



# **Management's discussion and analysis for the three months ended September 30, 2009**

## **Fiscal 2010**

**This MD&A has been prepared as at November 13, 2009.**

**Pacific Insight Electronics Corp. (TSX:PIH) provides leadership, planning, design and manufacture of innovative electronic solutions for the transportation industry.**

**The Company designs and distributes its products and services to original equipment manufacturers (OEM) and distributors in the United States and Canada.**

**For additional information about the Company, its products and services, please visit the web site at [www.pacificinsight.com](http://www.pacificinsight.com).**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) pertains to the first quarter ended September 30, 2009 of Pacific Insight Electronics Corp. (PI, Pacific Insight, or the Company). This MD&A is intended to help readers understand Pacific Insight, its business, strategies, performance, and future outlook from the perspective of management. The information provided should be read in conjunction with the audited financial statements, notes, and MD&A for the years ended June 30, 2009 and 2008 and the Annual Information Forms for those years. These documents, news releases, and other important information may be viewed through the SEDAR website at [www.sedar.com](http://www.sedar.com). Our company web site [www.pacificinsight.com](http://www.pacificinsight.com) also contains further information and descriptions of our product lines, the Company history, and contact information.

The following MD&A may contain management estimates of anticipated future trends, activities, or results; these are not a guarantee of future performance, since actual results may vary based on factors and variables out of management's control. Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible to ensure that information disclosed externally, including the financial statements and MD&A, is complete and reliable. This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations". The unaudited interim financial statements for the three months ended September 30, 2009 were prepared in accordance with Canadian generally accepted accounting principles (GAAP) and reported in Canadian dollars.

Pacific Insight's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board's Audit Committee meets with management regularly to review the financial statement results, including the MD&A, and to discuss other financial, operating, and internal control matters. The Audit Committee is also free to meet with the independent auditors throughout the year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Outlook

Pacific Insight expects sales and earnings to continue to improve as the economy rebounds and corporate and consumer demand return.

The economy is showing some positive signs of recovery with U.S. automakers planning to ramp up production in the fourth quarter of 2009. In Canada, vehicle assembly is expected to see a positive increase in the latter half of the year over current levels.

PI's experienced management team, product development department and sales force remains committed to pursuing new markets and expanding existing product lines according to our customers' specific requirements.

Our technical design expertise, ability to deliver superior products and services and rapid response to changing market conditions enhances our competitiveness and allows for stronger positioning during challenging times.

While PI is reporting higher sales, we anticipate a modest recovery in 2010 with more robust growth in 2011.

For further information, please visit [www.pacificinsight.com](http://www.pacificinsight.com). For Corporate Relations, please contact our toll free line: 1-800-995-1155 or email [investor@pacificinsight.com](mailto:investor@pacificinsight.com)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Results

Pacific Insight Electronics Corp. (PI) designs, manufactures and delivers electronic products and full service solutions to the automotive, commercial vehicle, off-road, and specialty markets.

PI's commitment to building shareholder value is centered on growing a profitable business through product development, a focus on customer responsiveness, quality, people, engineering depth, operational excellence and a green environmental footprint. The Company maintains two manufacturing facilities - one located in Nelson, British Columbia, Canada and one located in Fresnillo, Zacatecas, Mexico.

### Overview

During the first fiscal quarter of 2010, ending September 30, 2009, PI posted sales of \$5.65 million, 23% below \$7.34 million in the corresponding quarter a year earlier. When compared to last fiscal year's fourth quarter, the Company experienced a 15% rise in sales of \$728,000. The quarter to quarter increase is a result of a modest industry-wide increase in auto production and heavy truck sales.

Although the marketplace is showing signs of recovery, PI's first quarter sales and overall performance continue to be impacted by the economic downturn that began last October.

Throughout the past 18 months, PI implemented a plan to re-align capacity with customer short and near term demand through workforce reductions, in conjunction with a four day work week, and two one-week production shutdowns at the Nelson facility.

Through cost reduction strategies the 2010 first quarter results were contained to a small loss per share of \$0.02. In the same quarter a year ago, net earnings of \$0.03 per share were reported. The fourth quarter of 2009 reported a loss per share of \$0.01. Having mitigated further downside risk, we continue to streamline operations, expand our foreign currency hedging program and allocate resources to product divisions that offer the greatest growth potential.

The proactive strategies PI has implemented ensure it is well-positioned as the economic climate and customer demand improves. A nimble and agile supplier, the Company has been able to adapt its systems and processes in response to the rapidly changing global economic situation and anticipates a strong recovery in the coming years.

### Sales

PI designs and manufactures diversified technologies and product solutions for its Fortune 500 customers in four main business categories: Electronic Modules, LED Lighting, Instrumentation, and Wire & Cable Assemblies.

The Company remains the supplier of choice maintaining several ISO and TS Quality Management System Standards. Our customers include some of the most respected brands in the transportation industry: BorgWarner, CAT, Ford, Freightliner, Harley Davidson, International, Kenworth, Mack, Peterbuilt, Peterson Manufacturing, Toyota, Volkswagen, Volvo and Western Star.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	For the 3 months ended		
	September 30, 2009	September 30, 2008	June 30, 2009
Sales	\$5,651,318	\$7,340,880	\$4,923,565
Gross Profit	\$1,102,351	\$1,883,973	\$835,090
Gross Margin	20%	26%	17%
Net earnings (loss)	(\$132,229)	\$154,938	(\$30,063)
EPS	(\$0.02)	\$0.03	(\$0.01)
EPS fully diluted	(\$0.02)	\$0.03	(\$0.01)
EBITDA	\$140,230	\$680,501	\$284,998
Average CDN/US exchange rate	1.0811	1.0501	1.163

	Fiscal	
	2009	2008
Sales	\$24,240,455	\$29,338,532
Gross Profit	\$5,436,335	\$7,034,839
Gross Margin	22%	24%
Net earnings (loss)	(\$496,568)	(\$589,717)
EPS	(\$0.08)	(\$0.10)
EPS fully diluted	(\$0.08)	(\$0.10)
EBITDA	\$1,002,656	\$883,928
Average CDN/US exchange rate	1.16507	1.0103

Sales in the first quarter of 2010 showed an increase over the previous quarter in the Electronic Modules, Instrumentation and Wire & Cable divisions. As the economic environment continues to improve, sales to our Automotive and Heavy Truck customers have risen modestly.

### Summary of quarterly results by product line:

(\$000) except EPS and exchange rate	F-2010	F-2009				F-2008				F-2009	F-2008
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Year	Year
Sales											
Electronic Modules	2,206	2,040	1,483	2,508	2,292	3,507	2,287	3,062	3,006	8,323	11,862
LED Lighting	844	898	1,077	2,076	2,089	1,972	1,706	1,406	1,394	6,140	6,478
Instrumentation	632	429	610	1,032	1,151	1,180	1,118	1,023	1,093	3,222	4,414
Wire & Cable	1,969	1,556	1,398	1,792	1,809	1,741	1,788	1,522	1,534	6,555	6,585
Total Sales	5,651	4,923	4,568	7,408	7,341	8,400	6,899	7,013	7,027	24,240	29,339
Net Earnings (loss)	(\$132)	(\$30)	(\$668)	\$46	\$155	\$121	(\$86)	(\$407)	(\$218)	(\$497)	(\$590)
CDN/US exchange rate - end of period	1.0707	1.163	1.218	1.261	1.163	1.020	1.027	0.991	0.995	1.163	1.020
EPS											
Basic	(2¢)	(1¢)	(11¢)	1¢	3¢	2¢	(1¢)	(7¢)	(4¢)	(8¢)	(10¢)
Fully Diluted	(2¢)	(1¢)	(11¢)	1¢	3¢	2¢	(1¢)	(7¢)	(4¢)	(8¢)	(10¢)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Electronic Modules (OE Division):**

PI's Electronic Modules provide an enhanced driving environment and features that include safety, convenience and protection.

Electronic Module sales for the three months ending September 30, 2009 were \$2.21 million versus \$2.29 million in the comparative quarter, a decrease of 4%. Revenues have increased 8% when compared to the fourth quarter of 2009 at \$2.04 million.

Electronic Module sales year over year were negatively impacted by excess supply created by an industry wide heavy truck pre-purchase due to new 2007 emissions legislation, the automotive industry downturn and a stronger Canadian currency.

The Company's OE products consist of daytime running lights, heated seat control, and gateway communication modules, with several new products in the pipeline. Recently designed and manufactured products include heated steering wheel modules and ambient light modules. We anticipate steady adoption of these new product lines. However, they are not immune to the current economic environment; therefore we are conservative in our sales estimates for the remainder of the year.

Electronic Modules have been a key component of the Company's growth. Looking forward, management expects increasing demand for the OE product division evidenced by increased sales in this quarter, and improving market conditions.

### **LED Lighting:**

PI delivers power smart, innovative and cost competitive LED lighting products for the North American transportation markets.

LED lighting sales during the first quarter were \$.84 million versus \$2.09 million for the comparative period in fiscal 2009, a decrease of \$1.25 million or 60%. LED sales in the fourth quarter were \$.90 million. The decline in year over year sales is related to the reduction in off-road and commercial vehicle build rates, and the commoditization nature of these products.

PI manufactures both LED printed circuit assemblies and fully assembled LED lighting systems in partnership with Peterson Manufacturing Co. in addition to other OEM's and Tier 2 lighting suppliers. PI's LED lighting business is directly tied to the class 4-8 heavy truck and industrial markets that are being affected by the downturn in the economy.

The Company continues to explore sales to new markets that fit well with our LED and module expertise. In addition, new ambient lighting products have been designed and manufactured for the OEM auto market. Ambient lighting provides spot and accent lighting to vehicle interiors and offers an infinite variation of light color customized to the car owner's preference.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Instrumentation:**

PI designs and manufactures a full line of data bus instruments including gauges, tell-tale light bars, displays, gateway and analog input modules. PI's instrumentation are regularly benchmarked as standards by OEM's due to their precision, aesthetics, smooth needle motion and advanced mounting system.

Sales for the first quarter were \$.63 million compared to \$1.15 million for the comparative three-month period, a decline of 45%. An increase in sales of 47% was realized when comparing to the fourth quarter of 2009 at \$.43 million. This increase is a result of a partial recovery in heavy truck build rates.

PI continues to invest in developing new J1939 (a standard for communication and diagnostics) instrumentation products for new and existing customers in the Heavy Truck, Bus, and Vocational Vehicle Markets.

### **Wire Harness:**

PI is a full service wire and cable harness manufacturer serving the Agriculture, Automotive, Heavy Truck, Marine, Refuse, and Specialty vehicle markets.

Sales for this division in the first fiscal quarter of 2010 grew by 9% to \$1.97 million compared to \$1.81 million for the corresponding period in 2009. Significant improvement from 2009 fourth quarter sales of \$1.56 million to first quarter 2010 was achieved due to a partial recovery in heavy truck build rates and new customer acquisition.

The Company is actively pursuing and securing new customers as evidenced by our first quarter results. PI has strong, long-standing relationships with all levels of its OEM Tier 1 and 2 customers and continues to strengthen this foundation by providing enhanced products and services that meet changing market demand.

The Wire Harness business is an important component of PI's overall strategy and Management intends to capitalize on the Company's expanded manufacturing capacity and competitive cost structure. Sales of wiring products have a quick time-to-market cycle and provide an excellent lead-in for electronic module, gauge, and LED product sales. PI offers harness products that are high in complexity or packaged for heavy duty applications while meeting competitive price points.

As the wire division advances, we are optimistic about the opportunity to access overseas markets through our existing channel partners. China and India's growing appetite for ownership of new vehicles presents significant sales possibilities through our distribution partners who are established in these markets.

### **Gross Profit:**

During the first quarter ended September 30, 2009, gross profit was 20% or \$1.10 million compared to 26% or \$1.88 million in the 2009 first quarter. Gross margin showed improvement over the fourth quarter at 17% or \$.84 million. This increase from quarter to quarter reflects the alignment of a new cost structure implemented in the 2009 fiscal year, growth in our customer order book and slight recovery in the North American economy.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management continues to examine its business structures and processes, and make the necessary adjustments to remain competitive. We are consistently investing in productive assets and “Lean Manufacturing” initiatives at our plants in Canada and Mexico. Our Lean Manufacturing methods are designed to increase quality, efficiency and productivity while reducing cost and waste.

Management continues to focus on lowering costs, accessing new markets and higher profit margins as core objectives in creating shareholder value.

### **Selling, general and administrative ('SG&A') expenses:**

SG&A expenses for the first quarter were \$.96 million compared to \$1.21 million for the previous year, a reduction of \$.25 million. The decrease was realized through the implementation of management's cost reduction strategies.

Expenditures for the Research and Development (R&D) department during the first quarter were \$.59 million, compared to \$.38 million in the comparative quarter. Research and Development (R&D) expenses are included in SG&A costs and are net of capitalization and amortization of product development costs. PI has made significant progress to recover customer design costs in the form of non-recurring engineering charges paid during the development process. Customer reimbursements for design work are applied to capitalized amounts where appropriate with the balance applied directly to expenses.

Despite lower sales volumes and challenges during the 2009 year, PI continues to invest in development tools, processes and intellectual capital in anticipation of recovery and in support of new business. Investments in R&D are an important component of our growth and marketing strategies and a defining characteristic of PI.

### **Amortization of plant and equipment expense:**

For the quarter, amortization expenses were \$.30 million up from \$.28 million in the prior year. The increase in amortization year over year relates to ongoing necessary investments in production assets.

### **Net Earnings (loss) and Earnings per Share:**

PI incurred a net loss for the first quarter 2010 of \$132,000 or \$0.02 per fully diluted share, compared with net income of \$155,000 or \$0.03 per share in the quarter ending September 30, 2008. The Company reported a small net loss in the fourth quarter of 2009 of \$30,000 or \$0.01 per fully diluted share.

While earnings continue to be impacted by a general slowdown in the economy and a stronger Canadian dollar, PI is actively pursuing additional cost cutting measures and economies of scale to drive profitability and sustain bottom line growth.

Throughout the year, the Company maintained a positive cash flow position.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Cash:

As at September 30, 2009, the cash position remained strong at \$2.04 million and working capital at \$8.23 million compared to \$1.65 million and \$9.13 million respectively on September 30, 2008 and \$3.27 million and \$8.33 million respectively on June 30, 2009. As at September 30, 2009, PI had a positive cash balance, fully available operating line of credit, and no short or long-term debt.

### Liquidity:

Pacific Insight has sufficient cash and working capital, and access to borrowing facilities to meet all current and anticipated commitments. The Company also has adequate liquidity to mitigate the effect of foreign exchange fluctuations and to compete effectively in the current and future currency and market environments. Management puts as much natural hedging into the business model as possible by matching currency flows. The manufacturing operation in Mexico is a key element in our foreign exchange strategy as its expenses are effectively incurred in US dollars.

### Selected historical financial information:

(\$000)	F-2010	F-2009	F-2008
All figures in CDN \$	Q1	Year	Year
Cash flow provided by/(used by) operating activities	(\$905)	\$3,396	\$505
Cash as at period end	\$2,044	\$3,268	\$2,051
Working capital as at period end	\$8,232	\$8,325	\$9,045
Total assets as at period end	\$18,901	\$17,891	\$18,703

### Accounts receivable:

Accounts receivable for the first quarter ending September 30, 2009 was \$3.72 million compared to the prior year's balance of \$4.29 million. The decrease from the previous year is due to an overall decline in sales year over year related to the economic downturn. Accounts receivable at June 30, 2009 was \$2.30 million.

The increase from June 30, 2009 is a result of increased sales over the fourth quarter of 2009. PI's customers are typically large, well-capitalized OEM's and industrial companies; over the last twenty years we have experienced an extremely low rate of bad debts.

### Inventories:

Inventory as at September 30, 2009 was \$4.21 million, an increase of 19% of the fourth quarter of 2009 as a result of an increase to our customer order book coupled with the challenges resulting from supplier constraints. At September 30, 2008 inventory levels were \$4.13 million.

Procurement efforts are continually focused on managing inventory levels as well as the quality and saleability of raw materials. During these economic times the supply chain could impact inventory management including increased material costs due to supplier allocation and market conditions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Forward currency contracts:**

The Company uses forward contracts to manage foreign exchange risk on US dollar fluctuations. At September 30, 2009 the Company had \$450,000USD in forward contracts at an average exchange rate of 1.116, resulting in an unrealized gain of \$20,400.

### **Property, plant, & equipment:**

Additions during the quarter were \$0.16 million as a result of investments in necessary information technology upgrades. During the quarter, we invested significantly into our electronic data center to enhance enterprise hardware and upgrade our existing computer platform. The new system will allow for increased productivity, expandability and overall cost savings over the life of the asset.

### **Intangible asset:**

Capitalized product development cost balances were \$1.31 million as at September 30, 2009 compared to \$.98 million in 2008. As at June 30, 2009 capitalized product development costs were \$1.2 million. Additions to capitalized product development costs during the quarter were \$163,000, versus \$157,000 in the comparative period. The projects capitalized this quarter were in all product types and industries but with a larger focus on automotive products as compared to previous years. Customer design reimbursements are applied against any capitalized amounts, reducing the net asset, with the balance applied to SG&A expenses.

### **Accounts payable and accrued liabilities:**

Accounts payable and accrued liabilities were \$2.72 million as at September 30, 2009, as compared to \$1.68 million during the comparable quarter last year. The variance in the annual amounts is directly related to the increasing customer orderbook and resulting need for additional inventories.

### **Share capital:**

The authorized share capital of Pacific Insight is 100,000,000 common shares without par value. As at September 30, 2009, and the date of this MD&A, the Company had 5,937,417 common shares outstanding.

On June 2, 2009, the Company announced a Normal Course Issuer Bid (NCIB) permitting it to purchase up to 411,166 of its common shares up to June 3, 2010. Share purchases into the NCIB are reported to various security exchanges on the SEDI website [www.sedi.ca](http://www.sedi.ca). No shares have been purchased through the current NCIB.

As at September 30, 2009 and at the date of this report a total of 211,550 stock options are outstanding under the plan, and are fully vested. If these options were exercised, the Company would receive \$708,276 in exchange for the issuance of shares.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Dividend policy:**

Pacific Insight does not have a dividend program at this time.

### **Financing resources:**

As at September 30, 2009, the Company had a positive cash balance and no debt.

Pacific Insight Electronics Corp. currently has the following credit facilities:

- An operating line of credit facility for up to \$5,000,000.
- A property, plant, and equipment acquisition facility for up to \$1,000,000.

The facilities are secured by a General Security Agreement on certain assets of the Company, and require the Company to adhere to several covenants. As at September 30, 2009, the Company was in compliance with these covenants.

### **Other matters:**

- a) The Company has had no transactions with related parties during the year.
- b) The Company has no material off-balance sheet financing arrangements.
- c) The Company currently has no material asset acquisition plans that have been approved by the Board of Directors.

### **New accounting policies:**

Effective July 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook. For details on these policies refer to Pacific Insight's Annual Financial Statements for the year ended June 30, 2009.

### **New accounting pronouncements:**

#### International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of the Company will be July 1, 2011 and will require the restatement for comparative purposes of amounts reported for the year ended June 30, 2011.

#### Business Combinations

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, 1601, Consolidated Financial Statements and 1602, Non-Controlling Interests which replace CICA Handbook Sections 1581, Business Combinations and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company's interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Subsequent events:

On November 9, 2009 Pacific Insight received positive confirmation from the Federal Government under the Western Economic Diversification Canada division, that PI has been awarded funding under the Community Adjustment Fund (CAF).

The CAF was designed to stimulate economic growth in the Western Provinces throughout the economic downturn by creating jobs and improving manufacturing efficiencies.

PI has been approved for a total project cost of \$2.8 million of which \$1.6 million will be funded by Pacific Insight and \$1.2 million through the CAF (interest free loan, repayable beginning September 1, 2011). The funding will be used for our Focused Manufacturing Project, a company-wide initiative to improve manufacturing efficiency using a combination of Lean principles and capital investment, leading to the following:

- Reduced production costs.
- Increased manufacturing capacity.
- The ability to actively pursue additional customer business.
- Increased employment opportunities in the area resulting from growth of the business.

We believe the Focused Manufacturing Project is a great opportunity for PI to focus on further improving manufacturing efficiency, long-term growth and sustainability.

### Risks and Uncertainties:

Please see the June 30, 2009 annual MD&A for a listing of the Company's various risks and how they are managed. PI is an electronic solutions provider in the transportation industries, and is subject to the downturn and upturn cycles in those industries.

There were no substantial changes during the quarter to PI's various risks and how they are managed. PI has no debt, and has credit facilities available.

### MD&A preparation:

This MD&A was completed November 13th, 2009. The MD&A for Pacific Insight Electronics Corp. is for the first quarter ended September 30, 2009. This MD&A should be read in conjunction with our September 30, 2009 unaudited Financial Statements. This MD&A is intended to assist the reader's understanding of Pacific Insight: its business, strategies, performance, and future outlook from the perspective of management. The documents mentioned above, as well as news releases and other important information may be viewed through the SEDAR website at [www.sedar.com](http://www.sedar.com). Management has evaluated the effectiveness of the Company's disclosure controls and procedures used for the financial statements and MD&A. Management has concluded that the disclosure controls are operating effectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Forward-looking statements:**

Certain information provided by PI in the financial statements, MD&A and other documents published throughout the year that are not recitation of historical facts may constitute forward-looking statements. The words “estimate”, “believe”, “expect” and similar expressions are intended to identify forward-looking statements. Persons reading this report are cautioned that such statements are only predictions and the actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements.

Forward-looking information may involve important risks and uncertainties that could materially alter results in the future from those expressed or implied in any forward-looking statements made by, or on behalf of the Company.

### **The Board of Directors of PI is comprised of the following members:**

J. Cowan McKinney – Chairman  
Stuart O. McLaughlin  
Stuart D. Ross  
Gary B. Sutherland