferred Stock upon conversion of $9.8 million face value of New Convertible Debentures plus accrued interest and penalties and the exercise of 6,652,227 warrants. See “Series A Preferred Stock” below.

September 29, 2006 Financing

On September 29, 2006 we entered into a securities purchase agreement with certain existing investors and new investors pursuant to which we agreed to sell convertible debentures for an aggregate of $4.9 million. The majority of the transaction closed October 4, 2006. The investors also received an aggregate of 2,468,125 warrants to purchase our common stock. The debentures become convertible into shares of common stock at a conversion price of $0.75 per share. The warrants allow the purchase of our common stock for $1.10 per share and are for a term of 5 years. The debentures accrue interest at 8% per annum after shareholder approval was obtained in December 2006 and the aggregate principal amount becomes due and payable September 29, 2009. In the event that the debentures are not repaid on the maturity date, we will be in default and the debentures will begin to accrue interest at a rate of 22% per annum or the maximum amount permitted by law, whichever is less. The debentures contain various customary events of default as well as negative covenants that, among other things, prohibit us from incurring additional debt.

Both the debentures and the warrants contain provisions limiting conversion and exercise, or issuance of shares in lieu of interest, as the case may be, in the event that the holder’ s beneficial ownership of our common stock would

exceed 9.99%. We concurrently entered into a registration rights agreement with the investors that requires us to register all of the common stock issued and underlying the securities sold to the investors. The registration rights agreement contains customary indemnification and contribution provisions. The terms, conditions, features and accounting treatment of these debentures and warrants are substantially identical to the New Convertible Debentures and Warrants.

We filed the registration statement with the SEC on November 8, 2006, and it was declared effective on June 28, 2007. Not all of the common stock underlying the debentures and warrants was registered under this registration statement due to the large number of shares of common stock to be registered relative to the number of shares of our common stock then outstanding. In order to register the shares on a Form S-3, the SEC required that we reduce in the number of shares being registered. We believe we have substantially fulfilled our obligations under the registration rights agreement and will register the remaining unregistered shares as required by the registration rights agreement and as allowed by the SEC.

We did not obtain any amendments or waivers from these investors and as a result, as of February 1, 2007 we began incurring liquidated damages under the registration rights agreement at the rate of 1.5% of the aggregate amount invested per month until the registration statement was declared effective on June 28, 2007. These liquidated damages must be paid in cash, and they accrue interest at a rate of 18% per annum. We notified the investors that we are unable to pay the interest and will accrue the interest if unpaid to their account. There is no assurance that they will allow us to defer payment of the liquidated damages. Since we have not paid all of the interest or penalties due under the debentures or the registration rights agreement, a holder could declare the debentures to be in default and accelerate the debt due under the debentures. If this were to happen, the debentures would accrue interest at the rate of 22% per annum. We may be required to pay interest or other required payments in cash rather than stock and could be forced to use our limited cash to redeem all or a portion of the outstanding debentures.

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In connection with this financing, we issued 499,867 warrants with a 5-year term to the placement agent to purchase our common stock for $1.10 per share.

During the year ended December 31, 2007, we issued 6,314,927 shares of common stock upon conversion of $3.6 million in face value of debentures from the September 29, 2006 Financing plus accrued interest and penalties and the exercise of 893,125 warrants.

Series A Preferred Stock

As a condition to close under the Asset Purchase Agreement for the acquisition of the Professional Business, we were required to have raised at least $9.0 million in additional cash and cash equivalents through the conversion of outstanding convertible securities, the exercise of warrants or the sale of additional equity securities, as measured relative to our cash and cash equivalents as of the September 4, 2007 date of the Asset Purchase Agreement. This condition was modified to raising at least $8.0 million under a Letter Agreement dated October 1, 2007 (the "Letter Agreement") among the parties to the Asset Purchase Agreement. In satisfaction of this condition, on October 1, 2007 we raised $8.3 million from the exercise for cash of $1.10 warrants issued in connection with two private placement financings in September 2006 that included the issuance of convertible debentures.

In connection with the obligation under the Letter Agreement, two MPC Corporation investors, Crestview Capital Master LLC ("Crestview") and Toibb Investment LLC ("Toibb"), intended to exercise their warrants and convertible debentures, but because of their large holdings, their beneficial ownership of our common stock, as defined in Rule 13d-3 as promulgated under the Securities Exchange Act of 1934, as amended, could have exceeded 9.99%. As such, on October 1, 2007, we entered into an Amendment No. 1 to Convertible Debenture with each of Crestview and Toibb (the "Debenture Amendments"), pursuant to which their respective Convertible Debentures due on September 6, 2009 were amended such that the debentures were convertible into shares of Series A Preferred Stock. Additionally, MPC Corporation and both Crestview and Toibb agreed that, upon the exercise of their warrants prior to the Closing, we would issue (i) common stock only to the extent that their beneficial ownership reaches 9.99% and (ii) the number of shares of MPC Corporation Series A Preferred Stock that will convert into a number of shares of MPC Corporation common stock equal to the difference between the number of shares of common stock such holder would receive if all of such holder' s warrants were exercised for our common stock and the number of shares of our common stock such holder actually received in order to avoid exceeding 9.99% beneficial ownership. Additionally, on October 1, 2007, we entered into an amendment to the Registration Rights Agreement dated as of September 6, 2006 with Crestview and Toibb such that the registration and other rights applicable to shares of common stock issuable upon conversion of the their debentures apply equally to the shares of common stock issuable on conversion of the Series A Preferred Stock issued pursuant to the Debenture Amendments.

In conjunction with the exercise of the $1.10 warrants and our obligations under the Letter Agreement, on October 1, 2007, 7,545,352 warrants were exercised, $12.1 million in face value of convertible debentures were converted plus accrued interest and penalties thereon, and we issued 12,912,166 shares of MPC Corporation common stock and 626,546 shares of MPC Corporation Series A Preferred Stock. The MPC Corporation Series A Preferred Stock is convertible into 12,530,925 shares of MPC Corporation common stock. The MPC Corporation Series A Preferred Stock is participating, non-voting, and has a liquidation preference equal to $.00000001 per share. Each share of MPC Corporation Series A Preferred Stock will automatically convert to MPC Corporation common stock at such time the conversion would not cause the beneficial ownership to exceed 9.99% beneficial ownership.

Series B Preferred Stock

In connection with the acquisition of the Professional Business, we issued 5,602,454 shares of MPC Corporation common stock totaling approximately 19.9% of our outstanding common stock as of the Closing Date, and 249,171 shares of MPC Corporation Series B Preferred Stock convertible into 4,983,416 shares of our common stock. All MPC Corporation Series B Preferred Stock issued to Gateway converts to MPC Corporation common stock upon (i) shareholder approval by a majority of the MPC Corporation common shareholders and (ii) at such time as the shares may be converted without causing Gateway' s ownership of our common stock to exceed 19.9% (the "Series B Automatic Conversion Event"). Gateway agreed to vote in favor of the Series B Automatic Conversion Event. In the event the Series B Automatic Conversion Event does not occur within one year from the Closing Date, all outstanding shares of Series B Preferred Stock shares are to be

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redeemed by us at 1.5 times the closing price times the number of shares of common stock into which the Series B Preferred Stock is then convertible. The MPC Corporation Series B Preferred Stock is participating, non-voting, and has a liquidation preference equal to $.00000001 per share.

On the October 1, 2007 Closing Date, we entered into a Lock-up Agreement and Registration Rights Agreement with Gateway. Under the Lock-Up Agreement, Gateway has agreed that it will not offer, sell, contract to sell, short, pledge or otherwise dispose of any MPC Corporation common stock beneficially owned, held or thereafter acquired by Gateway or its affiliates for a period of 12 months (the “Restriction Period”), except for Permitted Transfers as defined by the agreement. The Registration Rights Agreement provides that following the Restriction Period as set forth in the Lock-Up Agreement and upon receipt of a demand request from Gateway, MPC Corporation shall file a registration statement with respect to the Registrable Securities, as defined by the agreement, which include the MPC Corporation Shares issued in connection with the transaction. The Registration Rights Agreement grants Gateway customary and piggyback rights. The Registration Rights Agreement is subject to any limitations and conditions set forth in any prior registration rights agreements entered into by MPC Corporation.

Other outstanding warrants

In connection with our 2004 initial public offering, we issued 3.6 million warrants. These warrants were exercisable at $5.50 per share, but have subsequently been adjusted to $3.77 per share in August 2007 due to anti-dilution provisions triggered from convertible debentures and warrants issued by us in September 2006 with conversion features at below then current market prices. The warrants are callable by us at $0.25 per share if our common stock trades at or above $9.50 per share for 20 consecutive days. None of these warrants have yet been exercised, and we do not anticipate that a material amount of the warrants will be exercised unless we are able to exercise our call right, which would require our stock trading price to close at a price of at least $9.50 for 20 consecutive trading days. Our stock has never traded above $9.50 per share.

CONTRACTUAL OBLIGATIONS

During the three months ended March 31, 2008 our estimated purchase obligations increased by $40.8 million and outstanding notes payable and debt declined by $21.8 million from December 31, 2007. There were no other material changes to our contractual obligations and commitments as of March 31, 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk on our Wells Fargo Receivable Assignment Facility. The interest rate is a floating rate based on the prime rate plus 0.75% per annum. Effective March 31, 2008 the rate was 6%. If interest rates continue to rise we will be subject to higher interest payments if outstanding balances remain unchanged.

We have convertible debentures and warrants that are derivative financial instruments and are carried at fair value as derivatives liabilities. The fair values are determined in part by, and fluctuate with, the market value of our stock. If

the market price of our stock increases during a period, the fair value of the derivatives is expected to increase and will adversely affect our earnings. A decline in the market price of our stock as expected cause a decrease in fair value of the derivatives and have a positive impact to earnings.

Currently, most of our sales are in the United States. All of our foreign sales and purchases of product are denominated in U.S. dollars, minimizing our foreign currency risk. All of our international suppliers, mostly from Asia, denominate contracts in U.S. dollars thereby eliminating foreign currency risk. In the future we may not be successful in negotiating most of our international supply agreements in U.S. dollars, thereby increasing our foreign currency risk. Amounts we pay for components from international suppliers could be affected by a continued weakening of the U.S. dollar as compared with other foreign currencies. We currently have no foreign exchange contracts, option

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contracts or other foreign currency hedging arrangements. We continue to evaluate our risk position on an ongoing basis to determine whether foreign exchange hedging strategies may need to be employed.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, including our CEO and our CFO, as of March 31, 2008, the end of the period covered by this Quarterly Report on Form 10-Q, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on their evaluation, our CEO and CFO have concluded that our disclosure controls and procedures (excluding the acquired Profession Business as discussed more fully below) are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

As reported in our Annual Report on Form 10-K for our fiscal year ended December 31, 2007, our management assessed our internal control over financial reporting as of December 31, 2007. In reliance on the guidance set forth in Question 3 of a "Frequently Asked Questions" interpretive release issued by the staff of the Securities and Exchange Commission' s Office of the Chief Accountant and the Division of Corporation Finance in June 2004 (and revised on October 6, 2004), management determined that it would exclude the Professional Business, which was acquired from Gateway, Inc. on October 1, 2007, from the scope of its assessment of internal control over financial reporting as of December 31, 2007. The reason for its exclusion is that the Professional Business was acquired by the company in a purchase business combination that was completed on October 1, 2007, and it was not possible for management to conduct an assessment of the Professional Business unit' s internal control over financial reporting in the period between the date the combination was completed and the date of management' s assessment. Based on this assessment, management concluded that our internal control over financial reporting, excluding the Professional Business, was effective as of December 31, 2007. During its assessment, management did not identify any material weakness in our internal control over financial reporting.

However, in connection with the Professional Business, the process of extracting information necessary to prepare financial statements was highly manual, complex, and time consuming due to the integration of four distinct reporting systems. In addition, certain key accounts were not reconciled at year end, which lead to a current material weakness with respect to the Professional Business. During the first quarter of 2008, we commenced a number of efforts to remediate the material weakness with respect to the Professional Business so that our combined business will have adequate internal controls over financial reporting. These efforts included the completion of the migration of data and processes from the four Gateway systems to the MPC Corporation financial reporting system. In addition, we began other remediation steps including redeployment of staff to the key areas impacted by the material weakness, initiated enhanced training of the consolidation and account reconciliation processes, and established review procedures in these areas. However, as of March 31, 2008, we did not complete all of these remediation steps.

Except for the changes on which we are working to address the material weakness with respect to the Professional Business noted above, there were no changes in our internal control over financial reporting during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Phillip Adams & Associates, LLC

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We are a defendant in a lawsuit, alleging infringement of certain patents, relating to floppy disk controllers, owned by Phillip Adams & Associates, LLC. We were added to this suit by an amended complaint filed on May 31, 2005 in the U.S. District Court, District of Utah. We have tendered indemnification demands to certain of our component suppliers. Because the case is still in the discovery phase, we are not able to determine the financial impact, if any, arising from an adverse result in the matter.

Other Matters

We are involved in various other legal proceedings from time to time in the ordinary course of our business. We are not currently subject to any other legal proceedings that we believe will have a material impact on our business. However, due to the inherent uncertainties of the judicial process, we are unable to predict the ultimate outcome or financial exposure, if any, with respect to these matters.

ITEM 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the following risk factors, and other information included in or incorporated by reference into this report, including our financial statements and the related notes thereto. You should also carefully review and consider all of the risk factors set forth in "Item 1A, Risk Factors" in our Form 10-K for the period ending December 31, 2007 filed with the Securities and Exchange Commission on April 14, 2008. Additional risks and uncertainties that we do not presently know about, or have not yet identified, may also adversely affect our business. Our business, operating results and financial condition could be seriously harmed and you could lose your entire investment by the occurrence of any of these risks, or by unforeseen risks not listed below.

Risks Related to Our Liquidity

Our liquidity and working capital constraints grew during the first quarter of 2008, and could have a material adverse effect on our financial position and results of operations.

Our liquidity constraints make it difficult for us to execute on our business plan and continue operations without additional funding or concessions from our creditors, which they may not be willing to provide. As of March 31, 2008, we had current assets of $149.0 million and current liabilities (exclusive of deferred revenue which is not yet earned) totaling $168.5 million. As a result, our net working capital deficit was $19.5 million as of March 31, 2008. As of December 31, 2007, we had current assets of $178.8 million and current liabilities (exclusive of deferred revenue which is not yet earned) totaling $183.6 million, resulting in a net working capital deficit of $4.8 million. Consequently, our working capital deficit grew materially during the first quarter of 2008. In addition, through the first five weeks of the second quarter, we have not yet experienced the material increase in our weekly shipped revenue from our average weekly shipped revenue we experienced in the first quarter of 2008.

We continue to extend payment terms to a number of our suppliers well beyond our normal payment terms. Our working capital deficit could have a material adverse effect on our financial position and results of operations if we are not able to raise additional funds, or reduce our net working capital deficit through increased revenue and cash flow from operations in the second quarter.

Risk related to Our Securities

We have been notified by AMEX of our failure to satisfy continued listing standards, and if we are delisted the value and liquidity of your investment may be reduced.

On May 8, 2008, the American Stock Exchange ("AMEX") notified us that we have failed to satisfy a continued listing rule. Specifically, the notice from AMEX states that we are not in compliance with Section 1003(a) (i) of the AMEX Company Guide in that we have stockholder' s equity of less than $2 million and have sustained losses from continuing operations or net losses in two of its three most recent fiscal years.

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The AMEX notice requires that by June 9, 2008, we submit a plan (the "Plan") advising AMEX of action we have taken, or will take, that would bring us into compliance with the listing standards by November 9, 2009 (the "Plan Period"). The Plan is required to include specific milestones, quarterly financial projections, and details related to any strategic initiatives that we plan to complete. AMEX will evaluate the Plan and make a determination as to whether we have made a reasonable demonstration of an ability to regain compliance with the continued listing standards within specified timeframes, in which case the Plan will be accepted. If the Plan is accepted, we may be able to continue listing during the Plan Period, during which time we will be subject to periodic review to determine whether we are making progress consistent with the Plan. If the Plan is not accepted or if we do not make progress consistent with the Plan during the Plan Period, AMEX will initiate delisting procedures as appropriate.

Previously, we resolved a continued listing deficiency initially identified in an AMEX notice received in April 2006. As reported in our Form 8-K filed October 29, 2007, we are subject to the provisions of Section 1009(h) for a period of twelve months from such date, which provides for the method of evaluation and appropriate action by AMEX staff should we fall below the continued listing standards during that period. Depending on the circumstances, such action includes truncating procedures related to compliance with the continued listing standards or immediately initiating delisting proceedings.

Risks Related to the Flextronics Transaction

The cost savings associated with the outsourcing initiative may not be realized.

We anticipate that the outsourcing of manufacturing operations to Flextronics will result in savings in manufacturing and materials procurement costs. However, such cost savings are not guaranteed, and it is possible that we will not achieve savings or that the savings will be less than presently anticipated. Furthermore, any savings in manufacturing and materials procurement costs could be offset, in whole or part, by factory closure and related costs. Our business plans are substantially dependent on achieving the anticipated savings, and the failure to achieve such savings would have a material adverse impact on our business.

We will be dependent on Flextronics to perform a substantial portion of our manufacturing.

Flextronics will perform a substantial portion of the manufacturing operations previously performed by us. The outsourcing of manufacturing operations to Flextronics involves a number of risks. For example, we could be impacted by any delays in production associated with Flextronics' Juarez, Mexico facility. It is possible that that we will experience quality issues at a higher rate than we have experienced in the past. Our ability to timely deliver product could be impacted by shipping issues to or from the Flextronics facility.

If we experience difficulties with Flextronics, we face challenges to return to manufacturing our own products and we may not be able to find an alternative outsource partner.

We expect that part of the anticipated cost savings provided by the Manufacturing Services Agreement ("MSA") will be the result of closing current manufacturing capacity. As a result, we may face significant challenges to return to manufacturing our own products if we experience difficulties with Flextronics. Additionally, we do not have contracts with other potential outsource partners and, if required, we may not be able to find alternative outsource partners on terms acceptable to us or at all.

We are substantially dependent on Flextronics willingness to continue to extend credit terms at levels sufficient to support our business.

Under the MSA, Flextronics will acquire, on our behalf, a substantial portion of the components necessary to produce our products. Flextronics has agreed to provide to us a line of credit in connection with such procurement activity. However, the line of credit will be reviewed on a monthly basis and is subject to change. If the Flextronics line of credit were reduced, it could have a substantial impact on our liquidity and our business.

We may experience unexpected difficulties transitioning manufacturing operations to the Flextronics facility.

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In connection with transitioning manufacturing operations to the Flextronics facility, we may experience difficulties with information technology and manufacturing systems. Such difficulties could lead to delays in shipments. Flextronics will need to train its workforce concerning the manufacture of our products, and we may experience transitional delays or other issues until the workforce is fully trained.

Flextronics will acquire components for our products based on forecasts provided by us, and if our forecasts are incorrect, we may be required to repurchase the components.

Under the MSA, we are required to provide Flextronics with forecasts and, based on the forecasts, Flextronics will acquire components. If Flextronics is holding inventory for us for which there is not adequate demand, we may be required to repurchase inventory. Additionally, we may be required to pay inventory carry fees on inventory in excess of demand and to repurchase inventory that is on hand for timeframes specified in the MSA. If our forecasts are incorrect, these repurchase requirements and charges could materially impact our cash flows.

Customer response to our outsourcing initiative is uncertain.

Customer response to our outsourcing initiative is uncertain. A number of significant competitors in the computer industry have outsourced all or a significant portion of their manufacturing operations. However, it is possible that some customers, including U.S. government customers, may prefer product directly produced by the vendor or product that is produced in the U.S.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Amended and Restated Articles of Incorporation of the Registrant, as amended (1)
3.2	Amended and Restated Bylaws of the Registrant, as amended (2)
10.1	Letter from MPC-Pro, LLC, Gateway Companies, Inc. and Gateway, Inc. to Wells Fargo Bank dated April 10, 2008 (3)
10.2	Amendment No. 3 to Transition Services Agreement dated as of February 20, 2008 among MPC Pro LLC and Gateway, Inc. (4)
10.3	Agreement Amendment dated February 20, 2008 by and among Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit Operating Division, Gateway, Inc., Gateway Companies, Inc., and MPC-Pro LLC (4)
10.4	Amendment No. 4 to Transition Services Agreement dated as of March 27, 2008 among MPC Pro, LLC and Gateway, Inc. (5)
10.5	Second Agreement Amendment dated March 27, 2008 by and among Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit Operating Division, Gateway, Inc., Gateway Companies, Inc., and MPC-Pro LLC (5)
10.6***	Flextronics Manufacturing Services Agreement dated April 14, 2008 by and between MPC Corporation and Flextronics Computing Mauritius Limited
10.7	Flextronics Inventory Purchase Agreement dated May 8, 2008 by and between Gateway Pro Partners, LLC and Flextronics Computing Mauritius Limited (6)
31.1*	Certification of the Chief Executive Officer of MPC Corporation, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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31.2* Certification of the Chief Financial Officer of MPC Corporation, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1** Certification of the Chairman and Chief Executive Officer of MPC Corporation, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2** Certification of the Chief Financial Officer of MPC Corporation, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Filed herewith.

** Furnished herewith.

*** Filed herewith and contains material that has been omitted pursuant to a request for confidential treatment and such material has been filed separately with the Commission.

(1) Incorporated by reference to Exhibit 3.1 on Registrant' s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2007.

(2) Incorporated by reference to Exhibit 3.1 on Registrant' s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 29, 2007.

(3) Incorporated by reference to Exhibit 99.1 on Form 8-K filed with the Securities and Exchange Commission on April 16, 2008.

(4) Incorporated by reference to Exhibits 99.1 and 99.2, respectively, on Form 8-K filed with the Securities and Exchange Commission on February 26, 2008.

(5) Incorporated by reference to Exhibits 99.1 and 99.2, respectively, on Form 8-K filed with the Securities and Exchange Commission on April 2, 2008.

(6) Incorporated by reference to Exhibit 99.1 on Form 8-K filed with the Securities and Exchange Commission on May 14, 2008.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MPC Corporation

Date: May 15, 2008

/s/ John P. Yeros

John P. Yeros
Chairman and CEO

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Date: May 15, 2008

/s/ Curtis M. Akey

Curtis M. Akey
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Amended and Restated Articles of Incorporation of the Registrant, as amended (1)
3.2	Amended and Restated Bylaws of the Registrant, as amended (2)
10.1	Letter from MPC-Pro, LLC, Gateway Companies, Inc. and Gateway, Inc. to Wells Fargo Bank dated April 10, 2008 (3)
10.2	Amendment No. 3 to Transition Services Agreement dated as of February 20, 2008 among MPC Pro LLC and Gateway, Inc. (4)
10.3	Agreement Amendment dated February 20, 2008 by and among Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit Operating Division, Gateway, Inc., Gateway Companies, Inc., and MPC-Pro LLC (4)
10.4	Amendment No. 4 to Transition Services Agreement dated as of March 27, 2008 among MPC Pro, LLC and Gateway, Inc. (5)
10.5	Second Agreement Amendment dated March 27, 2008 by and among Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit Operating Division, Gateway, Inc., Gateway Companies, Inc., and MPC-Pro LLC (5)
10.6***	Flextronics Manufacturing Services Agreement dated April 14, 2008 by and between MPC Corporation and Flextronics Computing Mauritius Limited
10.7	Flextronics Inventory Purchase Agreement dated May 8, 2008 by and between Gateway Pro Partners, LLC and Flextronics Computing Mauritius Limited (6)
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Exhibit 10.6

Flextronics Manufacturing Services Agreement

This Flextronics Manufacturing Services Agreement ("**Agreement**") is entered into this 14th day of April 2008 by and between MPC Corporation having its place of business at 906 East Karcher Road, Nampa, Idaho 83687 ("**Customer**") and Flextronics Computing Mauritius Limited, having its place of business at 210 St. James Court, Rue St. Denis, Port Louis Mauritius ("**Flextronics**").

Customer desires to engage Flextronics to perform manufacturing services as further set forth in this Agreement. The parties agree as follows:

1. DEFINITIONS

Flextronics and Customer agree that capitalized terms shall have the meanings set forth in this Agreement and Exhibit 1 attached hereto and incorporated herein by reference.

2. MANUFACTURING SERVICES

2.1. **Work**. Customer hereby engages Flextronics to perform the work (hereinafter "**Work**"). "**Work**" shall mean to procure Materials and to manufacture, assemble, and test products (hereinafter "**Product(s)**") pursuant to detailed written Specifications. The "**Specifications**" for each Product or revision thereof, shall include but are not limited to bill of materials, designs, schematics, assembly drawings, process documentation, test specifications, current revision number, and Approved Vendor List. The Specifications as provided by Customer and included in Flextronics' s production document management system and maintained in accordance with the terms of this Agreement are incorporated herein. This Agreement does not include any new product introduction (NPI) or product prototype services related to the Products. In the event that Customer requires any such services, the parties will enter into a separate agreement. In case of any conflict between the Specifications and this Agreement, this Agreement shall prevail.

2.2. **Move.** Customer currently manufactures the Products in the United States ("**MPC Manufacturing Operations**"). Flextronics will initially manufacture the Products in Juarez, Mexico ("**Juarez**"). A timeline covering key events associated with the move to Juarez (the "**Timeline**") is incorporated herein by reference as Exhibit 2.2. The Timeline can be modified as mutually agreed to by the parties. The move is expected to be completed by August 31, 2008 (The "**Move Completion Date**"). Transition costs associated with moving the required equipment and/or materials from MPC Manufacturing Operations to Juarez will be allocated as follows: [*] The parties agree to use commercially reasonable efforts to adhere to the Timeline in Exhibit 2.2. Each party is responsible for reviewing the actions needed and agreeing to a timeline by April 18th, 2008. At this time the timeline in Exhibit 2.2 will be updated and will be the governing timeline for this agreement. Each party is responsible for closing its action items by the date committed to on the Timeline.

2.3. **Engineering Changes**. Customer may request that Flextronics incorporate engineering changes into the Product by providing Flextronics with a description of the proposed engineering change sufficient to permit Flextronics to evaluate its feasibility and cost. Flextronics will proceed with engineering changes when the parties have agreed upon the changes to the Specifications, delivery schedule and Product pricing and the Customer has issued a purchase order for the implementation costs.

2.4. **Tooling; Non-Recurring Expenses; Software**. Customer shall pay for or obtain and consign to Flextronics any Product-specific tooling, equipment or software and other reasonably necessary non-recurring expenses, to be set forth in Flextronics' s quotation. Software is limited to products currently used in Customer Manufacturing Operations for the specific purpose of test and imaging processes. Items paid for by Customer will only be used for the performance of Customer Work and not for any other Flextronics customer, unless otherwise approved by Customer. All software that Customer provides to Flextronics or any test software that Customer engages Flextronics to develop is and shall remain the property of Customer.

2.5. **Cost Reduction Target**. The Cost Reduction Target is expected to be realized in the 12 month period after the Move Completion Date. The achievement of the Cost Reduction Target requires both parties participation and both parties agree to use

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commercially reasonable efforts to jointly and actively work together to achieve the Cost Reduction Target in the 12 month timeframe. The Cost Reduction Target review process will be conducted during the quarterly business review or as otherwise agreed to by the parties.

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The Cost Reduction Target has been established based on and achievement of the Cost Reduction Target relies on the following conditions:

[*]

3. **FORECASTS; ORDERS; FEES; PAYMENT**

3.1. **Forecast**. Customer shall provide Flextronics, on a weekly basis, a rolling [*] week forecast indicating Customer' s Product requirements.

3.2. **Purchase Orders; Precedence**. Customer may use its standard purchase order form for any notice provided for hereunder; provided that all purchase orders must reference this Agreement and the applicable Specifications. The parties agree that the terms and conditions contained in this Agreement shall prevail over any terms and conditions of any such purchase order, acknowledgment form or other instrument.

3.3. **Purchase Order Acceptance**. Purchase orders shall normally be deemed accepted by Flextronics, provided however that Flextronics may reject any purchase order: (a) if the fees reflected in the purchase order are inconsistent with the parties' agreement with respect to the fees; (b) if a purchase order would extend Flextronics' s liability beyond Customer' s approved credit line. While[*], Flextronics shall notify Customer of rejection of any purchase order within [*] of receipt of such purchase order.

3.4. **Fees; Changes; Taxes**.

(a) The fees will be agreed by the parties and will be indicated on the purchase orders issued by Customer and accepted by Flextronics. The initial fees shall be as set forth on the Fee List attached hereto and incorporated herein as Exhibit 3.4 (the "**Fee List**"). If a Fee List is not attached or completed, then the initial fees shall be as set forth in purchase orders issued by Customer and accepted by Flextronics in accordance with the terms of this Agreement.

(b) Customer is responsible for additional fees and costs due to: (a) changes to the Specifications; (b) failure of Customer or its subcontractor to timely provide sufficient quantities or a reasonable quality level of Customer Controlled Materials where applicable to sustain the production schedule; and (c) any pre-approved expediting charges reasonably necessary because of a change in Customer' s requirements.

(c) The fees may be reviewed periodically by the parties. Any changes and timing of changes shall be agreed by the parties, such agreement not to be unreasonably withheld or delayed. By way of example only, the fees may be increased or decreased if the market price of fuels, Materials, equipment, labor and other production costs, change beyond normal variations in pricing or currency exchange rates as demonstrated by Flextronics.

(d) All fees are exclusive of federal, state and local excise, sales, use, VAT, and similar transfer taxes, and any duties, and Customer shall be responsible for all such items. Flextronics shall use commercially reasonable efforts to provide accurate cost information for all applicable federal, state and local excise, sales, use, VAT, and similar transfer taxes, and any duties in the Flextronics' s quotation. This subsection (d) does not apply to taxes on Flextronics' s net income.

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(e) The Fees List will be based on the exchange rate(s) for converting the purchase price for Inventory denominated in the Parts Purchase Currency(ies) into the Functional Currency. The fees will be adjusted, on a monthly basis based on changes in the Exchange Rate(s) as reported on the last business day of each month, for the following month to the extent that such Exchange Rates change more than +/- .75% from the prior month (the "Currency Window"). "Exchange Rate(s)" is defined as the closing currency exchange rate(s) as reported on Reuters' page FIX on the last business day of the current month prior to the following month. "Functional Currency" means the currency in which all payments are to be made pursuant to Section 3.5 below. "Parts Purchase Currency(ies)" means U.S. Dollars, Japanese Yen and/or Euros to the extent such currencies are different from the Functional Currency and are used to purchase Inventory needed for the performance of the Work forecasted to be completed during the applicable month.

3.5. **Payment**. Customer agrees to pay all invoices in U.S. Dollars within thirty (30) days of the date of the invoice. [*]

3.6. **Late Payment**. Customer agrees to pay one and one-half percent (1.5%) monthly interest on all late payments. Furthermore, if Customer is late with payments, or Flextronics has reasonable cause to believe Customer may not be able to pay, Flextronics may (a) stop all Work under this Agreement until assurances of payment satisfactory to Flextronics are received or payment is received; (b) demand prepayment for purchase orders; (c) delay shipments; and (d) to the extent that

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Flextronics' s personnel cannot be reassigned to other billable work during such stoppage and/or in the event restart cost are incurred, invoice Customer for additional fees before the Work can resume. Customer agrees to provide all necessary financial information required by Flextronics from time to time in order to make a proper assessment of the creditworthiness of Customer.

3.7. **Credit Line.** Flextronics has provided a line of credit of $20,000,000 and agrees to extend this line to $25,000,000 once Customer shows evidence that it has obtained credit risk insurance or a Letter of Credit, in a form reasonably acceptable to Flextronics, in the amount of $5,000,000 in favor of Flextronics. Flextronics' s offer to extend the credit line is based on data provided by Customer. Flextronics agrees to review the credit line terms on a monthly basis.

4. MATERIALS PROCUREMENT; CUSTOMER RESPONSIBILITY FOR MATERIALS

4.1. **Authorization to Procure Materials, Inventory and Special Inventory**. The customers forecast will constitute authorization for Flextronics to procure materials[*], without Customer' s prior approval. Customer' s accepted purchase order will constitute authorization for Flextronics to procure and manufacture without Customer' s prior approval. Once a purchase order, for a configured product, has been accepted by Flextronics, the Customer cannot not make any cancellations and/or changes other than shipping instructions without prior agreement from Flextronics or Change/Cancellation Fees may apply.

4.2. **Customer Controlled Materials**. Customer may direct Flextronics to purchase Customer Controlled Materials in accordance with the Customer Controlled Materials Terms. Customer acknowledges that the Customer Controlled Materials Terms will directly impact Flextronics' s ability to perform under this Agreement and to provide Customer with the flexibility Customer is requiring pursuant to the terms of this Agreement. In the event that Flextronics reasonably believes that Customer Controlled Materials Terms will create an additional cost that is not covered by this Agreement, then Flextronics will notify Customer and the parties will agree to either (a) compensate Flextronics for such additional costs, (b) amend this Agreement to conform to the Customer Controlled Materials Terms or (c) amend the Customer Controlled Materials Terms to conform to this Agreement, in each case at no additional charge to Flextronics. Customer agrees to provide copies to Flextronics of all Customer Controlled Materials Terms upon the execution of this Agreement and promptly upon execution of any new agreements with suppliers. Customer agrees not to make any modifications or additions to the Customer Controlled Materials Terms or enter into new Customer Controlled Materials Terms with suppliers that will negatively impact Flextronics' s procurement activities.

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4.3. **Preferred Supplier**. Customer shall provide to Flextronics and maintain an Approved Vendor List ("AVL"). Flextronics shall purchase from vendors on a current AVL the Materials required to manufacture the Product. Customer shall give Flextronics the opportunity to be included Product AVL' s for Materials that Flextronics can supply. If Flextronics is competitive with other suppliers with respect to reasonable criteria for acceptance established by Customer, Flextronics shall be included on such Product AVL' s. If Flextronics is on an AVL and its prices, quality and performance are competitive with other vendors, Customer will raise no objection to Flextronics sourcing Materials from itself. For purposes of this Section 4.3 only, the term "Flextronics" includes any companies affiliated with Flextronics.

4.4. **Customer Responsibility for Inventory and Special Inventory**. Customer is responsible under the conditions provided in this Agreement for all Materials, Inventory and Special Inventory purchased by Flextronics under this Section 4.

4.5. **Materials Warranties.** [*] Flextronics will pass through to the Customer the following warranties with regard to the Materials (other than the Production Materials): (i) conformance of the Materials with the vendor' s specifications and/or with the Specifications; (ii) that the Materials will be free from defects in workmanship; (iii) that the Materials will comply with Environmental Regulations; and (iv) that the Materials will not infringe the intellectual property rights of third parties (v) Customer and Flextronics to discuss and negotiate legacy warranty support. [*]

4.6. **Move Materials.** As part of the move to Juarez, Flextronics will, on a one time basis only and pursuant to the terms of this Section 4.6, purchase materials on hand (the "**Move Materials**") from Customer at [*]. The Move Materials will be purchased by Flextronics as long as the current aging is [*] months or less and only if it is within a demanded lead-time. The Move Materials will: a) be new and unused; b) perform in accordance with all applicable specifications; and c) be free from defects in workmanship. Customer will provide an itemized list of the Move Materials, including itemized prices. Flextronics,

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in its sole discretion, will approve the list and authorize the purchase. If Flextronics does not use the Move Materials during the [*] following the purchase of the Move Materials, Customer will buy back the Move Materials [*].

4.7. **Customer Purchase Order Assignment.** During the timeframe indicated in the Timeline in Exhibit 2.2 ("**P.O. Assignment Timeframe**"), Customer will provide Flextronics with a list of outstanding purchase orders with its vendors. Flextronics will evaluate the list and determine which purchase orders have been placed within verified component lead times. Flextronics will provide Customer with a list of the open purchase orders for which it will accept assignment from Customer. For components with PO' s placed beyond verified lead-time Customer and Flextronics agree to review and assign to Flextronics following Flextronics approval. This purchase order assignment process will occur only during the P.O. Assignment Timeframe. After the P.O. Assignment Timeframe, going forward Flextronics will procure Materials, Inventory and Special Inventory pursuant to the terms of this Section 4.

5. SHIPMENTS, SCHEDULE CHANGE, CANCELLATION, STORAGE

5.1. **Shipments**. All Products delivered pursuant to the terms of this Agreement shall be suitably packed for shipment in accordance with the Specifications and marked for shipment to Customer' s destination specified in the applicable purchase order. Unless otherwise mutually agreed, shipments will be made EXW (Ex works, Incoterms 2000) Flextronics' s facility or Flextronics designated El Paso warehouse, at which time risk of loss and title will pass to Customer. All freight, insurance and other shipping expenses, as well as any special packing expenses not included in the original quotation for the Products, will be paid by Customer. In the event Customer designates a freight carrier to be utilized by Flextronics, Customer agrees to designate only freight carriers that are currently in compliance with all applicable laws relating to anti-terrorism security measures and to adhere to the C-TPAT (Customs-Trade Partnership Against Terrorism) security recommendations and guidelines as outlined by the United States Bureau of Customs and Border Protection and to prohibit the freight carriage to be sub-contracted to any carrier that is not in compliance with the C-TPAT guidelines.

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5.2. Quantity Increases and Shipment Schedule Changes.

(a) For any accepted purchase order, Customer may (i) increase the quantity of Products or (ii) reschedule the quantity of Products and their shipment date as provided in the flexibility table below (the "**Flexibility Table**"); provided, however, that if the Specifications contain a flexibility table and such Specifications specifically reference this Section 5.2(a) and state the such flexibility table takes precedence over the Flexibility Table set forth below, then the flexibility table in the Specifications shall be the Flexibility Table for such Product for all purposes hereunder:

# of days before Forecasted Shipment Date	**Allowable Quantity Increases**
[*]	[*]
[*]	[*]
[*]	[*]

(i) Flextronics will use reasonable commercial efforts to meet any quantity increases outside of the table in subsection (a) which are subject to Materials and capacity availability. All quantity increases outside of the table in subsection (a) may be subject to extra costs to meet such increase; Flextronics will inform Customer for its acceptance and approval in advance.

(b) Any delays in the normal production or interruption in the workflow process caused by Customer' s changes to the Specifications or failure to provide sufficient quantities or a reasonable quality level of Customer Controlled Materials where applicable to sustain the production schedule, will be considered a reschedule of any affected purchase orders for purposes of this Section 5.2 for the period of such delay.

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5.3. **Cancellation of Orders, Reduction in Forecast and Customer Responsibility for Inventory**.

(a) Cancelation of Orders. Customer may not cancel all or any portion of Product quantity of an accepted purchase order without Flextronics' s prior written approval, which, in its sole discretion, may or may not be granted. If Customer does not request prior approval, or if Customer and Flextronics do not agree in writing to specific terms with respect to any approved cancellation, then Customer will pay Flextronics Monthly Charges for any such cancellation, calculated as of the first day after such cancellation for any Product or Inventory or Special Inventory procured by Flextronics to support the original delivery schedule. In addition, if Flextronics notifies Customer that such Product, Inventory and/or Special Inventory has remained in Flextronics' s possession for more than [*] days since such cancellation, then Customer agrees to immediately purchase from Flextronics such Product, Inventory and/or Special Inventory by paying the Affected Inventory Costs.

(b) Reduction of Forecast. If the forecast for any period is less than the previous forecast supplied over the same period and such change results in an on-hand and/or on order non-cancelable Inventory in excess of the Inventory needed to support the forecasted demand for that such period based upon Inventory calculated at Lead Time plus two weeks, then Customer shall be responsible for all affected Inventory and/or on order non-cancelable Inventory pursuant to Section 5.3. If Flextronics is holding Inventory or Special Inventory that does not have any demand then Customer shall purchase such Inventory or Special Inventory that has been on hand more then [*] days subject to Section 5.3. If Flextronics is holding Inventory or Special Inventory subject to a min/max agreement or schedule then Customer shall purchase such Inventory or Special Inventory that is in excess of the agreed maximum and/or has been on hand more then thirty [*] subject to Section 5.3.

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(i) Subject to Section 5.3, Customer shall purchase Inventory and Special Inventory purchased in support of Customer forecast that is on hand for [*] months or more. Further, Flextronics shall invoice Customer monthly and Customer agrees to pay Inventory Carry Fee of [*] per month for any Inventory or Special Inventory in excess of [*] months demand.

(c) Flextronics shall perform an Inventory revaluation of on-hand and on-order Inventory on a monthly basis. In the event of a reduction in Inventory purchase price, Flextronics shall not pass such reduction on to Customer until all on-hand and on order Inventory that is not subject to the price reduction has been consumed. In the alternative, Customer may elect to buy-down the difference in the price paid by Flextronics for the Inventory and the new price. In the event that Customer makes such election, Flextronics shall issue a Purchase Order to Customer for the difference in the purchase price and the new price and upon payment of such amount by Customer the new purchase price shall be passed on to Customer.

(d) For purposes of calculating the amount of Inventory and Special Inventory subject to Section 5.3, the "**Lead Time**" shall be calculated as the Lead Time at the time of (i) procurement of the Inventory and Special Inventory; (ii) cancellation of the purchase order or (iii) termination of this Agreement, whichever is longer. In addition, "**Minimum Order Quantity**" shall be calculated as the Minimum Order Quantity at the time of (i) procurement of the Inventory and Special Inventory; (ii) cancellation of the purchase order or (iii) termination of this Agreement.

5.4. **Mitigation of Inventory and Special Inventory**. Prior to invoicing Customer for the amounts due pursuant to Sections 5.3 Flextronics will use reasonable commercial efforts for a period of [*] days, to return unused Inventory and Special Inventory and to cancel pending orders for such inventory, and to otherwise mitigate the amounts payable by Customer. In the event that Flextronics can not return such Inventory without incurring fees, Customer shall pay amounts due under this Section 5, including without limiting any restocking and return freight fees, within ten (10) days of receipt of an invoice. Flextronics will ship the Inventory and Special Inventory paid for by Customer under this Section 5.4 to Customer promptly upon said payment by Customer. In the event Customer does not pay within ten (10) days, Flextronics will be entitled to dispose of such Inventory and Special Inventory in a commercially reasonable manner and credit to Customer any monies received from third parties. Flextronics shall then submit an invoice for the balance amount due and Customer agrees to pay said amount within ten (10) days of its receipt of the invoice. In the event that it is demonstrated that a portion of the Inventory or Special Inventory purchased by Flextronics is not authorized pursuant to the terms of this Agreement, Customer shall not be liable for such portion of the Inventory or Special Inventory not purchased as authorized herein.

5.5. **No Waiver**. For the avoidance of doubt, Flextronics' s failure to invoice Customer for any of the charges set forth in this Section 5 does not constitute a waiver of Flextronics' s right to charge Customer for the same event or other similar events in the future.

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6. EXPRESS LIMITED WARRANTY AND PRODUCT ACCEPTANCE

6.1. **Express Limited Warranty**. This Section 6.3 sets forth Flextronics' s sole and exclusive warranty and Customer' s sole and exclusive remedies with respect to a breach by Flextronics of such warranty.

a) Flextronics warrants that the Products will have been manufactured in accordance with the applicable Specifications and will be free from defects in workmanship for a period of [*] from the date of shipment, [*]. In addition, Flextronics warrants that Production Materials are in compliance with Environmental Regulations.

b) Notwithstanding anything else in this Agreement, this express limited warranty does not apply to, and Flextronics makes no representations or warranties whatsoever with respect to: (i) Materials and/or Customer Controlled Materials; (ii) defects resulting from the

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Specifications or the design of the Products; (iii) Product that has been abused, damaged, altered or misused by any person or entity after title passes to Customer; (iv) first articles, prototypes, pre-production units, test units or other similar Products; (v) defects resulting from tooling, designs or instructions produced or supplied by Customer, or (vi) the compliance of Materials or Products with any Environmental Regulations. Customer shall be liable for costs or expenses incurred by Flextronics related to the foregoing exclusions to Flextronics' s express limited warranty.

c) Customer will provide its own warranties directly to any of its end users or other third parties. Customer will not pass through to end users or other third parties the warranties made by Flextronics under this Agreement. Furthermore, Customer will not make any representations to end users or other third parties on behalf of Flextronics, and Customer will expressly indicate that the end users and third parties must look solely to Customer in connection with any problems, warranty claim or other matters concerning the Product, except as expressly agreed upon by Flextronics and Customer.

d) [*]

6.2. **Product Acceptance**. [*]

6.3. **No Representations or Other Warranties**. FLEXTRONICS MAKES NO REPRESENTATIONS AND NO OTHER WARRANTIES OR CONDITIONS ON THE PERFORMANCE OF THE WORK, OR THE PRODUCTS, EXPRESS, IMPLIED, STATUTORY, OR IN ANY OTHER PROVISION OF THIS AGREEMENT OR COMMUNICATION WITH CUSTOMER, AND FLEXTRONICS SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT.

7. INTELLECTUAL PROPERTY LICENSES

7.1. **Licenses**. Customer hereby grants Flextronics a non-exclusive license during the term of this Agreement to use Customer' s patents, trade secrets and other intellectual property as necessary to perform Flextronics' s obligations under this Agreement.

7.2. **No Other Licenses.** Except as otherwise specifically provided in this Agreement, each party acknowledges and agrees that no licenses or rights under any of the intellectual property rights of the other party are given or intended to be given to such other party.

7.3. Flextronics shall not use, copy, modify or distribute any Customer or Customer Third Party Proprietary Items or any copy, adaptation or other derivative work thereof (electronically or otherwise) any software, tools processes provided by Customer. Flextronics is prohibited from causing or permitting the reverse engineering, disassembly or de-compilation of the Customer (or Customer' s 3rd Party software/tools) Proprietary Items as the same are modified, enhanced, corrected, improved or otherwise altered. Third Party Proprietary Items are defined as tools and applications used in Customer software download, imaging and diagnostic process. Without limiting the generality of the foregoing, and except as otherwise expressly provided in this Agreement, (i) Flextronics shall not sell, assign, sublicense or otherwise transfer or authorize the use of all or any part of the Customer Proprietary Items or the license rights granted hereunder to any person or entity, and (ii) Flextronics is prohibited from using Customer or Customer' s 3rd Party Proprietary Items, to process its own information and to provide service bureau services or to otherwise provide services to other parties except with the prior written agreement of Customer. Flextronics shall cause its employees to comply with the non-disclosure and other obligations required hereunder and shall be responsible for the breach thereof by any Flextronics employee.

8. TERM AND TERMINATION

8.1. **Term**. The term of this Agreement shall commence on the date hereof above and shall continue for five (5) years thereafter until terminated as provided in Section 8.2 (Termination) or 10.10 (Force Majeure). After the expiration of the

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initial term hereunder (unless this Agreement has been terminated), this Agreement shall be automatically renewed for separate but successive one-year terms unless either party provides written notice to the other party that it does not intend to renew this Agreement ninety (90) days or more prior to the end of any term.

8.2. **Termination**. This Agreement may be terminated by either party (a) for convenience upon [*]days written notice to the other party, or (b) if the other party defaults in any payment to the terminating party and such default continues without a cure for a period of thirty (30) days after the delivery of written notice thereof by the terminating party to the other party, (c) if the other party defaults in the performance of any other material term or condition of this Agreement and such default continues unremedied for a period of thirty (30) days after the delivery of written notice thereof by the terminating party to the other party, (d) pursuant to Section 2.5 (Cost Reduction Target) or (e) pursuant to Section 10.10 (Force Majeure).

8.3. **Effect of Expiration or Termination**. Expiration or termination of this Agreement under any of the foregoing provisions: (a) shall not affect the amounts due under this Agreement by either party that exist as of the date of expiration or termination, and (b) as of such date the provisions of Sections 5.2, 5.3, and 5.4 shall apply with respect to payment and shipment to Customer of finished Products, Inventory, and Special Inventory in existence as of such date, and (c) shall not affect Flextronics' s express limited warranty in Section 6.2 above. Termination of this Agreement, settling of accounts in the manner set forth in the foregoing sentence shall be the exclusive remedy of the parties for breach of this Agreement, except for breaches of Section 6.2, 9.1, 9.2, or 10.1. Sections 1, 3.5, 3.6, 3.7, 4, 5.3, 5.3, 5.4, 6.2, 6.3, 7, 8, 9, and 10 shall be the only terms that shall survive any termination or expiration of this Agreement.

9. INDEMNIFICATION; LIABILITY LIMITATION

9.1. **Indemnification by Flextronics.** Flextronics agrees to defend, indemnify and hold harmless, Customer and all directors, officers, employees, and agents (each, a "**Customer Indemnitee**") from and against all claims, actions, losses, expenses, damages or other liabilities, including reasonable attorneys' fees (collectively, "**Damages**") incurred by or assessed against any of the foregoing, but solely to the extent the same arise out of third-party claims relating to:

(a) any actual or threatened injury or damage to any person or property caused, or alleged to be caused, by a Product sold by Flextronics to Customer hereunder, but solely to the extent such injury or damage has been caused by the breach by Flextronics of its obligations under this Agreement, including but not limited to the express limited warranties related to Flextronics' s workmanship and manufacture in accordance with the Specifications only as further set forth in Section 6.2;

(b) any infringement of the intellectual property rights of any third party but solely to the extent that such infringement is caused by a process that Flextronics uses to manufacture, assemble and/or test the Products; provided that, Flextronics shall not have any obligation to indemnify Customer if such claim would not have arisen but for Flextronics' s manufacture, assembly or test of the Product in accordance with the Specifications; or

(c) noncompliance with any Environmental Regulations but solely to the extent that such non-compliance is caused by a process or Production Materials that Flextronics uses to manufacture the Products; provided that, Flextronics shall not have any obligation to indemnify Customer if such claim would not have arisen but for Flextronics' s manufacture of the Product in accordance with the Specifications.

9.2. **Indemnification by Customer.** Customer agrees to defend, indemnify and hold harmless, Flextronics and its affiliates, and all directors, officers, employees and agents (each, a "**Flextronics Indemnitee**") from and against all Damages incurred by or assessed against any of the foregoing to the extent the same arise out of, are in connection with, are caused by or are related to third-party claims relating to:

(a) any failure of any Product (and Materials contained therein) sold by Flextronics hereunder to comply with any safety standards and/or Environmental Regulations to the extent that such failure has not been caused by Flextronics' s breach of its express limited warranties set forth in Section 6.2 hereof; any actual or threatened injury or damage to any person or property caused, or alleged to be

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caused, by a Product, but only to the extent such injury or damage has not been caused Flextronics' s breach of its express limited warranties related to Flextronics' s workmanship and manufacture in accordance with the Specifications only as further set forth in Section 6.2 hereof ; or

(b) any infringement of the intellectual property rights of any third party by any Product except to the extent such infringement is the responsibility of Flextronics pursuant to Section 9.1(b) above.

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* Confidential treatment has been requested for certain portions of this document pursuant to an application for confidential treatment sent to the Securities and Exchange Commission. Such portions are omitted from this filing and filed separately with the Securities and Exchange Commission.

9.3. **Procedures for Indemnification.** With respect to any third-party claims, either party shall give the other party prompt notice of any third-party claim and cooperate with the indemnifying party at its expense. The indemnifying party shall have the right to assume the defense (at its own expense) of any such claim through counsel of its own choosing by so notifying the party seeking indemnification within thirty (30) calendar days of the first receipt of such notice. The party seeking indemnification shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the indemnifying party. The indemnifying party shall not, without the prior written consent of the indemnified party, agree to the settlement, compromise or discharge of such third-party claim.

9.4. **Sale of Products Enjoined**. Should the use of any Products be enjoined for a cause stated in Section 9.1(b) or 9.2(c) above, or in the event the indemnifying party desires to minimize its liabilities under this Section 9, in addition to its indemnification obligations set forth in this Section 9, the indemnifying party' s sole responsibility is to either substitute a fully equivalent Product or process (as applicable) not subject to such injunction, modify such Product or process (as applicable) so that it no longer is subject to such injunction, or obtain the right to continue using the enjoined process or Product (as applicable). In the event that any of the foregoing remedies cannot be effected on commercially reasonable terms, then, all accepted purchase orders and the current forecast will be considered cancelled and Customer shall purchase all Products, Inventory and Special Inventory as provided in Sections 5.3 and 5.4 hereof. Any changes to any Products or process must be made in accordance with Section 2.3 above. Notwithstanding the foregoing, in the event that a third party makes an infringement claim, but does not obtain an injunction, the indemnifying party shall not be required to substitute a fully equivalent Product or process (as applicable) or modify the Product or process (as applicable) if the indemnifying party obtains an opinion from competent patent counsel reasonably acceptable to the other party that such Product or process is not infringing or that the patents alleged to have been infringed are invalid.

9.5. **No Other Liability**. **EXCEPT WITH REGARD TO A BREACH OF SECTIONS 9.1 AND 9.2 ABOVE OR SECTION 10.1 BELOW, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY "COVER" DAMAGES (INCLUDING INTERNAL COVER DAMAGES WHICH THE PARTIES AGREE MAY NOT BE CONSIDERED "DIRECT" DAMAGES), OR ANY INCIDENTAL, CONSEQUENTIAL, SPECIAL OR PUNITIVE DAMAGES OF ANY KIND OR NATURE ARISING OUT OF THIS AGREEMENT OR THE SALE OF PRODUCTS, WHETHER SUCH LIABILITY IS ASSERTED ON THE BASIS OF CONTRACT, TORT (INCLUDING THE POSSIBILITY OF NEGLIGENCE OR STRICT LIABILITY), OR OTHERWISE, EVEN IF THE PARTY HAS BEEN WARNED OF THE POSSIBILITY OF ANY SUCH LOSS OR DAMAGE, AND EVEN IF ANY OF THE LIMITED REMEDIES IN THIS AGREEMENT FAIL OF THEIR ESSENTIAL PURPOSE.**

THE FOREGOING SECTION 9 STATES THE ENTIRE LIABILITY OF THE PARTIES TO EACH OTHER CONCERNING INFRINGEMENT OF PATENT, COPYRIGHT, TRADE SECRET OR OTHER INTELLECTUAL PROPERTY RIGHTS.

10. MISCELLANEOUS

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10.1. **Confidentiality**. Each party shall refrain from using any and all Confidential Information of the disclosing party for any purposes or activities other than those specifically authorized in this Agreement. Except as otherwise specifically permitted herein or pursuant to written permission of the party to this Agreement owning the Confidential Information, no party shall disclose or facilitate disclosure of Confidential Information of the disclosing party to anyone without the prior written consent of the disclosing party, except to its employees, consultants, parent company, and subsidiaries of its parent company who need to know such information for carrying out the activities contemplated by this Agreement and who have agreed in writing to confidentiality terms that are no less restrictive than the requirements of this Section. Notwithstanding the foregoing, the receiving party may disclose Confidential Information of the disclosing party pursuant to a subpoena or other court process only (i) is required to be disclosed by law or a valid order by a court or other governmental body, provided that the receiving party provides the disclosing party with prior written notice of such disclosure in order to permit the disclosing party to seek confidential treatment of such information and (ii) after the receiving party has given the disclosing party a reasonable opportunity to oppose such subpoena or other process or to obtain a protective order. Confidential Information of the disclosing party in the custody or control of the receiving party shall be promptly returned or destroyed upon the earlier of (i) the disclosing party' s written request or (ii) termination of this Agreement. Confidential Information disclosed pursuant to this Agreement shall be maintained confidential for a period of three (3) years after the disclosure thereof. The existence and terms of this Agreement shall be confidential in perpetuity.

10.2. **RFQ Participation.** Customer agrees to allow Flextronics a right of first refusal in all original design manufacture product RFQs, provided that Flextronics' s products meet Customer' s customer requirements, meet required product specifications, timeline, price and quality. Customer will source these products from Flextronics for 5 years. Customer agrees to allow Flextronics the opportunity to participate in additional opportunities within Customer' s business, including the following: notebook depot work, vertical integration opportunities, National Service Provider work (outsourced customization), and Product engineering/development work.

10.3. **Use of Flextronics Name is Prohibited.** The existence and terms of this Agreement are Confidential Information and protected pursuant to Section 10.1 above. Accordingly, neither Customer nor Flextronics may not use the other' s name or identity or any other Confidential Information in any advertising, promotion or other public announcement without the prior express written consent of such party. Notwithstanding the foregoing, in the event that Flextronics or Customer is required to disclose such information by law or a valid order by a court or other governmental body, Flextronics or Customer may disclose such information provided that the party provides the other party with prior written notice of such requirement and permits the such party the good faith opportunity to seek confidential treatment of such information.

10.4. **Entire Agreement; Severability.** This Agreement constitutes the entire agreement between the Parties with respect to the transactions contemplated hereby and supersedes all prior agreements and understandings between the parties relating to such transactions. If the scope of any of the provisions of this Agreement is too broad in any respect whatsoever to permit enforcement to its full extent, then such provisions shall be enforced to the maximum extent permitted by law, and the parties hereto consent and agree that such scope may be judicially modified accordingly and that the whole of such provisions of this Agreement shall not thereby fail, but that the scope of such provisions shall be curtailed only to the extent necessary to conform to law.

10.5. **Amendments; Waiver**. This Agreement may be amended only by written consent of both parties. The failure by either party to enforce any provision of this Agreement will not constitute a waiver of future enforcement of that or any other provision. Neither party will be deemed to have waived any rights or remedies hereunder unless such waiver is in writing and signed by a duly authorized representative of the party against which such waiver is asserted.

10.6. **Independent Contractor**. Neither party shall, for any purpose, be deemed to be an agent of the other party and the relationship between the parties shall only be that of independent contractors. Neither party shall have any right or authority to assume or create any obligations or to make any representations or warranties on behalf of any other party, whether express or implied, or to bind the other party in any respect whatsoever.

10.7. **Expenses**. Each party shall pay their own expenses in connection with the negotiation of this Agreement. All fees and expenses incurred in connection with the resolution of Disputes shall be allocated as further provided in Section 10.13 below.

10.8. **Insurance**. Flextronics and Customer agree to maintain appropriate insurance to cover their respective risks under this Agreement with coverage amounts commensurate with levels in their respective markets. Customer specifically agrees to maintain insurance coverage for any finished Products or Materials the title and risk of loss of which passes to Customer pursuant to this Agreement and which is

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stored on the premises of Flextronics. Each party shall furnish certificates of insurance and such other appropriate documentation (including evidence of renewal of insurance) evidencing all insurance coverage' s set forth in this Section 10.9. Such certificates of insurance and other documentation shall name the other party and its officers, directors and employees as additional insured and will provide at least thirty (30) days prior written notice of any cancellation or material alteration of the insurance coverage set forth in this Section 10.9.

10.9. **Force Majeure**. In the event that either party is prevented from performing or is unable to perform any of its obligations under this Agreement (other than a payment obligation) due to any act of God, acts or decrees of governmental or military bodies, fire, casualty, flood, earthquake, war, strike, lockout, epidemic, destruction of production facilities, riot, insurrection, Materials unavailability, or any other cause beyond the reasonable control of the party invoking this section (collectively, a "**Force Majeure**"), and if such party shall have used its commercially reasonable efforts to mitigate its effects, such party shall give prompt written notice to the other party, its performance shall be excused, and the time for the performance shall be extended for the period of delay or inability to perform due to such occurrences. Regardless of the excuse of Force Majeure, if such party is not able to perform within ninety (90) days after such event, the other party may terminate the Agreement.

10.10. **Successors, Assignment**. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives. Neither party shall have the right to assign or otherwise transfer its rights or obligations under this Agreement except with the prior written consent of the other party, not to be unreasonably withheld. Notwithstanding the foregoing, Flextronics may assign some or all of its rights and obligations under this Agreement to an affiliated Flextronics entity.

10.11. **Notices**. All notices required or permitted under this Agreement will be in writing and will be deemed received (a) when delivered personally; (b) when sent by confirmed facsimile; (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (d) one (1) day after deposit with a commercial overnight carrier. All communications will be sent to the addresses set forth above or to such other address as may be designated by a party by giving written notice to the other party pursuant to this section.

10.12. **Disputes Resolution; Waiver of Jury Trial**.

(a) Except as otherwise provided in this Agreement, the following binding dispute resolution procedures shall be the exclusive means used by the parties to resolve all disputes, differences, controversies and claims arising out of or relating to the Agreement or any other aspect of the relationship between Flextronics and Customer or their respective affiliates and subsidiaries (collectively, "**Disputes**"). Either party may, by written notice to the other party, refer any Disputes for resolution in the manner set forth below.

(b) Any and all Disputes shall be referred to arbitration under the rules and procedures of Judicial Arbiter Group, Inc. ("**JAG**"), who shall act as the arbitration administrator (the "**Arbitration Administrator**").

(c) The parties shall agree on a single arbitrator (the "**Arbitrator**"). The Arbitrator shall be a retired judge selected by the parties from a roster of arbitrators provided by the Arbitration Administrator. If the parties cannot agree on an Arbitrator within seven (7) days of delivery of the demand for arbitration ("**Demand**") (or such other time period as the parties may agree), the Arbitration Administrator will select an independent Arbitrator.

(d) Unless otherwise mutually agreed to by the parties, the place of arbitration shall be Denver, Colorado , although the arbitrators may be selected from rosters outside Denver.

(e) The Federal Arbitration Act shall govern the arbitrability of all Disputes. The Federal Rules of Civil Procedure and the Federal Rules of Evidence (the "**Federal Rules**"), to the extent not inconsistent with this Agreement, govern the conduct of the arbitration. To the extent that the Federal Arbitration Act and Federal Rules do not provide an applicable procedure, Colorado law shall govern the procedures for arbitration and enforcement of an award, and then only to the extent not inconsistent with the terms of this Section. Disputes between the parties shall be subject to arbitration notwithstanding that a party to this Agreement is also a party to a pending court action or

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special proceeding with a third party, arising out of the same transaction or series of related transactions and there is a possibility of conflicting rulings on a common issue of law or fact.

(f) Unless otherwise mutually agreed to by the parties, each party shall allow and participate in discovery as follows:

(i) Non-Expert Discovery. Each party may (1) conduct three (3) non-expert depositions of no more than five (5) hours of testimony each, with any deponents employed by any party to appear for deposition in Denver, Colorado; (2) propound a single set of requests for production of documents containing no more than twenty (20) individual requests; (3) propound up to twenty written interrogatories; and (4) propound up to ten (10) requests for admission.

(ii) Expert Discovery. Each party may select a witness who is retained or specially employed to provide expert testimony and an additional expert witness to testify with respect to damages issues, if any. The parties shall exchange expert reports and documents under the same requirements as Federal Rules of Civil Procedure 26(a)(2) &(4).

(iii) Additional Discovery. The Arbitrator may, on application by either party, authorize additional discovery only if deemed essential to avoid injustice. In the event that remote witnesses might otherwise be unable to attend the arbitration, arrangements shall be made to allow their live testimony by video conference during the arbitration hearing.

(g) The Arbitrator shall render an award within six (6) months after the date of appointment, unless the parties agree to extend such time. The award shall be accompanied by a written opinion setting forth the findings of fact and conclusions of law. The Arbitrator shall have authority to award compensatory damages only, and shall not award any punitive, exemplary, or multiple damages. The award (subject to clarification or correction by the arbitrator as allowed by statute and/or the Federal Rules) shall be final and binding upon the parties, subject solely to the review procedures provided in this Section.

(h) Either party may seek arbitral review of the award. Arbitral review may be had as to any element of the award.

(i) This Agreement' s arbitration provisions are to be performed in Denver, Colorado. Any judicial proceeding arising out of or relating to this Agreement or the relationship of the parties, including without limitation any proceeding to enforce this Section, to review or confirm the award in arbitration, or for preliminary injunctive relief, shall be brought exclusively in a court of competent jurisdiction in the county of Denver, Colorado (the "**Enforcing Court**"). By execution and delivery of this Agreement, each party accepts the jurisdiction of the Enforcing Court.

(j) Each party shall pay their own expenses in connection with the resolution of Disputes pursuant to this Section, including attorneys' fees.

(k) Notwithstanding anything contained in this Section to the contrary, in the event of any Dispute, prior to referring such Dispute to arbitration pursuant to Subsection (b) of this Section, Customer and Flextronics shall attempt in

good faith to resolve any and all controversies or claims relating to such Disputes promptly by negotiation commencing within ten (10) calendar days of the written notice of such Disputes by either party, including referring such matter to Customer' s then-current President and Flextronics' s then current executive in charge of manufacturing operations in the region in which the primary activities of this Agreement are performed by Flextronics. The representatives of the parties shall meet at a mutually acceptable time and place and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the Dispute for a period of four (4) weeks. In the event that the parties are unable to resolve such Dispute pursuant to this Subsection (k), the provisions of Subsections (a) through (j) of this Section, inclusive, as well as Subsections (l), (m) and (n) of this Section shall apply.

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(l) The parties agree that the existence, conduct and content of any arbitration pursuant to this Section shall be kept confidential and no party shall disclose to any person any information about such arbitration, except as may be required by law or by any governmental authority or for financial reporting purposes in each party' s financial statements.

(m) IN THE EVENT OF ANY DISPUTE BETWEEN THE PARTIES, WHETHER IT RESULTS IN PROCEEDINGS IN ANY COURT IN ANY JURISDICTION OR IN ARBITRATION, THE PARTIES HEREBY KNOWINGLY AND VOLUNTARILY, AND HAVING HAD AN OPPORTUNITY TO CONSULT WITH COUNSEL, WAIVE ALL RIGHTS TO TRIAL BY JURY, AND AGREE THAT ANY AND ALL MATTERS SHALL BE DECIDED BY A JUDGE OR ARBITRATOR WITHOUT A JURY TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW.

(n) In the event of any lawsuit between the parties arising out of or related to this Agreement, the parties agree to prepare and to timely file in the applicable court a mutual consent to waive any statutory or other requirements for a trial by jury.

10.12. **Even-Handed Construction**. The terms and conditions as set forth in this Agreement have been arrived at after mutual negotiation, and it is the intention of the parties that its terms and conditions not be construed against any party merely because it was prepared by one of the parties.

10.13. **Controlling Language**. This Agreement is in English only, which language shall be controlling in all respects. All documents exchanged under this Agreement shall be in English.

10.14. **Controlling Law**. This Agreement shall be governed and construed in all respects in accordance with the domestic laws and regulations of the State of Colorado, without regard to its conflicts of laws provisions; except to the extent there may be any conflict between the law of the State of Colorado and the Incoterms of the International Chamber of Commerce, 2000 edition, in which case the Incoterms shall be controlling. The parties specifically agree that the 1980 United Nations Convention on Contracts for the International Sale of Goods, as may be amended from time to time, shall not apply to this Agreement. The parties acknowledge and confirm that they have selected the laws of the State of Colorado as the governing law for this Agreement in part because jury trial waivers are enforceable under Colorado law. The parties further acknowledge and confirm that the selection of the governing law is a material term of this Agreement.

10.15. **Counterparts**. This Agreement may be executed in counterparts.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by their duly authorized representatives as of the Effective Date.

MPC CORPORATION:	FLEXTRONICS:
By: /s/ Jeffrey E. Fillmore	By: /s/ Manny Marimuthu
Title: COO	Title:

Exhibit 1

Definitions

"**Affected Inventory Costs**"	shall mean: (i) [*] of the Cost of all affected Inventory and Special Inventory in Flextronics' s possession and not returnable to the vendor or reasonably usable for other customers, whether in raw form or work in process, less the salvage value thereof, (ii) [*] of the Cost of all affected Inventory and Special Inventory on order and not cancelable,

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(iii) any vendor cancellation charges incurred with respect to the affected Inventory and Special Inventory accepted for cancellation or return by the vendor, (iv) the then current fees for any affected Product, and (v) expenses incurred by Flextronics related to labor and equipment specifically put in place to support the purchase orders and forecasts that are affected by such reschedule or cancellation (as applicable).

"**Approved Vendor List**" or "**AVL**"	shall mean the list of suppliers currently approved to provide the Materials specified in the bill of materials for a Product.
"**Confidential Information**"	shall mean (a) the existence and terms of this Agreement and all information concerning the unit number and fees for Products and Inventory/Special Inventory and (b) any other information that is marked "Confidential" or the like or, if delivered verbally, confirmed in writing to be "Confidential" within 30 days of the initial disclosure. Confidential Information does not include information that (i) the receiving party can prove it already knew at the time of receipt from the disclosing party; or (ii) has come into the public domain without breach of confidence by the receiving party; (iii) was received from a third party without restrictions on its use; (iv) the receiving party can prove it independently developed without use of or reference to the disclosing party' s data or information; or (v) the disclosing party agrees in writing is free of such restrictions.
"**Cost**"	shall mean the cost represented on the bill of materials supporting the most current fees for Products at the time of cancellation, expiration or termination, as applicable.
"**Customer Controlled Materials**"	shall mean those Materials provided by Customer or by suppliers with whom Customer has a commercial contractual or non-contractual relationship.
"**Customer Controlled Materials Terms**"	shall mean the terms and conditions that Customer has negotiated with its suppliers for the purchase of Customer Controlled Materials.
"**Customer Indemnitees**"	shall have the meaning set forth in Section 9.1.
"**Damages**"	shall have the meaning set forth in Section 9.1.
"**Disputes**"	shall have the meaning set forth in Section 10.13(a)
"**Economic Order Inventory**"	shall mean Materials purchased in quantities, above the required amount for purchase orders, in order to achieve price targets for such Materials.
"**Environmental Regulations**"	Shall mean any hazardous substance content laws and regulations including, without limitation, those related to the EU Directive 2002/95/EC about the Restriction of Use of Hazardous Substances (RoHS).

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"**Fee List**"	shall have the meaning set forth in Section 3.4.

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"**Flextronicsibility Table**"	shall have the meaning set forth in Section 5.2.
"**Flextronics Indemnitee**"	shall have the meaning set forth in Section 9.2.
"**Force Majeure**"	shall have the meaning set forth in Section 10.10.
"**Inventory**"	shall mean any Materials that are used to manufacture Products that are ordered pursuant to a purchase order from Customer.
"**Lead Time(s)**"	shall mean the Materials Procurement Lead Time plus the manufacturing cycle time required from the delivery of the Materials at Flextronics' s facility to the completion of the manufacture, assembly and test processes.
"**Long Lead Time Materials**"	shall mean Materials with Lead Times exceeding the period covered by the accepted purchase orders for the Products.
"**Materials**"	shall mean components, parts and subassemblies that comprise the Product and that appear on the bill of materials for the Product.
"**Materials Procurement Lead Time**"	shall mean with respect to any particular item of Materials, the longer of (a) lead time to obtain such Materials as recorded on Flextronics' s MRP system or (b) the actual lead time, if a supplier has increased the lead time but Flextronics has not yet updated its MRP system.
"**Minimum Order Inventory**"	shall mean Materials purchased in excess of requirements for purchase orders because of minimum lot sizes available from the supplier.
"**Monthly Charges**"	shall mean a finance carrying charge of [*]and a storage and handling charge of [*], in each case of the Cost of the Inventory and/or Special Inventory and/or of the fees for the Product affected by the reschedule or cancellation (as applicable) per month until such Inventory and/or Special Inventory and/or Product is returned to the vendor, used to manufacture Product or is otherwise purchased by Customer.
"**Move Completion Date**"	shall have the meaning set forth in Section 2.2.
"**Product**"	shall have the meaning set forth in Section 2.1.
"**Production Materials**"	shall mean Materials that are consumed in the production processes to manufacture Products including without limitation, solder, epoxy, cleaner solvent, labels, flux, and glue. Production Materials do not include any such production materials that have been specified by the Customer or any Customer Controlled Materials.
"**Special Inventory**"	shall mean any Long Lead Time Materials and/or Minimum Order Inventory and/or Economic Order Inventory.
"**Specifications**"	shall have the meaning set forth in Section 2.1.
"**Work**"	shall have the meaning set forth in Section 2.1.

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EXHIBIT 2.2

TIMELINE

EXHIBIT 3.4

FEES LIST

The following transformation fees apply to a standard configuration. Any special configurations which significantly increase the manufacturing used to calculate these fees will be quoted separately prior to acceptance of the purchase order.

Transformation Costs Landed El Paso

Platform	Product	Family	Trans/Cost
Notebook	M285 / S7225	Viper C	[*]
Notebook	E295 / S7235	Viper SR	[*]
Notebook	E100 / S7110	Cyclops C	[*]
Notebook	E155 / S7125	Phoenix	[*]
Notebook	M465 / S7310	Mystique C	[*]
Notebook	E265 / S7220	Phantom	[*]
Notebook	E475 / S7320	Orion	[*]
Notebook	M685 / S7410	Sonic C	[*]
Desktop	E-1500 / S-5105	E-1500	[*]
Desktop	E-2600 / S-5205	E-2600	[*]
Desktop	E-2610 / S-5215	E-2610	[*]
Desktop	E-4610 / S-5405	E-4610	[*]
Desktop	E-4620	E-4620	[*]
Desktop	E-6610 / S-5615	E-6610	[*]
Desktop	E-6620 / S-6625	E-6620	[*]
Desktop	Profile 6.0 / S	Profile 6.0	[*]
Desktop	Profile 6.5 / S	Profile 6.5	[*]

Change/Cancellation Costs

Level	Description	Applies to	Cost
Stage 1	Post Kit/Pre Assembly	All Products	[*]
Stage 2	Post Assembly/Pre Test	All Products	[*]
Stage 3	Post Test/Pre Packaging	All Products	[*]
Stage 4	Post Packaging	All Products	[*]

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Any changes/cancellations which may require more time to disposition and resolve will be billed at a factory rate of [*] Customer will be notified in advance of any special circumstance which requires an hourly charge.

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Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John Yeros, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MPC Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d - 15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the smaller reporting company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any changes in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

By: /s/ John Yeros
John Yeros
Chairman and Chief Executive Officer

May 15, 2008

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Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Curtis Akey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MPC Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d - 15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the smaller reporting company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any changes in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

By: /s/ Curtis Akey

May 15, 2008

Curtis Akey
Vice President & Chief Financial Officer

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Exhibit 32.1

Certification of Chairman and Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of MPC Corporation (the "*Company*") hereby certifies, to such officer' s knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2008 (the "*Report*") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Yeros

May 15, 2008

John Yeros
Chairman and Chief Executive Officer

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Exhibit 32.2

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of MPC Corporation (the "*Company*") hereby certifies, to such officer' s knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2008 (the "*Report*") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 15, 2008

/s/ Curtis Akey
Curtis Akey
Vice President & Chief Financial Officer

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