SUNTRON CORP
Form 10-K
March 29, 2004

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

þ Annual report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934
For the fiscal year ended **December 31, 2003**, or

o Transition report pursuant section 13 or 15 (d) of the Securities Exchange Act of 1934
For the transition period from ______________ to ______________

Commission file number **0-49651**

SUNTRON CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**86-1038668**
(State of Incorporation)	(I.R.S. Employer Identification No.)

2501 West Grandview Road, Phoenix, Arizona 85023

(Address of Principal Executive Offices) (Zip Code)

(602) 789-6600

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	**Nasdaq National Market**

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark if the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes o No þ

The aggregate market value of the outstanding common equity held by non-affiliates of the registrant, computed as of June 29, 2003, which was the last business day of the registrant s most recently completed second fiscal quarter, was **$7.1 million**. This amount is based on 2,492,000 shares held by non-affiliates. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

As of **March 16, 2004**, there were outstanding **27,410,588** shares of the registrant s Common Stock, $0.01 par value.

Documents Incorporated by Reference

None

Statement Regarding Forward-Looking Statements

This report on Form 10-K contains forward-looking statements regarding future events or our future financial and operational performance. Forward-looking statements include statements regarding markets for our products; trends in net sales, gross profits, and estimated expense levels; liquidity and anticipated cash needs and availability; and any statement that contains the words anticipate, believe, plan, estimate, expect, seek, and other similar expressio forward-looking statements included in this report reflect our current expectations and beliefs, and we do not undertake publicly to update or revise these statements, even if experience or future changes make it clear that any projected results expressed in this report, annual or quarterly reports to stockholders, press releases, or company statements will not be realized. In addition, the inclusion of any statement in this report does not constitute an admission by us that the events or circumstances described in such statement are material. Furthermore, we wish to caution and advise readers that these statements are based on assumptions that may not materialize and may involve risks and uncertainties, many of which are beyond our control, that could cause actual events or performance to differ materially from those contained or implied in these forward-looking statements. These risks and uncertainties include, but are not limited to, risks related to the realization of anticipated revenue, profitability, and synergies of the recent business combinations; the ability to meet cost estimates and achieve the expected benefits associated with planned restructuring activities; trends affecting our growth; and the business and economic risks described herein under Factors That May Affect Future Results.

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PART I

ITEM 1. BUSINESS

Overview

Suntron Corporation delivers complete manufacturing services and solutions to support the entire life cycle of complex products in the semiconductor capital equipment, aerospace and defense, medical and industrial markets. Our manufacturing services include printed circuit card assembly, cable and harness production, plastic injection molding, sheet metal, engineering services, quick-turn manufacturing services and full systems integration, testing, and after-market repair and warranty services. We believe our success in the marketplace is a direct result of our ability to provide unique solutions tailored to match each of our customer s specific requirements, while meeting the highest quality standards in the industry.

Manufacturing Services

We provide a variety of manufacturing services including printed circuit board assembly and testing, electronic interconnect assemblies, subassemblies, sheet metal fabrication and powder paint, plastic injection molding, and full systems integration (known as box build), after-market repair and warranty services, and engineering and design services. Our competitive strengths include our ability to manufacture highly complex products in short cycle times with smaller lot sizes (referred to as high-mix manufacturing services). Our strategy targets capturing turnkey work by providing customers with support throughout the entire manufacturing process, starting with prototype design for manufacturability all the way through material procurement, supply chain management, final assembly, and testing, to reduce our customers costs and improve their time to market. We provide the following services:

Design Services. We provide our customers product development and design and test engineering services. Our design for manufacturability and design for testability reviews allow our engineering group to collaborate with our customers early in the design process to reduce variation, cost, and complexity in new designs. Following completion of the initial design, we also offer design services to assist our customers in taking their product to market. Our support teams work closely with our customers through all stages of product planning and production. Our computer systems feature a computer-aided design capability that allows our engineers to collaborate online with a customer s engineers when developing and changing product designs.

Prototype Manufacturing Services. We provide quick-turn prototype manufacturing services that provide customers with 24 hour to 10-day turnaround times. Our prototype manufacturing operations, located in Manchester, New Hampshire and Phoenix, Arizona, provide full turnkey solutions to support our customers with new product introduction activities. These services permit our customers to be more competitive by reducing the amount of time required to bring new products to market.

Materials and Supply Chain Management Services. We consult with our customers and their suppliers early in the component selection process. This early supplier involvement helps ensure an efficient supply stream that focuses not only on cost but also on availability of components and the component life cycle. When material obsolescence affects our customers designs, we can provide recommendations on alternative components through our component-engineering group. We have developed innovative material planning relationships with a select group of OEMs in the aerospace and defense, semiconductor capital equipment, computer, medical instrumentation, networking, and telecommunications industries. These relationships are supported by sophisticated in-house product design and technical support capabilities. In addition, certain of our customers have internet access to our intranet in order to monitor printed circuit board production quality, board and box build assembly methods, and product throughput in a real-time environment. Each customer s internet access is secured and tailored for the customer s unique needs. We further complement our offerings by providing full logistics support that allows the final assembly to be shipped directly to the customer s end user. This supply chain management ability differentiates us as a resource in enhancing customers cost-efficiency and time-to-market.

Manufacturing and Assembly Services. We provide high-mix manufacturing services for a variety of highly complex electronic products. Our manufacturing methodology is central to supporting high-mix manufacturing. While typical high-volume manufacturing companies use high-volume runs to recover costs incurred

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in the initial set-up for the manufacturing process, our high-mix manufacturing technique focuses on parallel processing and set-up reductions in order to reduce initial set-up costs.

Testing Services. We offer in-circuit functional testing and environmental stress testing that includes temperature and motion/shock/electronic cycle testing. These tests verify that components have been properly placed and electrical continuity exists at the proper places on the circuit card. Functional testing is performed on the in-circuit testers or separate test adapters and verifies that the board or system is in compliance with customer specifications. Environmental tests determine how the product will function at various temperatures and seeks to identify and remove any latent defects that might appear later in the product life cycle.

Quality Control Services. Our quality control standards provide another means of serving the needs of our customers, because OEMs often rely on suppliers to assure quality control for subassemblies rather than providing such quality control themselves. We believe that our adherence to strict quality control standards and our investment in state-of-the-art production facilities and equipment have attracted and retained important customers that have established extremely rigid product quality standards.

After-market Repair Services. We provide after-market warranty and repair services for electronic products, including products that may not have been originally manufactured by us, in support of customer product warranty, repair, and upgrade programs.

Customers

Suntron focuses on serving OEMs in industries that have high-mix requirements. Sales to Honeywell International, Inc. and Applied Materials, Inc. represented approximately 29% and 18%, respectively, of our net sales for 2003. The loss of either Honeywell or Applied Materials as a customer would, and the loss of any other significant customer could, have a material adverse effect on our financial condition and results of operations.

The following table presents Suntron s net sales by industry segment for the years ended December 31, 2001, 2002 and 2003:

	2001	2002	2003
Aerospace and defense	51%	42%	33%
Semiconductor capital equipment	17%	25%	24%
Industrial	2%	9%	24%
Networking and telecommunications equipment	21%	18%	15%
Medical equipment	1%	1%	4%
Other	8%	5%	%
Total	100%	100%	100%

Sales and Marketing

Our sales force develops close working relationships with customers beginning early in the design phase and throughout all stages of production. We focus our marketing efforts on developing long-term relationships with our customers key personnel.

We continue to focus our sales and marketing efforts on the following markets: (1) semiconductor capital equipment, (2), aerospace and defense (3) industrial, and (4) medical equipment. This approach facilitates sales personnel specialization within related product groupings and permits sales representatives to develop a high degree of technical expertise.

Our sales strategy is to target (1) technology companies with minimal manufacturing capabilities that require one-stop shopping service in rapidly evolving sectors and (2) OEMs in our target market that require the outsourcing services in which we specialize. Our vertical integration, coupled with our unique focus on the underserved high-mix needs of our customers, differentiates us from other electronics manufacturing services providers.

We supplement the efforts of our sales force in the marketing of our services with direct mailings of brochures and other literature.

Backlog

Although we obtain firm purchase orders from customers, most customers do not place firm purchase orders for products until 30 to 90 days prior to the delivery date for the finished goods. Backlog covered by firm purchase orders does not demonstrate a meaningful projection of our future sales because orders may be modified or canceled.

Suppliers

We use numerous suppliers of electronic components and other materials for our operations. From time to time, some components we use have been subject to shortages, and suppliers have been forced to allocate available quantities among their customers. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Factors that may affect future results We are dependent on limited and sole source suppliers for electronic components and may experience component shortages, which would cause us to delay shipments to customers. We attempt to mitigate the risks of component shortages by working with customers to delay delivery schedules or by working with suppliers to provide the needed components using just-in-time inventory programs.

Competition

The electronics manufacturing services industry is extremely competitive and includes hundreds of companies. The contract manufacturing services we provide are available from many independent sources. Many of our competitors are more established in the industry and have substantially greater financial, manufacturing, or marketing resources than we do. Certain of our competitors have broader geographic presence than we do, including manufacturing facilities in Asia, Europe, and South America. We believe that the principal competitive factors in our targeted market are quality, reliability, ability to meet delivery schedules, technological sophistication, geographic location, and price. We also face competition from current and potential customers, which are continually evaluating the relative merits of internal manufacturing versus contract manufacturing for various products.

Intellectual Property

We seek to protect our proprietary technology and other intangible assets primarily through trade secret protection. In addition, we depend heavily on training, recruiting, and retaining our employees, who are required to have sufficient know-how to operate advanced equipment and to conduct sensitive and complicated manufacturing processes.

Governmental Regulation

Our operations are subject to certain federal, state, and local regulatory requirements relating to environmental, waste management, and health and safety matters, and there can be no assurance that material costs and liabilities will not be incurred in complying with those regulations or that past or future operations will not result in exposure to injury or claims of injury by employees or the public. To meet various legal requirements, we have modified our circuit board cleaning processes to utilize only aqueous (water-based) methods.

Some risk of liabilities related to these matters is inherent in our business, as with many similar businesses. Our management team believes that our business is operated in compliance with applicable environmental, waste management, and health and safety regulations, the violation of which could have a material adverse effect on our business, financial condition, and results of operations. In the event of violation, these regulations provide for civil and criminal fines, injunctions, and other sanctions and, in certain instances, allow third parties to sue to enforce compliance. In addition, new, modified, or more stringent requirements or enforcement policies could be adopted that may adversely affect our business.

We periodically generate and temporarily handle limited amounts of materials that are considered hazardous waste under applicable law. We engage independent contractors for the off-site disposal of these materials. For additional information, see Item 7 Management s Discussion and Analysis of Financial Condition

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and Results of Operations Factors That May Affect Future Results Our failure to comply with the requirements of environmental laws could result in fines and revocation of permits necessary to our manufacturing processes.

Employees

As of March 12, 2004, we had 1,717 full-time equivalent employees, including 1,142 that were engaged in manufacturing operations, 387 in material handling and procurement, and 188 in finance, sales, and administration. As of the same date, we also engaged the full-time services of 916 temporary laborers through employment agencies. None of our employees are subject to a collective bargaining agreement. Our management team believes that the relationship with our employees is good.

Availability of Reports Filed with the Securities and Exchange Commission

Our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, registration statements, and amendments to those reports are available without charge on our website, http://www.suntroncorp.com/investor/index.html#, as soon as reasonably practicable after they are filed electronically with the SEC. Copies are also available without charge by (i) telephonic request by calling 1-888-520-3382, (ii) email request to ir@suntroncorp.com, or (iii) a written request to Suntron Corporation Investor Relations, 2501 West Grandview Road, Phoenix, Arizona 85023.

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ITEM 2. PROPERTIES

The following table describes locations where our material operations are conducted.

Location	Year Acquired/ Opened	Approximate Size (Square Feet)	Owned/ Leased	Primary Use
Sugar Land, Texas	2000	472,000	Owned	Manufacturing
Phoenix, Arizona	1999	99,000	Leased	Manufacturing/ Headquarters
Lawrence, Massachusetts	2001	73,000	Leased	Manufacturing
Olathe, Kansas	2002	49,000	Leased	Manufacturing
Garner, Iowa	2002	40,000	Leased	Manufacturing
Newberg, Oregon	1998	65,000	Leased	Manufacturing
Austin, Texas	1996	45,000	Leased	Warehouse
Tijuana, Mexico	1999	30,000	Leased	Manufacturing
Manchester, New Hampshire	1998	19,000	Leased	Manufacturing

In addition, we lease office space in Denver, Colorado, and a manufacturing facility in Plano, Texas, both of which have been closed and subleased. In addition to the Phoenix facility shown in the table above, we lease a second facility in Phoenix that we exited in February 2004. We are actively marketing the second facility in Phoenix to locate a sublease tenant. We also own a manufacturing facility in Ottawa, Kansas that we closed at the end of 2002, and we are marketing this property for sale.

We believe our facilities are in good condition and that our current capacity is sufficient to handle our anticipated needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings to which we are a party or to which any of our properties are subject, which we expect to have a material adverse effect on our company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market for Our Common Stock

Our common stock has been listed on the Nasdaq National Market since March 1, 2002 under the symbol SUNN . The following table sets forth the low and high sale prices for the Company s common stock, as reported on the Nasdaq National Market, for the period from March 1, 2002 through March 31, 2002, for the last three fiscal quarters of 2002, and for each of the fiscal quarters in 2003:

Period Ended	Low	High
March 31, 2002	$6.23	$9.35
June 30, 2002	$7.45	$8.50
September 29, 2002	$2.75	$9.80
December 31, 2002	$3.25	$5.50
March 30, 2003	$2.75	$4.75
June 29, 2003	$2.24	$3.75
September 28, 2003	$2.48	$3.45
December 31, 2003	$3.18	$4.58

As of March 16, 2004, there were approximately 640 holders of record of our common stock. The closing sale price of our common stock on the Nasdaq National Market on March 16, 2004 was $5.18 per share.

Dividends

Our senior credit facility prohibits the payment of dividends. Suntron has not declared or paid any dividends, and we do not anticipate paying any cash dividends in the foreseeable future. We presently intend to retain any future earnings to finance future operations and expansion of our business, and to reduce indebtedness.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below as of and for each of the years in the five-year period ended December 31, 2003, are derived from our consolidated financial statements (including financial statements of our predecessors, EFTC Corporation and K*TEC Electronics Holding Corporation) that have been audited by KPMG LLP and Arthur Andersen, LLP, independent certified public accountants. The consolidated financial statements as of December 31, 2002 and 2003, and for each of the years in the three-year period ended December 31, 2003, and the independent auditors reports thereon, are included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	1999	**2000**	**2001**	**2002**	**2003**
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Net sales	$221,864	$463,130	$574,401	$ 370,797	$313,231
Cost of goods sold	229,892	439,210	579,123	398,767	321,599
Gross profit (loss)	(8,028)	23,920	(4,722)	(27,970)	(8,368)
Operating costs and expenses:					
Selling, general and administrative expenses	25,389	27,020	29,619	27,234	22,648
Severance, retention, closure and relocation costs	300	4,579	228	169	124
Recapitalization and reorganization transaction costs		5,336	2,375	312	
Related party fees		2,713	3,750	835	750
Impairment of long-lived assets	2,822	1,662		21	
Goodwill amortization	1,133	907	2,905		
Litigation settlement	6,400				
Operating loss	(44,072)	(18,297)	(43,599)	(56,541)	(31,890)
Interest expense	(6,516)	(10,881)	(12,217)	(2,568)	(2,696)
Reduction in interest due to settlement of dispute				1,029	
Gain (loss) on sale of assets	(20,880)	4,369	764	(166)	50
Other, net	(55)	549	551	835	248
Loss before income taxes and cumulative effect of change in accounting principle	(71,523)	(24,260)	(54,501)	(57,411)	(34,288)
Income tax benefit (expense)	(2,180)	(287)	(20)	276	

Loss before cumulative effect of change in accounting principle	(73,703)	(24,547)	(54,521)	(57,135)	(34,288)
Cumulative effect of change in accounting principle				(69,015)	
Net loss	$ (73,703)	$ (24,547)	$ (54,521)	$(126,150)	$ (34,288)
Net loss applicable to common stockholders- Basic and Diluted	$ (73,703)	$ (27,019)	$ (55,071)	$(126,150)	$ (34,288)
Net loss per share applicable to common stockholders- Basic and Diluted:					
Loss before cumulative effect of change in accounting principle	$ (18.97)	$ (3.64)	$ (2.29)	$ (2.08)	$ (1.25)
Cumulative effect of change in accounting principle				(2.52)	
Net loss	$ (18.97)	$ (3.64)	$ (2.29)	$ (4.60)	$ (1.25)
Number of shares used for computation- Basic and Diluted	3,886	7,433	24,092	27,409	27,409

	Year Ended December 31,				
	1999	2000	2001	2002	2003
			(In thousands)		
Other Operating Data:					
Computation of EBITDA **(a)(b)**					
Loss before cumulative effect of change in accounting principle	$(73,703)	$ (24,547)	$(54,521)	$(57,135)	$(34,288)
Income tax expense (benefit)	2,180	287	20	(276)	
Interest expense	6,516	10,881	12,217	2,568	2,696
Reduction in interest under settlement				(1,029)	
Depreciation and amortization expense	7,242	12,639	25,064	21,987	22,133
EBITDA **(a)(b)**	$(57,765)	$ (740)	$(17,220)	$(33,885)	$ (9,459)
Cash Flow Data:					
Cash provided (used) by:					
Operating activities	$ (9,873)	$ (84,062)	$ 75,543	$ 22,779	$(19,768)
Investing activities	17,752	(171,428)	(16,772)	(7,779)	(2,805)
Financing activities	(7,786)	288,937	(78,762)	(27,551)	20,978

	December 31,				
	1999	2000	2001	2002	2003
			(In thousands)		
Balance Sheet Data:					
Total assets	$131,129	$535,445	$322,639	$172,216	$154,646
Total debt	42,994	152,854	43,830	10,856	34,011
Stockholders equity	21,278	244,671	230,132	104,011	69,949
Total invested capital **(c)**	64,272	397,525	273,962	114,867	103,960
Liquidity Data:					
Working capital **(d)**	$ 26,232	$216,416	$105,530	$ 50,372	$ 49,378

(a) Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) is presented because we believe it is an indicator of our ability to incur and service debt and to fund capital expenditures. An EBITDA-based calculation is also used by our lenders in determining compliance with certain financial covenants.

(b) The primary measure of operating performance is net income (loss). EBITDA should not be construed as alternatives to net income (loss), determined in accordance with generally accepted accounting principles, or

GAAP, as an indicator of operating performance, as a measure of liquidity or as an alternative to cash flows from operating activities determined in accordance with GAAP. We believe the presentation of these additional financial performance indicators is beneficial to investors since they provide an additional perspective from which to evaluate our company. However, in evaluating alternative measures of operating performance, it is important to understand that there are no standards for these calculations. Accordingly, the lack of standards can result in subjective determinations by management about which items may be excluded from the calculations, as well as the potential for inconsistencies between different companies that have similarly titled alternative measures. For example, as discussed in greater detail under Item 7 of this Report on Form 10-K, the calculation of EBITDA in our amended credit agreement with Citibank is different than the calculation of EBITDA shown above.

(c) Total invested capital represents total debt plus total stockholders equity.

(d) Working capital represents total current assets less total current liabilities.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes, and the other financial information included in this report. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in Factors That May Affect Future Results below and elsewhere in this report.

Executive Summary

During 2003, we reduced our operating loss to $31.9 million compared to $56.5 million in 2002. Over the past three years, we have experienced a severe contraction in our business where annual sales have declined from $574.4 million in 2001 to $313.2 million in 2003. We responded to the economic downturn by closing five of our manufacturing facilities, which resulted in significant restructuring charges over the past three years. These plant closures combined with other restructuring and cost containment initiatives implemented over the last three years, have resulted in a much lower cost structure that is in place at the end of 2003.

Despite our large operating loss in 2002, we were able to generate $22.8 million of positive operating cash flow because we were experiencing sequential quarterly reductions in our net sales in 2001 and 2002 that allowed us to reduce inventories and receivables. This generated positive operating cash flows that more than offset the cash operating losses. However, during 2003 our quarterly net sales remained relatively flat and we were not able to realize a similar cash flow benefit by reducing our inventories and receivables. The resulting negative operating cash flows of $19.8 million in 2003, have decreased our unused borrowing availability from $43.2 million at the end of 2002 to $11.8 million at the end of 2003. This decline of $31.4 million during 2003 was primarily attributable to increased borrowings to fund our operating loss, and an April 2003 amendment to our credit facility that temporarily removed an additional $10.0 million of availability until operating performance improves to a level acceptable to the lender. During 2003 we increased our bank debt by $23.1 million primarily to fund our negative operating cash flow. At the end of 2003 our bank debt had increased to $34.0 million compared to $10.9 million at the end of 2002.

As we look forward to the first quarter of 2004, we believe market conditions are improving in the electronics industry, especially in the semiconductor capital equipment sector where orders have increased significantly. We believe it is critical that we achieve significantly improved financial results during the recovery since our current level of unused borrowing availability may not be adequate to fund additional operating losses along with increased working capital requirements associated with a substantial increase in net sales. Some of the tactical issues we are addressing include delaying inventory purchases to improve our cash cycle time and minimize incremental borrowings, monitoring production schedules to minimize overtime and materials expediting charges (except for those cases where our customers agree to reimburse us to support their orders placed inside standard lead-times), and to ensure that we fully realize the benefits of improved capacity utilization before adding incremental costs.

Aggregate net sales generated from our two major customers declined from about $237 million in 2002 to $148 million in 2003, as both of these customers were impacted by adverse industry conditions. During 2003, we replaced some of this business with orders from smaller, less credit-worthy customers. While losses due to credit risk have not been a significant percentage of our net sales, this trend may not continue in the future as we continue to diversify our major customer concentration with orders from smaller customers.

Assuming that we are successful in eliminating our cash operating losses, we believe we have adequate capital resources to fund our planned operating activities for 2004. However, we do not have adequate capital resources to fund the purchase of any additional material business units and we would like to ensure that we have adequate capital resources to make strategic acquisitions that enhance our long-term business prospects. Accordingly, we have commenced discussions with Citibank and other lenders to replace our current credit facility, which expires in April 2005. Our objective is to secure additional borrowing capacity and flexibility to make strategic acquisitions.

Following is an overview of the information included under each section of Management s Discussion and Analysis of Financial Condition and Results of Operations:

Caption	Overview
Information About Our Business	Under this section we provide information to help understand our industry conditions, and information unique to our business and customer relationships.
Critical Accounting Policies and Estimates	This section provides details about some of the critical estimates and accounting policies that must be applied in the preparation of our financial statements. It is important to understand the nature of key uncertainties and estimates that may not be apparent solely from reading our financial statement and the related footnotes.
Overview of Statement of Operations	This section includes a description of the types of transactions that are included in each significant category included in our statement of operations.
Results of Operations	This section includes a discussion and analysis of our operating results over the last three years, including a discussion and comparison of results for 2001 versus 2002, and 2002 versus 2003.
Liquidity and Capital Resources	There are several sub-captions under this section, including a discussion of our 2003 cash flows and other liquidity measures that we consider important to our business. Under the sub-caption for Contractual Obligations, we discuss on- and off-balance-sheet obligations and the expected impact on our liquidity. Under the sub-caption for Capital Resources, we have included a discussion of our credit facility with Citibank, including details about interest rates charged, calculation of the borrowing base and unused availability, compliance with the EBITDA covenant, and alternatives if current capital resources are inadequate.
Impact of Recently Issued Accounting Standards	This section includes a discussion of the impact of new accounting standards that were adopted in 2003, along with an explanation of material differences from the accounting standards that were previously applicable.
Factors That May Affect Future Results	This section includes an in-depth discussion of many of the risks and uncertainties that affect our business and industry, as well as risks that should be considered before investing in our common stock. Our future financial results are dependent upon effectively managing and responding to these risks.

Information About Our Business

Suntron Corporation was formed as a holding company for the purpose of effecting the business combination of EFTC Corporation and K*TEC Operating Company, L.L.C. (formerly known as Thayer-Blum Funding II, L.L.C.) and its wholly owned subsidiary, K*TEC Electronics Holding Corporation (referred to together as K*TEC). The combination of EFTC and K*TEC was completed on February 28, 2002 and, in connection with the combination, EFTC and K*TEC each became a wholly owned subsidiary of Suntron. As a result of the combination, the former holder of membership interests in K*TEC received 15,119,356 shares of Suntron common stock, and the former shareholders of EFTC received .25 shares of Suntron common stock for each share of EFTC common stock, or an aggregate of 12,290,032 shares.

The combination was accounted for as a reorganization of entities under common control. Accordingly, our financial statements have been retroactively adjusted to present the combined results of EFTC since its inception and K*TEC since October 10, 2000 (the date that common control was established).

Suntron delivers complete manufacturing services and solutions to support the entire life cycle of complex products in the semiconductor capital equipment, aerospace and defense, medical and industrial markets. Our manufacturing services include printed circuit card assembly, cable and harness production, plastic injection molding, sheet metal, engineering services, quick-turn manufacturing services and full systems integration, testing, and after-market repair and warranty services. We believe our success in the marketplace is a direct result of our ability to provide unique solutions tailored to match each of our customer s specific requirements, while meeting the highest quality standards in the industry.

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As an electronic manufacturing services company, many of our customers are original equipment manufacturers, or OEMs, that have designed their own products. Our customers request proposals that include key terms such as quality, delivery, and the price to purchase the materials and perform the manufacturing services to make one or more components or assemblies. Generally, the component or assembly that we manufacture is delivered to the customer where it is then integrated into their final product. We price new business with our customers by obtaining raw material quotes from our suppliers and then estimating the amount of labor and overhead that will be required to make the products.

Before we begin a customer relationship, we typically enter into arrangements that are intended to protect us in case a customer cancels an order after we purchase the raw materials to fill that order. In these circumstances, the customer is generally required to purchase the materials or reimburse us if we incur a loss from liquidating the raw materials.

The electronics manufacturing services industry is extremely dynamic and our customers make frequent changes to their orders. The magnitude and frequency of these changes make it difficult to predict revenues beyond the next quarter, and even relatively short-term forecasts may prove inaccurate depending on changes in economic, political, and military factors, as well as unexpected customer requests to delay shipments near the end of our fiscal quarters. These changes in customer orders also cause substantial difficulties in managing inventories, which often leads to excess inventories and the need to recognize losses on inventories. However, from time to time, we may also have difficulties obtaining certain electronic components that are in short supply, which can result in a decision to purchase some materials before formal notice of demand is received from our customer. In addition, our inventories consist of over 150,000 different parts and many of these parts have limited alternative uses or markets beyond the products that we manufacture for our customers. When we liquidate excess materials through an inventory broker or auction, we often realize less than the original cost of the materials, and in some cases we determine that there is no market for the excess materials.

The most common reasons we incur losses related to inventories are due to purchasing more materials than are necessary to meet a customer s requirements or failing to act promptly to minimize losses once the customer communicates a cancellation. Occasionally it is not clear what action caused an inventory loss and there is a shared responsibility whereby our customers agree to negotiate a settlement with us. Accordingly, management continually evaluates inventory on-hand, forecasted demand, contractual protections, and net realizable values in order to determine whether an adjustment to the carrying amount of inventory is necessary. When the relationship with a customer terminates, we tend to be more vulnerable to inventory losses because the customer may be reluctant to accept responsibility for the remaining inventory if a product is at the end of its life cycle. We can also incur inventory losses if a customer becomes insolvent and the materials do not have alternative uses or markets into which we can sell them.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, property, plant and equipment, intangible assets, income taxes, warranty obligations, restructuring-related obligations, and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We cannot assure you that actual results will not differ from those estimates. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We generally recognize revenue from manufacturing services and product sales upon shipment and transfer of title to the manufactured product, whereby our customers assume the risks and rewards of ownership of the product. Generally, there are no formal customer acceptance requirements or further obligations related to manufacturing services; however, if such requirements or obligations exist, then revenue is recognized at the point when the requirements are completed and the obligations fulfilled. If uncertainties exist about whether the customer has assumed the risks and rewards of ownership or if continuing performance obligations exist, before revenue is recognized we generally expand our written communications with the customer to ensure that our understanding of the arrangement is consistent with that of the customer. In limited circumstances, although the physical product remains in the Company s facilities at the request of customers, revenue is recognized in accordance with the guidance in SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*. Revenue from design, engineering and other services is recognized as the services are performed.

Write-Downs for Obsolete and Slow-Moving Inventories. Our judgments about excess and obsolete inventories are especially difficult because (i) hundreds of different components may be associated with a single product we manufacture for a customer, (ii) we make numerous products for most of our customers, (iii) even though we are engaged in the electronic manufacturing services industry, most of our customers are engaged in diverse industries, (iv) a significant amount of the parts we purchase are unique to a particular customer s orders and there are limited alternative markets if that customer s order is canceled, and (v) all of our customers experience dynamic business environments affected by a wide variety of economic, political, and regulatory factors. This complex environment results in positive and negative events that can change daily and which affect judgments about future demand for our manufacturing services and the amounts we can realize when it is not possible to liquidate inventories through production of finished products.

We frequently review customer demand to determine if we have excess raw materials that will not be consumed in production. In determining demand we consider firm purchase orders and forecasts of demand submitted by our customers. If we determine that excess inventories exist and that the customer is not contractually obligated for the excess inventories, we make judgments about whether unforecasted demand for those materials is likely to occur or the amount we would likely realize in the sale of this material through a broker or auction. If we determine that future demand from the customer is unlikely, we write down our inventories to the extent that the cost of the inventory exceeds the estimated market value.

If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required in future periods. Likewise, if we underestimate contractual recoveries from customers or future demand, hindsight may indicate that we over-reported our costs of goods sold in earlier periods, which results in the recognition of additional gross profit at the time the material is used in production and the related goods are sold. Therefore, although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or the outcome of customer negotiations with respect to the enforcement of contractual provisions could have a significant impact on the value of our inventory and our reported operating results.

Allowance for Doubtful Accounts Receivable. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, as well as to provide for adjustments related to pricing and quantity differences. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required. When our customers experience difficulty in paying us, we need to estimate how much of our receivable will not be collected. These judgments are often difficult because the customer may not divulge complete and accurate information. Even if we are fully aware of the customer s financial condition it can be difficult to estimate the expected recovery and there is often a wide range of outcomes. Over the past year, we have diversified our concentration of business with our major customers and have added smaller customers that generally have higher credit risk. Accordingly, we may experience higher bad debt losses in the future.

Impairment of Long-Lived Assets. When we undergo changes in our business, including the closure or relocation of facilities, we often have equipment and other long-lived assets that are no longer needed in continuing operations. When this occurs, we are required to estimate future cash flows and if such cash flows are less than the carrying value of the assets (or asset group, as applicable), we recognize impairment charges to reduce the carrying value to estimated fair value. The determination of future cash flows and fair value tend to be highly subjective estimates. When assets are held for sale and the actual market conditions deteriorate, or are less favorable than those projected by management, additional impairment charges may be required in subsequent periods.

Effective January 1, 2002, we were required to adopt a new accounting standard that changed the method for evaluating impairment of goodwill. The valuation of reporting units is a highly subjective process that can be influenced by a wide range of factors including historical and forecasted results for the reporting unit, interest rates, and political, regulatory, and economic conditions. Because of the volatility of these factors, a significant reduction in the value of a reporting unit may occur in a relatively short period of time, which could result in a material charge for impairment. Effective January 1, 2002, we implemented this new accounting standard and recognized an impairment charge of $69.0 million related to the K*TEC reporting unit. We are required to evaluate potential impairment of goodwill at least annually and, depending on changes in the fair value of reporting units at future testing dates, we may need to recognize additional impairment losses that could have a material adverse impact on our results of operations.

Accrual of Lease Exit Costs. When we undertake restructuring activities and decide to close a plant that we occupy under a non-cancelable operating lease, we are required to estimate how long it will take to locate a new tenant to sublease the facility and to estimate the rate that we are likely to receive when a tenant is located. Accordingly, we will incur additional lease exit charges in future periods if our estimates of the rate or timing of sublease payments turns out to be less favorable than our current expectations. We also consider the estimated cost of building improvements, brokerage commissions, and any other costs we believe will be incurred in connection with the subleasing process. The precise outcome of most of these factors is difficult to predict. We review our estimates at least quarterly, including consultation with our commercial real estate advisors to assess changes in market conditions, feedback from parties that have expressed interest, and other information that we believe is relevant to most accurately reflect the expected outcome of obtaining a subtenant to lease the facility. Commercial real estate conditions are currently very poor in the areas in which we are attempting to sublease closed facilities, and we believe our estimates have appropriately considered these conditions. As discussed under *Impact of Recently Issued Accounting Standards* below, new accounting rules are effective for all restructuring activities initiated in 2003.

For a detailed discussion on the application of these and other accounting policies, see Note 1 in our audited consolidated financial statements referred to in Item 8 of this Report.

Overview of Statement of Operations

Net sales are recognized when title is transferred to our customers, which generally occurs upon shipment from our facilities. Net sales from design, engineering and other services is generally recognized as the services are performed. Our sales are recorded net of customer discounts taken or expected to be taken.

Cost of goods sold includes materials, labor, and overhead expenses incurred in the manufacture of our products. Cost of goods sold also includes charges and credits related to manufacturing operations for lease exit costs, impairment of long-lived assets, and obsolete and slow moving inventories. Many factors affect our gross margin, including capacity utilization, product mix, and production volume.

Selling, general, and administrative expenses primarily include the salaries for executive, finance, accounting, and human resources personnel; salaries and commissions paid to our internal sales force and external sales representatives and marketing costs; insurance expenses; depreciation expense related to assets not used in manufacturing activities; and professional fees for auditing and legal assistance and general corporate expenses.

Severance, retention, closure and relocation costs primarily related to costs associated with reductions in our administrative workforce. Severance, retention, relocation and closure costs that relate to manufacturing activities are included in cost of goods sold.

Reorganization transaction costs consist of expenses incurred in connection with the business combination between EFTC and K*TEC, which is described in Note 2 of our consolidated financial statements included in this Report. Reorganization costs included a fairness opinion, professional fees and printing costs for the combination and related Securities and Exchange Commission filings. The business combination was accounted for as a reorganization of entities under common control, and, accordingly, these costs were charged to operations in the period when the costs were incurred.

Related party fees include management fees and advisory fees paid to affiliates of our majority stockholder.

Impairment of long-lived assets reflects charges related to non-manufacturing assets; impairment of manufacturing assets is included in cost of goods sold.

Goodwill amortization expense includes the amortization of goodwill relating to the 1997 acquisition of Current Electronics, Inc. and the 2000 acquisition of K*TEC Electronics Holding Corporation. Effective January 1,

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2002, goodwill was no longer permitted to be amortized when Statement of Financial Accounting Standards No. 142 became effective.

Interest expense relates to our senior credit facilities and other debt obligations. Interest expense also includes the amortization of debt issuance costs and unused commitment fees that are charged for the portion of our $75 million credit facility that is not used from time to time.

Results of Operations

Our results of operations are affected by several factors, primarily the level and timing of customer orders (especially orders from our major customers). The level and timing of orders placed by a customer vary due to the customer s attempts to balance its inventory, changes in the customer s manufacturing strategy, and variation in demand for its products due to, among other things, product life cycles, competitive conditions, and general economic conditions. In the past, changes in orders from customers have had a significant effect on our quarterly results of operations. The following table sets forth certain operating data as a percentage of net sales for the years ended December 31, 2001, 2002, and 2003.

	2001	2002	2003
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	100.8%	107.5%	102.7%
Gross profit (loss)	(0.8)%	(7.5)%	(2.7)%
Operating costs and expenses:			
Selling, general, and administrative	5.2%	7.4%	7.3%
Severance, retention, closure, and relocation costs			
Reorganization transaction costs	0.4%	0.1%	
Related party management and advisory fees	0.7%	0.2%	0.2%
Impairment of long-lived assets			
Goodwill amortization	0.5%		
Operating income (loss)	(7.6)%	(15.2)%	(10.2)%

Year Ended December 31, 2002 Compared to Year Ended December 31, 2003

Net Sales. Net sales decreased $57.6 million, or 15.5%, from $370.8 million in 2002 to $313.2 million in 2003. This decrease in 2003 net sales was attributable to significant decreases in net sales across our customer base, including decreases with Honeywell and Applied Materials of $64.5 million and $24.1 million, respectively. The reduction in net sales to Honeywell and Applied Materials was partially offset by approximately $56 million of net sales to new customers and $8 million of net sales related to the May 30, 2003 acquisition of the assets of Trilogic. We believe the primary reason for lower net sales to our major customers in 2003 was due to the economic downturn in the aerospace and semiconductor capital equipment industries.

Net sales in 2002 and 2003 include approximately $24.2 million and $8.2 million, respectively, of excess inventories that were sold back to customers pursuant to contractual provisions of our customer agreements. In 2003, net sales include the recovery of unauthorized customer discounts of approximately $1.0 million.

In 2002, Honeywell and Applied Materials accounted for 42% and 22%, respectively, of our net sales. In 2003, Honeywell and Applied Materials accounted for 29% and 18%, respectively, of our net sales. In 2001, Emulex was also a major customer but our net sales to Emulex had been declining over the past two years and, by the end of the third quarter of 2003, Emulex had disengaged as a customer.

Gross Profit (Loss). Our gross profit (loss) improved by $19.6 million from a loss of $28.0 million in 2002 to a loss of $8.4 million in 2003. Gross profit (loss) as a percentage of net sales improved from a loss of 7.5% of net sales in 2002 to a loss of 2.7% of net sales in 2003.

In 2003, we incurred restructuring costs of $2.7 million, including $1.3 million of accelerated depreciation due to shortened lives of leasehold improvements, $0.5 million for lease exit costs primarily associated with the consolidation of operations in Phoenix, and $0.8 million for severance costs related to terminated employees. In November 2003, the Company entered into an agreement with the landlord of the Fremont facility whereby the Company paid $2.7 million as consideration for the early termination of the lease. The Company incurred additional costs of $0.4 million related to the Fremont lease in the fourth quarter of 2003, resulting in a credit of $4.7 million due to the extinguishment of the remaining liability. This credit was reflected as a reduction of cost of goods sold since the loss relating to future lease exit costs of the vacated facility that was accrued in 2002 was charged to cost of goods sold. The improvement in gross profit (loss) in 2003 is primarily attributable to the reduction in restructuring costs and benefits realized from other cost reduction initiatives that have been implemented. However, despite our extensive restructuring and cost cutting achievements over the past two years, we have not been able to increase net sales to a level that would result in profitable operations. In 2002, we incurred a gross profit deficiency of $28.0 million, primarily due to $13.6 million of restructuring charges (consisting of $10.1 million for lease exit costs primarily associated with the closure of our Fremont facility; $2.8 million for impairment of a building and manufacturing equipment; and $0.7 million for severance, retention and moving costs related to our manufacturing workforce). Presented below is a summary of changes in liabilities for lease exit costs and severance and retention obligations for the years ended December 31, 2002 and 2003 (Dollars in Millions):

	Accrued Lease Exit Costs	Accrued Severance & Retention
Balance, December 31, 2001	$ 1.9	$
Accrued expense for restructuring activities	9.7	0.7
Cash receipts under subleases	0.4	
Cash payments	(2.2)	(0.6)
Expense due to change in previous estimates	0.5	
Balance, December 31, 2002	10.3	0.1
Accrued expense for restructuring activities	0.4	1.1
Cash receipts under subleases	0.4	
Cash payments	(5.9)	(1.1)
Reversal of accrued lease exit costs	(4.7)	
Reclassification of non-level rent liability	0.5	
Balance, December 31, 2003	$ 1.0	$ 0.1

Inventory write-downs decreased $2.1 million from $5.4 million, or 1.5% of net sales in 2002 to $3.3 million, or 1.1% of net sales in 2003. This reduction in inventory write-downs resulted primarily from our substantial efforts over the past two years to improve our inventory management processes and to work more closely with our customers to minimize losses due to excess inventories. Write-downs of excess inventories are related to a variety of customers for which we do not expect to realize the carrying value through production or other means of liquidation.

Through the first half of 2004, we have a significant amount of equipment that will become fully depreciated, although many of these assets are still in service. Accordingly, our depreciation expense related to property, plant and equipment for 2004 is expected to decrease by approximately $7.8 million from the $21.6 million reported in 2003. Approximately $0.5 million of this benefit is expected to be reflected in lower selling, general, and administrative expenses and the remaining $7.3 million is expected to result in a reduction of cost of goods sold.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses (SG & A) decreased $4.6 million, or 16.8%, from $27.2 million in 2002 to $22.6 million in 2003. The decrease in SG & A during 2003 was primarily attributable to reductions in (i) compensation and benefits due to an approximately 15% reduction in our administrative workforce, (ii) professional fees primarily due to lower legal and accounting services upon the complete integration of K*tec by the end of 2002, and (iii) information technology and facilities costs due to fewer employees and the closure of several facilities. These decreases were partially offset by a charge of $1.3 million that was required in the fourth quarter of 2003 when we reserved a significant portion of our receivable from a former customer that filed for bankruptcy protection in February 2004.

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Aggregate net sales generated from our two major customers declined from about $237 million in 2002 to $148 million in 2003, as both of these customers were impacted by adverse industry conditions. During 2003, we replaced some of this business with orders from smaller, less credit-worthy customers. While losses due to credit risk have not been a significant percentage of our net sales, this trend may not continue in the future as we continue to diversify our customer base.

Interest Expense. Interest expense increased $0.1 million, or 5.0%, from $2.6 million in 2002 to $2.7 million in 2003, primarily due to an increase in our weighted average borrowings from $16.7 million in 2002 to $23.5 million in 2003. The impact of higher borrowings in 2003 was partially offset by a reduction in our weighted average interest rate (computed without regard to amortization of debt issuance costs, which comprised approximately $1.0 million of our interest cost in both 2002 and 2003) from 9.4% in 2002 to 7.3% in 2003. Since our borrowings were higher in 2003, we paid less for unused commitment fees under the revolving credit agreement, which also contributed to the lower effective interest rate in 2003.

A portion of the purchase price for the October 2000 acquisition of K*TEC Electronics Holding Corporation was subject to a dispute that was expected to be resolved through arbitration proceedings. On May 7, 2002, the parties agreed to settle the dispute whereby the $12.2 million principal balance of a note payable to the former owner was reduced by $6.9 million, resulting in an adjusted principal balance of $5.3 million. In accounting for this settlement, the Company reduced the carrying amount of goodwill by $6.9 million and recognized a credit to operations of $1.0 million for accrued interest that was previously expensed and that was no longer payable due to the settlement. This note, which provided for interest at 14%, was repaid in May 2002.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2002

Net Sales. Net sales decreased $203.6 million, or 35.4%, from $574.4 million in 2001 to $370.8 million in 2002. This decrease in 2002 net sales was primarily attributable to significant decreases in net sales across our customer base, including decreases with Honeywell and Emulex of $133.5 million and $32.9 million, respectively. The decrease in net sales in 2002 was primarily attributable to significant downturns in the industries that our major customers are engaged in, including aerospace and networking equipment. During 2002, our net sales included $24.2 million of excess inventories that were sold back to our customers pursuant to contractual provisions of our customer agreements. The decrease in net sales in 2002 was partially offset by $20.9 million of net sales related to the March 2002 acquisition of the assets of Midwestern Electronics, Inc.

For 2001, Honeywell, Applied Materials, and Emulex accounted for 50%, 15%, and 11%, respectively, of our net sales. For 2002, Honeywell, Applied Materials and Emulex accounted for 42%, 22%, and 9%, respectively, of our net sales.

Gross Profit (Loss). Our gross profit decreased $23.3 million from a loss of $4.7 million in 2001 to a loss of $28.0 million in 2002. Similarly, gross profit as a percentage of net sales deteriorated from a loss of 0.8% of net sales in 2001 to a loss of 7.5% of net sales in 2002, primarily due to $13.6 million of restructuring charges, unfavorable changes in product mix, our inability to reduce fixed costs in proportion to the decline in net sales, and nominal gross margins associated with $24.2 million of revenue from the sale of excess inventories in 2002. These adverse changes were partially offset by a $9.1 million reduction in write-downs resulting from excess and obsolete inventories during 2002 compared to 2001.

During 2002, we decided to close manufacturing facilities in Ottawa, Kansas and Fremont, California, and we took other actions to reduce the size of our workforce. These activities resulted in total charges to cost of goods sold of $13.6 million. The $13.6 million charge consists of $10.1 million for lease exit costs; $2.8 million for impairment of a building and manufacturing equipment; and $0.7 million for severance, retention, and moving costs. The benefits of these restructuring activities are not expected to be fully realized until the first quarter of 2003.

During 2001, we assessed certain long-lived assets for impairment related to the planned move to a new facility in the Northeast, and the abandonment of manufacturing-related software that is no longer expected to be used. Due to changes in our customers and product mix, we also assessed the carrying value of intellectual property and manufacturing equipment related to those customers during 2001. Accordingly, we recognized an impairment expense of $1.3 million that was included in cost of goods sold in 2001. During 2001, we also recognized charges of $1.4 million for severance costs related to workforce reductions and $0.1 million for lease exit cost related to facility

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closures.

Inventory write-downs decreased $9.1 million from $14.5 million, or 2.5% of net sales in 2001 to $5.4 million, or 1.5% of net sales, in 2002. This reduction in inventory write-downs resulted primarily from our substantial efforts over the past year to improve our inventory management processes and to work more closely with our customers to minimize losses due to excess inventories.

Selling, General and Administrative Expenses. Selling, general and administrative expenses (SG & A) decreased $2.4 million, or 8.1%, from $29.6 million in 2001 to $27.2 million in 2002. The decrease in SG & A in 2002 was primarily attributable to a reduction in selling related expenses associated with lower sales in 2002, partially offset by an increase in professional fees.

Reorganization Transaction Costs. In 2001, we incurred costs, primarily for a fairness opinion and professional fees, of $2.4 million related to the business combination between EFTC and K*TEC. During 2002, we incurred additional costs of $0.3 million, primarily for professional fees and printing costs. This business combination, which was completed on February 28, 2002, was accounted for as a reorganization of entities under common control and, accordingly, these costs were charged to operations in the period in which the costs were incurred.

Related Party Fees. Related party fees decreased $3.0 million, or 77.7%, from $3.8 million in 2001 to $0.8 million in 2002. In 2001, affiliates of our majority stockholder charged fees of $1.8 million for investment advisory services related to the credit facility entered into in January 2001 with Citibank and $0.7 million in connection with the merger of EFTC and K*TEC. During 2001, affiliates of our majority stockholder charged management fees of $1.3 million. Effective March 1, 2002, a new management fee arrangement was effective that provides for annual fees of $0.8 million.

Goodwill amortization. During 2001, goodwill amortization included $0.3 million related to the 1997 acquisition of Current Electronics, Inc. and $2.6 million related to the 2000 acquisition of K*TEC from Kent Electronics. Effective January 1, 2002, goodwill was no longer permitted to be amortized when Statement of Financial Accounting Standards No. 142 became effective.

Interest Expense. Interest expense decreased $9.6 million, or 79.0%, from $12.2 million in 2001 to $2.6 million in 2002, primarily due to a decrease in average outstanding borrowings. Our weighted average borrowings decreased from $85.9 million in 2001 to $16.7 million in 2002. Our weighted average interest rate (computed without regard to amortization of debt issuance costs) also decreased from 9.9% in 2001 to 9.4% in 2002. The most significant event leading to lower borrowings and interest rates in 2002 was the May 2001 conversion to common stock of over $59 million of Convertible Notes held by Thayer-Blum Funding. These notes accrued interest at 8.875% and were converted to 5,940,837 shares of Suntron common stock in May 2001 as a condition of the K*TEC merger agreement.

Lower interest rates on our revolving credit facilities in 2002 also contributed to the reduction in interest expense. The prime rate decreased by approximately 4.75 percentage points during 2001 and the prime rate decreased by one-half percentage point in 2002. These reductions in the prime rate also had a favorable impact because the interest rate on the revolving line of credit is a variable rate based on the prime and LIBOR rates. However, the positive impact of lower prime and LIBOR rates in 2002 was partially offset by an increase in the margin in excess of these rates due to the November 2001 amendment to our credit agreement with Citibank. Additionally, as we reduce the principal balance on the revolver, we are still subject to a 0.5% commitment fee on the unused portion of the facility and these fees accounted for about two percentage points of our 9.4% effective interest rate in 2002.

A portion of the purchase price for the October 2000 acquisition of K*TEC was subject to a dispute that was expected to be resolved through arbitration proceedings. On May 7, 2002, the parties agreed to settle the dispute, and the $12.2 million principal balance of a note payable to the former owner was reduced by $6.9 million, resulting in an adjusted principal balance of $5.3 million. This note, which provided for interest at 14%, was repaid in May 2002. This settlement also resulted in a $1.0 million benefit in 2002 due to elimination of previously accrued interest on the portion of the principal balance that was eliminated in the settlement.

Gain (Loss) on Sale of Assets. In April 2001, we entered into a settlement agreement with respect to the earn-out calculation related to the 1999 sale of our Services Division. As a result of this agreement, we received a final payment of $0.6 million that accounted for $0.6 million of the gain on sale of assets in 2001. In 2001, we also recognized a gain of $0.2 million from the sale of equipment. In 2002, we recognized a loss from the sale of equipment for $0.2 million.

Income Taxes. K*TEC and EFTC reported their results separately for income tax purposes in 2000 and 2001. In 2000, K*TEC generated earnings that resulted in an income tax provision of $0.3 million. In 2001, K*TEC incurred a significant net loss which resulted in a tax benefit of $0.3 million. However, in 2001 EFTC generated earnings that resulted in alternative minimum tax liability of $0.3 million, resulting in nominal tax expense for 2001 on a combined basis. In 2002, the tax laws changed and the alternative minimum tax liability that we accrued in 2001 was eliminated, resulting in a tax benefit of $0.3 million for 2002.

Cumulative Effect of Change in Accounting for Goodwill. During the first quarter of 2002, we adopted the provisions of Statement of Financial Accounting Standards No. 142, which resulted in the requirement to perform a periodic impairment test, using a two-step process. The first step is to identify if potential impairment of goodwill exists. If impairment of goodwill is determined to exist, the second step of the goodwill impairment test measures the amount of the impairment loss, using a fair value-based approach. Based on the results of comparing the carrying value of goodwill with the implied fair value of goodwill, we concluded that goodwill related to the K*TEC reporting unit was impaired for the entire carrying value, which resulted in an impairment loss of $69.0 million. This impairment loss was recorded as the cumulative effect of a change in accounting principle in 2002.

Liquidity and Capital Resources

Cash Flows from Operating Activities. Net cash used by operating activities in 2003 was $19.8 million, compared with net cash provided by operating activities of $22.8 million in 2002. The difference between our net loss of $34.3 million in 2003 and $19.8 million of negative operating cash flow was primarily attributable to $22.1 million of depreciation and amortization expense, a reduction in inventories of $7.1 million, and $1.0 million of amortization of debt issuance costs, partially offset by a reduction of $9.8 million in accrued severance, retention and lease exit costs, an increase of $3.6 million in trade receivables, a decrease in accounts payable and other accrued liabilities of $1.2 million, and an increase in prepaid expenses of $1.3 million.

Days sales outstanding (based on net sales for the year and net trade receivables outstanding at the end of the year) increased to 40 days for 2003, compared to 29 days for 2002. Days sales outstanding has been increasing over the past year as the mix of our net sales has shifted away from customers that took advantage of discounts in exchange for accelerated payment terms.

We expect our net sales during the first quarter of 2004 will increase from $78.6 million in the fourth quarter of 2003. Even if we are successful in eliminating our cash operating losses in the first quarter of 2004, it is likely that we will use cash in our operating activities, primarily due to an expected increase in receivables and inventories that usually occurs during periods of increasing production and sales. Aggregate net sales generated from our two major customers declined from about $237 million in 2002 to $148 million in 2003, as both of these customers were impacted by adverse industry conditions. During 2003, we replaced some of this business with orders from smaller, less credit-worthy customers. While losses due to credit risk have not been a significant factor in the past, this trend may not continue in the future as we continue to diversify our major customer concentration with orders from smaller customers. If delinquencies related to our receivables increase in the future, this could adversely affect our borrowing capacity because accounts that are aged more than 90 days from the invoice date are ineligible for the borrowing base calculation under our credit agreement with Citibank.

Inventories decreased 8.9% to $61.4 million at December 31, 2003, compared to $67.4 million at December 31, 2002. For 2003, inventory turns (i.e., cost of goods sold for the year, excluding restructuring charges and credits, divided by year-end inventories) amounted to 5.3 times per year compared to 5.7 times per year for 2002. The reduction in inventory turns in 2003 is due in part to raw material purchases near the end of 2003 to support higher production requirements expected in the first quarter of 2004.

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Cash Flows from Investing Activities. Net cash used by investing activities for 2003 was $2.8 million compared with net cash used by investing activities of $7.8 million for 2002. Investing cash flows in 2003 include capital expenditures of $0.6 million for leasehold improvements at our Olathe, Kansas facility, $1.5 million for new manufacturing equipment at several locations (including approximately $0.9 million for testing equipment to meet new customer manufacturing requirements), and $0.6 million for software and computer equipment. In July 2003, we also paid $0.2 million for the purchase of certain design and engineering assets from an entity affiliated with Trilogic. Our cash outflows for investing activities were partially offset by $0.3 million of cash acquired in the acquisition of Trilogic. During the first quarter of 2004, we will be required to pay approximately $2.2 million to the former owners of Trilogic due to the 2003 earn-out that was accrued in our consolidated balance sheet at December 31, 2003. We also expect to incur other capital expenditures during 2004 in the range of $3.0 million to $6.0 million, although we do not have any material firm commitments in place at this time. A major portion of our planned capital expenditures is for building improvements and equipment related to expansion opportunities in Mexico and Texas.

Investing cash flows for 2002 include the payment of approximately $5.5 million in March 2002 for the acquisition of the assets of Midwestern Electronics, Inc., and $2.4 million for other capital expenditures.

Cash Flows from Financing Activities. Net cash provided by financing activities for 2003 was $21.0 million, compared with net cash used by financing activities of $27.6 million for 2002. Financing cash flows for 2003 reflect net borrowings under our revolving line of credit of $23.2 million. During 2003, the Company repaid $1.2 million of debt assumed in the Trilogic acquisition as well as other debt obligations of $0.4 million. During 2003, we also paid debt issuance costs of $0.6 million related to our amended credit facility with Citibank.

For 2002, financing cash flows reflect the net repayment of debt under revolving credit facilities of $21.0 million, the repayment of $5.3 million of debt to the former parent of K*TEC, the payment of $0.3 million of debt issuance costs related to the credit facility with Citibank, and a decrease in outstanding checks in excess of cash balances of $0.9 million. The Company utilized temporary cash investments of approximately $14.0 million at the end of 2001 to repay outstanding debt during 2002.

Contractual Obligations. The following table summarizes our contractual obligations as of December 31, 2003:

	Long-term Bank Debt	Operating Leases (1)	Purchase Obligations (2)	Other (3)	Total
	(Dollars in Table are in Millions)				
Year ending December 31:					
2004	$	$ 4.7	$ 47.7	$ 2.7	$ 55.1
2005	34.0	3.6	0.1	0.5	38.2
2006		3.1	0.9		4.0
2007		2.1			2.1
2008		1.1			1.1
After 2008		1.2	0.2		1.4
	$ 34.0	$ 15.8	$ 48.9	$ 3.2	$ 101.9

(1) Includes an aggregate of $1.3 million, which has been included in the determination of our liability for lease exit costs that is recorded on our balance sheet at December 31, 2003. Accounting principles generally accepted in the United States require that we record a liability for future lease payments, net of estimated sublease rentals, for facilities that we have closed.

(2) Consists of obligations under outstanding purchase orders. Approximately 80% of the deliveries under outstanding purchase orders are expected to be received in the first quarter of 2004. We often have the ability to cancel these obligations if we provide sufficient notice to our suppliers.

(3) Includes payable for 2003 earn-out calculation related to acquisition of Trilogic Systems for approximately $2.2 million.

In August 2003, we renewed an operating lease for our Newberg, Oregon facility. The landlord is an entity that is affiliated with a director of the Company. The renewal terms provided for a reduction in our monthly rent from approximately $58,000 to $47,000 and the lease term was extended for five years through December 2008.

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The table shown above does not include contingent consideration related to the purchase of Trilogic on May 30, 2003. Pursuant to the purchase agreement, we may be required to pay up to approximately $1.8 million if certain sales targets are achieved for 2004. For the year ended December 31, 2003, the minimum sales target was achieved and we accrued a payable of approximately $2.2 million. The agreement also requires that we estimate the annual amount of qualified 2004 sales based on actual sales for the first half of 2004 and calculate the estimated amount of consideration that would be payable for the annual 2004 sales target. Accordingly, we may be required to issue a letter of credit up to $1.8 million in the third quarter of 2004 for the estimated amount of the contingent consideration payable related to the 2004 annual sales target. The letter of credit for the 2003 sales target was issued in the fourth quarter of 2003 for approximately $2.0 million and this letter of credit will be canceled after we make the accrued payment of $2.2 million, which is expected to occur in the first quarter of 2004.

We believe we will be able to fund our contractual operating lease and purchase order obligations from operating cash flows during the periods that payments are required. We believe we will be able to fund the payments required under the Trilogic acquisition agreement through borrowings under our credit agreement with Citibank. We have commenced negotiations with Citibank and other prospective lenders for a new credit agreement that would provide for maturity date in three to five years. However, there can be no assurance that we will be successful in this regard.

Capital Resources. Our working capital at December 31, 2003 totaled $49.4 million compared to $50.4 million at December 31, 2002. At December 31, 2003, the borrowing base under our $75.0 million revolving credit facility with Citibank would have supported borrowings up to $58.0 million, and we had outstanding borrowings of approximately $34.0 million and outstanding letters of credit for $2.2 million under this credit facility. Accordingly, as of December 31, 2003, we had unused availability of $11.8 million after deducting outstanding borrowings, letters of credit, and an additional $10.0 million that Citibank temporarily removed from the borrowing base until operating performance improves to an acceptable level. In March 2004, Citibank agreed to increase the advance rates for inventories under the borrowing base calculation. After giving effect to this change, our unused availability increased to approximately $16.1 million as of March 24, 2004.

In connection with the May 2003 acquisition of Trilogic Systems, we agreed to issue a letter of credit for the estimated earn-out payable for 2003. Approximately $2.0 million of our outstanding letters of credit relate to the Trilogic earn-out for 2003 which is also recorded under current liabilities in our balance sheet at December 31, 2003.

As a result of the substantial net loss in 2002, we would have violated year-end restrictive covenants for EBITDA and tangible net worth as contained in the credit agreement with Citibank. On March 31, 2003, Citibank agreed to a permanent waiver of the year-end covenant violations, as well as expected violations of the same covenants for the first quarter of 2003. On April 11, 2003, Citibank agreed to amend the credit facility to provide less stringent covenants for EBITDA and tangible net worth. The amended facility continues to provide a revolving line of credit up to $75.0 million, and the maturity date was extended until April 2005. Borrowings under the amended credit facility bear interest at the prime rate plus 2.50% for Base Rate borrowings and the LIBOR rate plus 3.75% for LIBOR Rate borrowings. In addition, the Company is obligated to pay a commitment fee of 0.5% per annum of the unused portion of the credit facility up to $50.0 million, plus an unused commitment fee of 1.0% to the extent that the unused portion of the credit facility exceeds $50.0 million.

The credit agreement also limits or prohibits us from paying dividends, incurring additional debt, selling significant assets, or merging with other entities without the consent of the lenders. Substantially all of our assets are pledged as collateral for outstanding borrowings. As of December 31, 2003, the Company is in compliance with the covenants under the amended credit facility with Citibank. Total borrowings are subject to limitation based on a percentage of eligible accounts receivable, inventories, real estate, and equipment.

The continued availability of our credit facility with Citibank, or a comparable credit facility, is a critical assumption underlying our belief that adequate capital resources are currently in place to fund our planned activities for the next 12 months. The borrowing base calculation under the Citibank credit facility is based on a percentage of eligible receivables and inventories, plus the appraised value of certain real estate and equipment. Accordingly, our borrowing availability generally decreases as our net receivables and inventories decline. However, the borrowing base generally increases as our net receivables and inventories increase. If our sales begin to increase rapidly, this credit facility is critical to enable us to finance the increased working capital requirements associated with growth.

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In order to ensure the continuing availability of funding under our credit facility, we are required to comply with certain financial and reporting covenants, including the EBITDA covenant discussed on the following page. While the EBITDA financial covenant included in the April 2003 amended credit agreement is less stringent than the previous agreement, we are generally required to demonstrate sequential quarterly improvements in our financial performance beginning in the third quarter of 2003. If we violate the financial covenants in the future, there can be no assurance that Citibank would waive our noncompliance. In these circumstances, Citibank could elect to withdraw the credit facility, which would have a material adverse effect on our liquidity and financial condition, resulting in the need to seek other sources of financing.

We also have the ability to issue shares of our common stock to make acquisitions of businesses or to settle outstanding contractual obligations. We also have the ability to sell our common stock in a public or private offering of securities to raise cash to fund working capital and other cash requirements. However, we have not issued our common stock for these purposes over the past several years.

We believe that adequate capital resources are in place to fund our working capital and other cash requirements (including up to $1.8 million of contingent consideration related to 2004 earn-out related to the Trilogic acquisition) for the next 12 months. However, depending on the amount of capital resources that are devoted to any future acquisitions of businesses, and increased working capital requirements if sales levels increase significantly, we may need to seek additional funds through public or private debt or equity offerings, bank borrowings, or leasing arrangements.

Assuming that we are successful in eliminating our cash operating losses, we believe we have adequate capital resources to fund our planned operating activities for 2004. However, we intend to continue to evaluate strategic acquisitions to enhance our long-term business prospects and we do not believe we have adequate capital resources to fund the purchase of any additional material business units. Accordingly, we have commenced discussions with Citibank and other lenders to replace our current credit facility, which expires in April 2005. Our objective is to put a new credit facility in place that will provide additional borrowing capacity and the flexibility to make strategic acquisitions. While we believe the interest rates on a new facility would be competitive with our current facility with Citibank, we will probably incur a material amount of origination and professional fees when a new or amended credit facility is put in place. Also, if a new facility is put in place, we would be required to write-off unamortized debt issuance costs related to our current credit facility, which amounted to $0.9 million as of December 31, 2003. There can be no assurance that we will be successful in securing additional financing or an amended agreement with Citibank, and even if we are successful, the terms may be less favorable than our current agreement with Citibank.

EBITDA Financial Covenant. The primary measure of our operating performance is net income (loss). However, the Company s lenders and many investment analysts believe that other measures of operating performance are relevant. One of these alternative measures is Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). Management emphasizes that EBITDA is a non-GAAP measurement that excludes many significant items that are also important to understanding and assessing Suntron s financial performance. Additionally, in evaluating alternative measures of operating performance, it is important to understand that there are no standards for these calculations. Accordingly, the lack of standards can result in subjective determinations by management about which items may be excluded from the calculations, as well as the potential for inconsistencies between different companies that have similarly titled alternative measures. In order to illustrate our EBITDA calculations, we have provided the details below of the calculations for the years ended December 31, 2002 and 2003 using a traditional definition, as well as the calculation pursuant to the definition in our credit agreement with Citibank. Citibank modifies its definition of EBITDA to exclude certain operating charges that may be considered unlikely to recur in the future or that may be excluded due to a variety of other reasons. As shown below, the measure of EBITDA under a traditional definition differs materially from the calculation of EBITDA under our credit agreement:

	2002	2003
Net loss	$(126,150)	$(34,288)
Cumulative effect of change in accounting principle	69,015	
Income tax expense (benefit)	(276)	
Interest expense	2,568	2,696
Interest reversed in settlement	(1,029)	
Depreciation and amortization	21,987	22,133
EBITDA per traditional definition	(33,885)	(9,459)
Restructuring and reorganization costs (benefit) **(A)**	14,061	(3,131)
Other charges **(B)**	325	1,549
EBITDA per credit agreement definition	$ (19,499)	$(11,041)

(A) Restructuring costs include lease exit costs, impairment of long-lived assets, and severance, retention, and moving costs related to facility closures and other reductions in workforce. Restructuring costs exclude accelerated depreciation due to shortened lives of leasehold improvements since these amounts are included in depreciation and amortization expense.

(B) Primarily consists of a bad debt charge related to a former customer, certain professional fees, stock-based compensation expense, and cash costs related to restructuring activities.

In order to remain in compliance with the EBITDA covenant under the amended credit agreement, the Company s EBITDA (as defined in the credit agreement) for the first quarter of 2004 must be more favorable than approximately negative $1.5 million.

Impact of Recently Issued Accounting Standards

In July 2002, the FASB issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by this standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. Statement 146 replaces Issue 94-3. The Company has applied Statement 146 in accounting for all exit or disposal activities initiated after December 31, 2002. During 2003, the Company recognized restructuring costs (including severance, retention, lease exit costs, moving and relocation) under Statement 146 of approximately $1.5 million, primarily due to consolidation of manufacturing operations in Phoenix. During 2003, the Company also recognized a lease termination credit of $4.7 million related to the reversal of an accrual for exit and disposal activities that were initiated prior to the adoption of Statement 146. The adoption of Statement 146 resulted in a delay until the first quarter of 2004 in the recognition of lease exit costs of approximately $0.4 million. Under Issue 94-3, these costs would have been recognized in 2003.

In November 2002, the EITF reached a consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* . EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The provisions of EITF Issue No. 00-21 did not have a material effect on our consolidated financial statements.

On December 17, 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 104 (SAB 104) *Revenue Recognition*, which updates previous guidance contained in SAB 101, *Revenue Recognition in Financial Statements*. SAB 104 provides additional clarification of the SEC Staff s interpretation of EITF Issue No. 00-21 with respect to bill and hold transactions, undelivered elements of a sale that are both inconsequential or perfunctory and not essential to functionality, and the accounting for nonrefundable upfront fees. The adoption of SAB 104 did not have a material impact on our consolidated financial statements.

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Factors That May Affect Future Results

An investment in our common stock involves a high degree of risk. You should carefully consider the factors described below, in addition to those discussed elsewhere in this report, in analyzing an investment in our common stock. If any of the events described below occurs, our business, financial condition, and results of operations would likely suffer, the trading price of our common stock could fall, and you could lose all or part of the money you paid for our common stock. In addition, the following factors could cause our actual results to differ materially from those projected in our forward-looking statements, whether made in this Form 10-K, our annual or quarterly reports to stockholders, future press releases, other SEC filings, or orally, whether in presentations, responses to questions, or otherwise. See Statement Regarding Forward-Looking Statements.

We experience significant volatility in our net sales which leads to significant operating inefficiencies and the potential for significant charges.

As a result of the soft demand in the end markets served by our customers, our net sales declined from $574 million in 2001 to $371 million in 2002 to $313 million in 2003. During periods of rapidly declining net sales, we generally take actions to eliminate variable and fixed costs which often results in significant restructuring charges. When our net sales decline significantly, it is difficult to operate our plants profitably since it is not possible to eliminate most of our fixed costs. If we determine that the decline in sales is unlikely to be followed by a rapid recovery, we may determine that there are significant benefits to reducing our cost structure by closing plants and transferring existing business to other plants that are also operating below optimal capacity levels. In order to realize the long-term benefits of these actions, we usually incur substantial charges for impairment of assets, lease exit costs, and the payment of severance and retention benefits to affected employees. In addition to the up-front costs associated with these actions, the transition of inventory and manufacturing services to a different facility can result in quality and delivery issues that may have an adverse impact in retaining customers that are affected by the plant closure. Our results of operations could also be materially and adversely affected by our inability to timely sell or sublet closed facilities on expected terms, or otherwise achieve the expected benefits of our restructuring activities.

Conversely, customers may on occasion require rapid increases in production. These situations often result in inefficiencies related to hiring and training workers, as well as incremental costs incurred to expedite the purchase and delivery of raw materials. Periods of rapid growth tend to stress our resources and we may not have sufficient capacity to meet our customers delivery requirements.

We are dependent upon the highly competitive electronics industry, and excess capacity or decreased demand for products produced by this industry could result in increased price competition as well as a decrease in our gross margins and unit volume sales.

Our business is heavily dependent on the electronics manufacturing services industry, which is extremely competitive and includes hundreds of companies. The contract manufacturing services we provide are available from many independent sources, and we compete with numerous domestic and foreign electronic manufacturing services firms, including Benchmark Electronics, Inc.; Celestica Inc; Flextronics International Ltd.; Jabil Circuit, Inc.; Pemstar, Inc.; Plexus Corp.; Sanmina-SCI Corporation; SMTC Corporation; Solectron Corporation; Sypris Electronics, LLC; and others. Many of such competitors are more established in the industry and have greater financial, manufacturing or marketing resources than we do. We may be operating at a cost disadvantage as compared to our competitors that have greater direct buying power from component suppliers, distributors, and raw material suppliers and have lower cost structures. In addition, many of our competitors have a broader geographic presence, including manufacturing facilities in Asia, Europe, and South America.

We believe that the principal competitive factors in our targeted market are quality, reliability, the ability to meet delivery schedules, technological sophistication, geographic location, and price. We also face competition from our current and potential customers, who are continually evaluating the relative merits of internal manufacturing versus contract manufacturing for various products. As stated above, the price of our services is often one of many factors that may be considered by prospective customers in awarding new business. We believe existing and prospective customers are placing greater emphasis on contract manufacturers that can offer manufacturing services in low cost regions of the world, such as certain countries in Asia. Accordingly, in situations where the price of our services is a primary driver in prospective customers decision to award new business, we currently believe we may have a competitive disadvantage in these circumstances.

A significant percentage of our net sales are generated from the aerospace and defense, semiconductor capital equipment, industrial, networking and telecommunications, and medical segments of the electronics industry, which is characterized by intense competition and significant fluctuations in product demand. Furthermore, these segments are subject to economic cycles and have experienced in the past, and are likely to experience in the future, recessionary economic cycles. A recession or any other event leading to excess capacity or a downturn in these segments of the electronics industry results in intensified price competition as well as a decrease in our unit volume sales and our gross margins.

We are dependent on the aerospace industry.

Our principal customer is engaged in the aerospace market. See We are dependent upon a small number of customers for a large portion of our net sales, and a decline in sales to major customers would harm our results of operations. Consequently, a significant percentage of our net sales have been derived from the aerospace segment of the electronics industry. The September 11, 2001 terrorist attacks using hijacked commercial aircraft and the ensuing war on terrorism have resulted in a reduction in demand for our services, which has had an adverse impact on our results of operations. See We have experienced declining net sales. In addition, continuing tensions in the Middle East, have resulted in higher oil prices, which could result in further reductions in demand for products of our aerospace customers, which would have a continuing negative impact on our results of operations.

We are dependent upon a small number of customers for a large portion of our net sales, and a decline in sales to major customers would harm our results of operations.

A small number of customers are responsible for a significant portion of our net sales. Sales to Honeywell and Applied Materials represented approximately 42% and 22%, respectively, of our net sales for the year ended December 31, 2002. For the year ended December 31, 2003, Honeywell and Applied Materials accounted for 29% and 18%, respectively, of our net sales. In 2001, Emulex was also a major customer but our net sales to Emulex had been declining over the past two years and, by the end of the third quarter of 2003, Emulex had disengaged as a customer. We expect a significant portion of our net sales will continue to be generated by a small number of customers.

Our customer concentration could increase or decrease depending on future customer requirements, which will depend in large part on market conditions in the industry segments in which our customers participate. The loss of one or more major customers or a decline in sales to our major customers could significantly harm our business and results of operations.

If we are not able to expand our customer base, we will continue to depend upon a small number of customers for a significant percentage of our net sales. There can be no assurance that current customers, including Honeywell and Applied Materials, will not terminate their manufacturing arrangements with us or significantly change, reduce, or delay the amount of manufacturing services ordered from us.

In addition, we generate significant accounts receivable in connection with providing services to our customers. If one or more of our significant customers were to become insolvent or were otherwise unable or unwilling to pay for our services, our results of operations would deteriorate substantially.

Our customers may cancel their orders, change production quantities, or delay production.

Electronics manufacturing service providers must provide increasingly rapid product turnaround for their customers. We generally do not obtain firm, long-term purchase commitments from our customers, and we expect to continue to experience reduced lead-times in customer orders. Customers may cancel their orders, change production quantities, or delay production for a number of reasons. Cancellations, reductions, or delays by a significant customer or by a group of customers would seriously harm our results of operations. When customer orders are changed or cancelled, we may be forced to hold excess inventories and incur carrying costs as a result of delays, cancellations, or reductions in orders or poor forecasting by our key customers.

In addition, we make significant decisions, including determining the levels of business that we seek and accept, production schedules, component procurement commitments, personnel needs, and other resource requirements based on estimates of customer production requirements. The short-term nature of our customers commitments to us, combined with the possibility of rapid changes in demand for their products, reduces our ability to accurately estimate future customer orders. In addition, because many of our costs and operating expenses are relatively fixed, a reduction in customer demand generally harms our operating results.

If we experience excess capacity due to variability in customer demand, our gross margins may decline.

We may schedule certain of our production facilities at less than full capacity to retain our ability to respond to additional quick turnaround orders. However, if these orders are not received, we could experience losses due to excess capacity. Whenever we experience excess capacity, our sales revenue may be insufficient to fully cover our fixed overhead expenses and our gross margins will decline. Conversely, we may not be able to capture all potential revenue in a given period if our customers demands for quick turnaround services exceed our capacity during that period.

If we are unable to respond to rapid technological change and process development, we may not be able to compete effectively.

The market for our products and services is characterized by rapidly changing technology and continual implementation of new production processes. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities, to develop and market products that meet changing customer needs, and to successfully anticipate or respond to technological changes on a cost-effective and timely basis. We expect that the investment necessary to maintain our technological position will increase as customers make demands for products and services requiring more advanced technology on a quicker turnaround basis.

In addition, the electronics manufacturing services industry could encounter competition from new or revised manufacturing and production technologies that render existing manufacturing and production technology less competitive or obsolete. We may not be able to respond effectively to the technological requirements of the changing market. If we need new technologies and equipment to remain competitive, the development, acquisition and implementation of those technologies may require us to make significant capital investments.

Operating in foreign countries exposes us to increased risks that could adversely affect our results of operations.

We currently have foreign operations in Mexico. We may in the future expand into other foreign countries. We have limited experience in managing geographically dispersed operations and in operating in foreign countries. Because of the scope of our international operations, we are subject to the following risks, which could adversely impact our results of operations:

- economic or political instability;
- transportation delays and interruptions;
- increased employee turnover and labor unrest;
- incompatibility of systems and equipment used in foreign operations;
- foreign currency exposure;
- difficulties in staffing and managing foreign personnel and diverse cultures; and
- less developed infrastructures.

In addition, changes in policies by the United States or foreign governments could negatively affect our operating results due to increased duties, increased regulatory requirements, higher taxation, currency conversion limitations, restrictions on the transfer of funds, the imposition of or increase in tariffs, and limitations on imports or exports. Also, we could be negatively affected if our host countries revise their policies away from encouraging foreign investment or foreign trade, including tax holidays.

If we are unsuccessful in managing future opportunities for growth, our results of operations will be harmed.

Our future results of operations will be affected by our ability to successfully manage future opportunities for growth. Rapid growth is likely to place a significant strain on our managerial, operational, financial, and other resources. If this growth materializes, it may require us to implement additional management information systems, to further develop our operating, administrative, financial, and accounting systems and controls and to maintain close coordination among our accounting, finance, sales and marketing, and customer service and support departments. In addition, we may be required to retain additional personnel to adequately support our growth. If we cannot effectively manage periods of rapid growth in our operations, we may not be able to continue to grow, or we may grow at a slower pace. Any failure to successfully manage growth and to develop financial controls and accounting and operating systems or to add and retain personnel that adequately support growth could harm our business and financial results.

Our results of operations are affected by a variety of factors, which could cause our results of operations to fail to meet expectations.

Our results of operations have varied, and our results of operations may continue to fluctuate significantly from period to period, including on a quarterly basis. Our results of operations are affected by a number of factors, including:

- timing of orders from and shipments to major customers;
- mix of products ordered by major customers;
- volume of orders as related to our capacity at individual locations;
- pricing and other competitive pressures;
- component shortages, which could cause us to be unable to meet customer delivery schedules;
- our ability to minimize inventory obsolescence and bad debt expense risk;
- our ability to manage effectively inventory and fixed asset levels; and
- timing and level of goodwill and other long-lived asset impairments.

We are dependent on limited and sole source suppliers for electronic components and may experience component shortages, which would cause us to delay shipments to customers.

We are dependent on certain suppliers, including limited and sole source suppliers, to provide critical electronic components and other materials for our operations. At various times, there have been shortages of some of the electronic components we use, and suppliers of some components have lacked sufficient capacity to meet the demand for these components. For example, from time to time, some components we use, including semiconductors, capacitors, and resistors, have been subject to shortages, and suppliers have been forced to allocate available quantities among their customers. Such shortages have disrupted our operations in the past, which resulted in incomplete or late shipments of products to our customers. Our inability to obtain any needed components during future periods of allocations could cause delays in shipments to our customers. The inability to make scheduled shipments could in turn cause us to experience a shortfall in revenue. Component shortages may also increase our cost of goods due to premium charges we may pay to purchase components in short supply. Accordingly, even though component shortages have not had a lasting negative impact on our business, component shortages could harm our results of operations for a particular fiscal period due to the resulting revenue shortfall or cost increases and could also damage customer relationships over a longer-term period.

We depend on our key personnel and may have difficulty attracting and retaining skilled employees.

Our future success will depend to a significant degree upon the continued contributions of our key management, marketing, technical, financial, accounting and operational personnel, including James K. Bass, our President and

Chief Executive Officer. The loss of the services of one or more key employees could have a material adverse effect on our results of operations. We also believe that our future success will depend in large part upon our ability to attract and retain additional highly skilled managerial and technical resources. Competition for such personnel is intense. There can be no assurance that we will be successful in attracting and retaining such personnel. In addition, recent and potential future facility shutdowns and workforce reductions may have a negative impact on employee recruiting and retention.

Our manufacturing processes depend on the collective industry experience of our employees. If these employees were to leave and take this knowledge with them, our manufacturing processes may suffer and we may not be able to compete effectively.

We have no patent or trade secret protection for our manufacturing processes, but instead rely on the collective experience of our employees to ensure that we continuously evaluate and adopt new technologies in our industry. Although we are not dependent on any one employee or a small number of employees, if a significant number of employees involved in our manufacturing processes were to leave our employment and we are not able to replace these people with new employees with comparable experience, our manufacturing processes may suffer as we may be unable to keep up with innovations in the industry. As a result, we may not be able to continue to compete effectively.

Our failure to comply with the requirements of environmental laws could result in fines and revocation of permits necessary to our manufacturing processes.

Our operations are regulated under a number of federal, state, and foreign environmental and safety laws and regulations that govern, among other things, the discharge of hazardous materials into the air and water, as well as the handling, storage, and disposal of such materials. These laws and regulations include the Clean Air Act; the Clean Water Act; the Resource Conservation and Recovery Act; and the Comprehensive Environmental Response, Compensation, and Liability Act; as well as analogous state and foreign laws. Compliance with these environmental laws is a major consideration for us because our manufacturing processes use and generate materials classified as hazardous, such as ammoniacal etching solutions, copper, and nickel. In addition, because we use hazardous materials and generate hazardous wastes in our manufacturing processes, we may be subject to potential financial liability for costs associated with the investigation and remediation of our own sites or sites at which we have arranged for the disposal of hazardous wastes, if such sites become contaminated. Even if we fully comply with applicable environmental laws and are not directly at fault for the contamination, we may still be liable. The wastes we generate include spent ammoniacal etching solutions, solder stripping solutions, and hydrochloric acid solutions containing palladium; waste water that contains heavy metals, acids, cleaners, and conditioners; and filter cake from equipment used for on-site waste treatment. We have not incurred significant costs related to compliance with environmental laws and regulations in the prior three years, and we believe that our operations comply with all applicable environmental laws. However, any material violations of environmental laws by us could subject us to revocation of our effluent discharge and other environmental permits. Any such revocations could require us to cease or limit production at one or more of our facilities. Even if we ultimately prevail, environmental lawsuits against us would be time consuming and costly to defend.

Environmental laws could also become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violation. We operate in environmentally sensitive locations and are subject to potentially conflicting and changing regulatory agendas of political, business, and environmental groups. Changes or restrictions on discharge limits; emissions levels; or material storage, handling, or disposal might require a high level of unplanned capital investment or relocation. It is possible that environmental compliance costs and penalties from new or existing regulations may harm our business, financial condition, and results of operations.

We may be subject to risks associated with acquisitions, and these risks could harm our results of operations.

We completed two business combinations in 2002 and one in 2003, and we anticipate that we will seek to identify and acquire additional suitable businesses in the electronics manufacturing services industry. The long-term success of recent business combinations will depend on our ability to unite the business strategies, human resources and information technology systems of previously separate companies. The difficulties of combining operations include the necessity of coordinating geographically separated organizations and integrating personnel with diverse business backgrounds. Combining management resources will result in changes affecting all employees and operations. Differences in management approach and corporate culture may strain employee relations.

Future business combinations could cause certain customers to either seek alternative sources of product supply or service, or delay or change orders for products due to uncertainty over the integration of the two companies or the strategic position of the combined company. As a result, we may experience some customer attrition.

Acquisitions of companies and businesses and expansion of operations involve certain risks, including the following:

- the business fails to achieve anticipated revenue and profit expectations;
- the potential inability to successfully integrate acquired operations and businesses or to realize anticipated synergies, economies of scale, or other value;
- diversion of management s attention;
- difficulties in scaling up production and coordinating management of operations at new sites;

- the possible need to restructure, modify, or terminate customer relationships of the acquired business;
- loss of key employees of acquired operations; and
- the potential liabilities of the acquired businesses.

Accordingly, we may experience problems in integrating the operations associated with any future acquisition. We therefore cannot provide assurance that any future acquisition will result in a positive contribution to our results of operations. In particular, the successful combination with any businesses we acquire will require substantial effort from each company, including the integration and coordination of sales and marketing efforts. The diversion of the attention of management and any difficulties encountered in the transition process, including the interruption of, or a loss of momentum in, the activities of any business acquired, problems associated with integration of management information and reporting systems, and delays in implementation of consolidation plans, could harm our ability to realize the anticipated benefits of any future acquisition. In addition, future acquisitions may result in dilutive issuances of equity securities, the incurrence of additional debt, large one-time write-offs, and the creation of goodwill or other intangible assets that could result in increased impairment or amortization expense.

Our level of indebtedness could adversely affect our financial viability, and the restrictions imposed by the terms of our debt instruments may severely limit our ability to plan for or respond to changes in our business.

As of December 31, 2003, we had outstanding bank debt of approximately $34.0 million. In addition, subject to the restrictions under our debt agreements, we may incur significant additional indebtedness from time to time to finance business acquisitions, capital expenditures, or for other purposes.

Significant levels of debt could have negative consequences. For example, it could:

- require us to dedicate a substantial portion of our cash flow from operations to service interest and principal repayment requirements, limiting the availability of cash for other purposes;
- increase our vulnerability to adverse general economic conditions by making it more difficult to borrow additional funds to maintain our operations if we suffer revenue shortfalls;
- limit our ability to attract new customers if we do not have sufficient liquidity to meet working capital needs; and
- hinder our flexibility in planning for, or reacting to, changes in our business and industry if we are unable to borrow additional funds to upgrade our equipment or facilities.

We may need additional capital in the future and it may not be available on acceptable terms, or at all.

While we believe our capital resources are currently adequate, we may need to raise additional funds for the following purposes:

- to fund working capital requirements for future growth that we may experience;
- to enhance or expand the range of services we offer;
- to increase our promotional and marketing activities; or
- to respond to competitive pressures or perceived opportunities, such as

investment, acquisition, and international expansion activities.

If such funds are not available when required or on acceptable terms, our business and financial results could suffer.

Our stock price may be volatile, and our stock is thinly traded, which could cause investors to lose all or part of their investments in our common stock.

The stock market has recently experienced volatility that has often been unrelated to the operating performance of any particular company or companies. If market or industry-based fluctuations continue, our stock price could decline regardless of our actual operating performance, and investors could lose a substantial part of their investments. Moreover, if an active public market for our stock is not sustained in the future, it may be difficult to resell our stock.

During 2002 and 2003, the average number of shares of our common stock that traded on the NASDAQ exchange amounted to approximately 7,000 shares per day compared to 27,409,000 issued and outstanding shares.

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When trading volumes are this low, a relatively small buy or sell order can result in a large percentage change in the trading price of our common stock, which may be unrelated to changes in our stock price that are associated with our operating performance.

The market price of our common stock will likely fluctuate in response to a number of factors, including the following:

- failure to meet the performance estimates of securities analysts;
- changes in estimates of our net sales and results of operations by securities analysts;
- announcements about the financial performance and prospects of the industries and customers we serve;
- announcements about the financial performance of our competitors in the electronic manufacturing services industry;
- the timing of announcements by us or our competitors of significant contracts or acquisitions; and
- general stock market conditions.

Our major stockholder controls us and our stock price could be influenced by actions taken by this stockholder. Additionally, this stockholder could prevent a change of control or other business combination, or could effect a short form merger without the approval of other stockholders.

Thayer-Blum owns approximately 90% of our common stock, and four of our nine directors are representatives of Thayer-Blum. The interests of Thayer-Blum may not always coincide with those of our other stockholders, particularly if Thayer-Blum decides to sell its controlling interest. In addition, Thayer-Blum will have sufficient voting power (without the approval of Suntron s other stockholders) to elect the entire Board of Directors of Suntron and, in general, to determine the outcome of various matters submitted to stockholders for approval, including fundamental corporate transactions. Thayer-Blum could cause us to take actions that we would not consider absent Thayer-Blum s influence, or could delay, deter, or prevent a change of control or other business combination that might otherwise be beneficial to our public stockholders.

In addition, Thayer-Blum could contribute its Suntron stock to a subsidiary corporation that, as a 90% stockholder, then would have the ability under Delaware law to merge with or into Suntron without the approval of the other Suntron stockholders. In the event of such a short-form merger, Suntron stockholders would have the right to assert appraisal/dissenters rights to receive cash in the amount of the fair market value of their shares in lieu of the consideration they would have otherwise received from the transaction.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On January 26, 2001, the Company entered into a revolving line of credit agreement with Citibank, N.A. The amended credit agreement provides for total borrowings up to $75 million. The interest rate under this agreement is based either on the prime rate or LIBOR rate, plus applicable margins. Therefore, as interest rates fluctuate, the Company may experience changes in interest expense that will impact financial results. The Company has not entered into any interest rate swap agreements, or similar instruments, to protect against the risk of interest rate fluctuations. Assuming outstanding borrowings of $75 million, if interest rates were to increase or decrease by one percentage point, the result would be an increase or decrease in annual interest expense of $750,000. Accordingly, significant increases in interest rates could have a material adverse effect on the Company s future results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the financial statements, the report thereon, the notes thereto, and the supplementary data commencing at page F-1 of this Report, which financial statements, report, notes, and data are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

ITEM 9A. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting during the quarter ended December 31, 2003, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including the Company s Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The following table, together with the accompanying text, presents certain information, as of February 29, 2004, with respect to each of our executive officers and directors.

Name	Age	Position(s) Held With the Company
James K. Bass	47	Chief Executive Officer, President and Director
John W. Briant	38	Vice President of Materials, Quality and Process Management
James A. Doran	49	Vice President, Controller and Chief Accounting Officer
Michael Eblin	41	Chief Operating Officer
Oscar A. Hager	48	Vice President of Human Resources
Peter W. Harper	42	Chief Financial Officer and Secretary
John H. Kulp	46	Vice President of Sales and Marketing
Allen S. Braswell, Jr.	45	Director
Fred A. Breidenbach	57	Director
Jeffrey W. Goettman	44	Chairman of the Board and Director
Douglas P. McCormick	34	Director
Jose S. Medeiro	35	Director
Richard L. Monfort	49	Director
James C. Van Horne	68	Director
John C. Walker	42	Director

James K. Bass has served as our Chief Executive Officer and President and as a director since May 2001 and as EFTC s Chief Executive Officer since July 2000. From 1996 to June 2000, Mr. Bass was a senior vice president of Sony Corporation, a company engaged in the development, design, manufacture and sale of various kinds of electronic equipment, instruments and devices for consumer and professional markets. Prior to that, Mr. Bass spent 15 years in various manufacturing management positions at the aerospace group of General Electric Company, a company engaged in the development, manufacturing and marketing of a wide variety of products for the generation, transmission, distribution, control, and utilization of electricity. Mr. Bass also serves as a director of TTM Technologies, Inc., a provider of time-critical, one-stop manufacturing services for highly complex printed circuit boards which is also an affiliate of Thayer Capital Partners.

John W. Briant has served as our Vice President of Materials, Quality and Process Management since February 2002. Mr. Briant served as EFTC s Vice President of Material and Logistics from October 1999 to February 2002. Mr. Briant served as the Director of Process and Quality Management of EFTC from July 1998 to September 1999. Prior to joining EFTC, Mr. Briant held various management, procurement, and engineering positions at AlliedSignal from 1993 to 1998 and was responsible for the development of their corporate supply base for Electronic Manufacturing Services and Printed Wiring Boards. Prior to that, he held engineering positions with Honeywell s Business and Commuter Aviation Division, a manufacturer of aerospace products and services.

James A. Doran has served as our Vice President, Controller and Chief Accounting Officer since February 2002. Mr. Doran served as EFTC s Controller from September 1999 to February 2002, and Mr. Doran was a member of the Board of Directors of EFTC from 1993 until 2000. Prior to joining EFTC, from 1994 to September 1999, Mr. Doran served as a Senior Audit Manager with Hein & Associates LLP, a public accounting and consulting firm.

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Michael Eblin has served as our Chief Operating Officer since February 2002. Mr. Eblin served as the Senior Vice President of Operations of EFTC from July 2000 to February 2002. From 1995 to June 2000, Mr. Eblin was Director of Operations of Sony Corporation. Prior to that, Mr. Eblin held various management positions in the Electronics Controls division of United Technologies and Hughes Electronics, part of General Motors Corporation, an automobile manufacturer and communications systems and financial services provider.

Oscar A. Hager has served as our Vice President of Human Resources since February 2002. Mr. Hager served as EFTC s Vice President of Human Resources from November 2000 to February 2002. From April 1999 to October 2000, Mr. Hager was EFTC s Director of Human Resources for Southwest Commercial Operations. Prior to joining EFTC, Mr. Hager spent fifteen years with Honeywell s Commercial Aviation group, a manufacturer of commercial avionics equipment, in various human resource management capacities. Prior to joining Honeywell, Mr. Hager held various human resource positions in the aerospace industry.

Peter W. Harper has served as our Chief Financial Officer and Secretary since May 2001. Mr. Harper has served as the Chief Financial Officer of EFTC since July 2000. From 1996 to June 2000, Mr. Harper served as Vice President of Finance at Iomega Corporation, a company that designs, manufactures and markets personal and professional storage solutions for users of personal computers and consumer electronics devices. Prior to that, Mr. Harper spent 12 years in various management positions at General Electric Company.

John H. Kulp has served as our Vice President of Sales and Marketing since February 2002. Mr. Kulp served as the Vice President of Sales and Marketing of EFTC from December 2001 to February 2002. From October 1999 to August 2001, Mr. Kulp served as Vice President of Sales at FlexTek Incorporated, a supplier of electromechanical subassemblies. From 1979 to October 1999, Mr. Kulp served in various capacities, most recently as regional sales manager, at AMP Inc., a supplier of electrical and electronic connections and interconnection systems.

Allen S. Braswell, Jr. has served as a director since October 2001. Mr. Braswell has engaged in private investment activities as his principal occupation since December 2000. From September 1999 until such time, Mr. Braswell served as President of Jabil Global Services, a subsidiary of Jabil Circuit, Inc. engaged in electronic product service and repair, which was purchased by EFTC from affiliates of Mr. Braswell in September 1997 and sold to Jabil Circuit in September 1999. Mr. Braswell also served as President of the predecessors of Jabil Global Services since October 1996.

Fred A. Breidenbach has served as a director since October 2001. Mr. Breidenbach has served as the principal of FA Breidenbach & Associates, LLC, a management-consulting firm providing services to the aerospace industry, since November 1997. From April 1993 until July 1997, Mr. Breidenbach served as President and Chief Operating Officer of Gulfstream Aerospace Corporation (now a subsidiary of General Dynamics). Mr. Breidenbach also serves as a director of Synnex Corporation.

Jeffrey W. Goettman has served as our Chairman of the Board and a director since May 2001. Mr. Goettman has served as a Managing Partner of Thayer Capital Partners, a private equity investment company, since April 2001. Mr. Goettman joined Thayer Capital Partners in February 1998. From February 1994 to February 1998, Mr. Goettman served as a Managing Director and founder of the electronic manufacturing services group at Robertson Stephens & Co., Inc., an investment banking firm. Mr. Goettman also serves as Chairman of the Board and a director of TTM Technologies, Inc.

Douglas P. McCormick has served as a director since October 2001. Mr. McCormick has served as a Managing Director of Thayer Capital Partners since January 2001 and was a Vice President of that company since January 1999. From June 1997 to January 1999, Mr. McCormick served as an associate at Morgan Stanley & Co. Incorporated, an investment banking firm. From September 1995 to June 1997, Mr. McCormick attended Harvard Business School.

Mr. McCormick also serves as a director of TTM Technologies, Inc.

Jose S. Medeiros has served as a director since October 2001. Mr. Medeiros has been a Partner in Blum Capital Partners, L.P., a San Francisco-based private equity and strategic block investment firm, since August 2000 and Vice President since August 1998. From June 1996 to August 1998, Mr. Medeiros served as a Vice President in the Technology Mergers & Acquisitions group of Robertson Stephens & Co., Inc. From January 1990 to June 1996, Mr. Medeiros served as an Associate at McKinsey & Company.

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Richard L. Monfort has served as a director since October 2001. Mr. Monfort has been engaged in private investment activities as his principal occupation since June 1995. From July 1989 to June 1995, Mr. Monfort served as President and Chief Operating Officer of ConAgra Red Meat Companies, a division of ConAgra Foods Inc. engaged in beef, pork and lamb production. Mr. Monfort also serves as a director of Famous Dave s of America, Inc., an owner and operator of restaurants.

James C. Van Horne has served as a director since October 2001. Mr. Van Horne has served as the A.P. Giannini Professor of Finance at the Stanford University Graduate School of Business since 1979, and has taught at such institution since 1965. Mr. Van Horne also serves as a director of Montgomery Street Income Securities, Inc. (an investment company), and Bailard Biehl & Kaiser Fund Group (a family of four mutual funds).

John C. Walker has served as a director since May 2001. Mr. Walker has been a Partner with Blum Capital Partners since April 1997. From 1992 until April 1997, Mr. Walker served as the Vice President of PEXCO Holdings, Inc., a private investment holding company. Mr. Walker also serves as a director of Smarte Carte, Inc., a company providing products and services to travelers to efficiently store or move their belongings, and Playtex Products, Inc., a manufacturer and distributor of a diversified portfolio of consumer and personal products.

Audit Committee

Our board of directors has established an audit committee to review and monitor our corporate financial reporting and our external audits, including, among other things, our internal audit and control functions, the results and scope of the annual audit and other services provided by our independent auditors, and our compliance with legal requirements that have a significant impact on our financial reports. The audit committee also consults with our management and our independent auditors regarding the preparation of financial statements and, as appropriate, initiates inquiries into aspects of our financial affairs. In addition, the audit committee has the responsibility to consider and recommend the appointment of, and to review fee arrangements with, our independent auditors. The members of the audit committee are Messrs. Van Horne, Goettman, and Breidenbach. The audit committee met nine times, including three telephonic meetings, during fiscal year 2003. Our Board of Directors has determined that James C. Van Horne, the Chairman of our audit committee, is an audit committee financial expert as defined under Item 401(h) of Regulation S-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, officers, and persons who own more than 10% of a registered class of our securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Directors, officers, and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. During 2003, we believe that our directors, executive officers and 10 percent stockholders complied with all Section 16(a) filing requirements, except that Messrs. Bass, Briant, Doran, Eblin, Gibbons, Hager, Harper, and Kulp each inadvertently filed one Form 4 late. These individuals received stock option grants in mid-December 2003 and the Forms 4 were filed on January 15, 2004.

Code of Ethics

We have adopted a Code of Ethics within the meaning of Item 406(b) of Regulation S-K. This Code of Ethics applies to our principal executive officer, principal financial officer and principal accounting officer. This Code of Ethics is publicly available on our website at www.suntroncorp.com/investor/index.html. If we make substantive amendments to this Code of Ethics or grant any waiver, including any implicit waiver, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K.

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ITEM 11. EXECUTIVE COMPENSATION

ITEM 11. EXECUTIVE COMPENSATION

Executive Compensation

The following table sets forth information concerning the compensation paid by Suntron (including EFTC and K*TEC) for the fiscal years ended December 31, 2001, 2002, and 2003 to our Chief Executive Officer and each of the four other most highly compensated individuals who served as executive officers of Suntron at the end of 2003, as well as their titles with Suntron.

Summary Compensation Table

					Long Term Compensation		
	Annual Compensation				Awards	Payouts	
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation ($)(1)	Securities Underlying Options(#)(2)	LTIP Payouts ($)	All Other Compensation($)
James K. Bass	2001	$300,000	$300,000	$	13,750	$	$
Chief Executive	2002	300,000			227,000		
Officer and President	2003	300,000			60,000		
John Briant	2001	160,000	80,000		3,750		
Vice President of	2002	160,000	4,125		50,750		
Materials, Quality &							
Process Management	2003	174,423			12,000		
Michael Eblin	2001	200,004	140,000		8,750		
Chief Operating	2002	200,004			132,500		
Officer	2003	219,231			27,000		
R. Michael Gibbons (3)	2001	198,000	25,000		197,310		
Exec. Vice President-	2002	200,538			32,500		
New Business Dev.	2003	220,000			15,000		
Peter W. Harper	2001	200,004	100,000		15,000		
Chief Financial	2002	200,004			65,000		
Officer and Secretary	2003	200,004			15,000		

(1) Except as otherwise provided in this table, no amounts for perquisites and other personal benefits received by any of the named executive officers are shown because the aggregate dollar amounts were lower than the reporting requirements established by the rules of the SEC.

(2) Represents options to purchase shares of Suntron common stock, after giving effect to the assumption of EFTC and K*TEC options upon the completion of the combination and the applicable exchange ratios.

(3) Effective March 12, 2004, Mr. Gibbons was no longer employed by Suntron.

Stock Option Grants

Suntron did not grant any stock appreciation rights in 2003. The following table sets forth information concerning the grant of stock options in 2003 to Suntron s Chief Executive Officer and the other executive officers named in the Summary Compensation Table above.

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Option Grants In Last Fiscal Year

	Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Terms (4)		
Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year(3)	Exercise or Base Price ($/Share)	Grant Date Market Value ($/Share)	Expiration Date	0%($)	5%($)	10%($)
James K. Bass	60,000**(1)**	13.7%	$ 4.40	$ 4.35	12/05/13	$	$ 161,141	$ 412,967
John Briant	12,000**(2)**	2.7%	0.01	4.21	12/05/13	50,400	82,172	130,916
Michael Eblin	27,000**(2)**	6.2%	0.01	4.35	12/05/13	117,180	191,044	304,365
R. Michael Gibbons	15,000**(2)**	3.4%	0.01	4.35	12/05/13	65,100	106,135	169,092
Peter W. Harper	15,000**(2)**	3.4%	0.01	4.42	12/05/13	65,100	107,846	171,815

(1) Represents options to purchase shares of Suntron common stock that become exercisable for 25% of the underlying shares on the first anniversary of the date of grant and 25% annual installments thereafter, so long as the executive remains employed with Suntron.

(2) Represents options to purchase Suntron common stock that become exercisable on January 1, 2006, provided that the executive remains employed with Suntron.

(3) The percentages shown above are based on an aggregate of 437,021 options for shares of Suntron common stock that were granted to employees for the year ended December 31, 2003.

(4) Potential realizable value assumes that the stock price increases from the date of the grant until the end of the option term (10 years) at the annual rate specified (0%, 5% and 10%). The 0%, 5% and 10% assumed annual rates of appreciation are mandated by SEC rules and do not represent our estimate or projection of the future price of our common stock. We do not believe this method accurately illustrates the potential value of a stock option.

Stock Option Exercises and Values for Fiscal 2003

The following table sets forth information with respect to Suntron s Chief Executive Officer and the executive officers named in the Summary Compensation Table concerning options exercised in 2003 and unexercised options held by them as of the end of such fiscal year:

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Value

	Value	Number of Options at December 31, 2003	Value of Unexercised In-the-Money Options at December 31, 2003($)(1)

Name	Shares Acquired on Exercise	Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
James K. Bass		$	205,876	525,750	$8,750	$ 26,250
John Briant			46,501	111,500	2,625	59,355
Michael Eblin			81,813	243,250	5,250	131,580
R. Michael Gibbons			99,415	244,810	1,750	69,600
Peter W. Harper			43,375	132,500	3,500	74,850

(1) The closing sales price per share for Suntron common stock as reported by the Nasdaq National Market on December 31, 2003 was $4.30. The option value is calculated by multiplying (a) the positive difference, if any, between $4.30 and the option exercise price by (b) the number of shares of common stock underlying the option.

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Equity Compensation Plan Information

The following table sets forth certain information, as of December 31, 2003, regarding shares of our common stock that may be issued upon the exercise of options under our only stock option plan (the Amended and Restated 2002 Stock Option Plan).

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	(b) Weighted Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Stockholders	2,361,105	$ 10.28	2,638,895
Equity Compensation Plans Not Approved by Stockholders			
Total	2,361,105	$ 10.28	2,638,895

Employment Agreements and Change of Control Arrangements

James K. Bass, our Chief Executive Officer and President, has entered into an employment agreement that provides for him to be employed as Chief Executive Officer for a term ended on December 31, 2003, which term automatically extends for successive one-year periods until the agreement is terminated. Mr. Bass agreement provides for a minimum annual base salary of $300,000 and incentive-based bonus compensation in an amount determined by the compensation committee of our board of directors. We may terminate his employment agreement with or without cause. In the case of a termination without cause, however, we must continue to pay Mr. Bass base salary and prorated bonus compensation for a period of one year from the date of termination.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information with respect to our common stock beneficially owned as of February 29, 2004 by (a) each person known by us to own beneficially more than five percent of our outstanding common stock, (b) each of our directors, (c) each of our executive officers, and (d) all of our directors and executive officers as a group.

	Shares Beneficially Owned	
Name of Beneficial Owner(1)	**Number**	**Percent (2)**
Thayer-Blum Funding III, L.L.C. (3)	24,582,191	89.7%
James K. Bass (4)	227,814	*
Allen S. Braswell, Jr. (5)	225,235	*
Fred A. Breidenbach (6)	16,224	*
Jeffrey W. Goettman (7)	24,582,191	89.7%
Douglas P. McCormick (7)	24,582,191	89.7%
Jose S. Medeiros (7)	24,582,191	89.7%
Richard L. Monfort (8)	112,571	*
James C. Van Horne (9)	10,374	*
John C. Walker (7)	24,582,191	89.7%
John W. Briant (10)	50,875	*
James A. Doran (11)	32,280	*
Michael Eblin (12)	94,563	*
Oscar A. Hager (13)	26,063	*
Peter W. Harper (14)	49,875	*
John H. Kulp (15)	24,438	*
All directors and executive officers as a group (16 persons) (7)(16)	25,452,503	91.1%

* Represents less than 1% of our outstanding common stock.

(1) Except as otherwise indicated, the address of each person listed on the table is 2501 West Grandview Road, Phoenix, Arizona 85023.

(2) We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included the shares of common stock subject to options and convertible securities held by that person that are currently exercisable or convertible or will become exercisable or convertible within 60 days after February 29, 2004, but we have not included those shares for purposes of computing percentage ownership of any other person. We have assumed unless otherwise indicated that the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Beneficial ownership is based on 27,410,588 shares of our common stock outstanding as of February 29, 2004.

(3) Thayer-Blum Funding III, L.L.C. is owned as follows: 59.94% by Thayer Equity Investors IV, L.P., 0.04% by TC Manufacturing Holdings, L.L.C., 0.02% by TC KCo, L.L.C., 34.4% by Blum Strategic Partners, L.P., and 5.6% by Blum (K*TEC) Co-Investment Partners, L.P.

TC Manufacturing Holdings, L.L.C. is controlled by limited liability companies, the managing members of which are Frederick Malek, Carl Rickersten and Paul Stern.

Thayer Equity Investors IV, L.P. is controlled by a limited liability company, the managing members of which are Frederick Malek and Carl Rickersten.

TC KCo, L.L.C. is controlled by a limited liability company, the managing members of which are Frederik Malek and Carl Rickertsen.

Blum Strategic Partners, L.P. is controlled by a limited liability company, a managing member of which is Richard C. Blum.

Blum (K*TEC) Co-Investment Partners, L.P. is controlled by a limited liability company, a managing member of which is Richard C. Blum.

Messrs. Goettman and McCormick, both directors of ours, are managing directors of the limited liability company that controls Thayer Equity Investors IV, L.P. Messrs. Walker and Medeiros, both directors of ours, are members of the general partner of Blum Strategic Partners, L.P.

The address of Thayer-Blum Funding III, L.L.C. is 1455 Pennsylvania Avenue, N.W., Suite 350, Washington, D.C. 20004.

(4) Consists of 227,814 shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 29, 2004.

(5) Includes 37,520 shares beneficially owned by the Allen S. Braswell, Jr. Family Limited Partnership #1; 24,455 shares beneficially owned by the Allen S. Braswell, Jr. EFTC Limited Partnership, of which Allen S. Braswell is a general partner; 2,750 shares beneficially owned by the Allen S. Braswell, Sr. Trust, of which Allen S. Braswell, Sr., Allen S. Braswell, Jr. s father, is the trustee; 8,750 shares beneficially owned by Circuit Test International, L.P., of which Braswell Investment Corporation (BIC) is a general partner; 136,522 shares beneficially owned by Braswell GRIT Limited Partnership, of which BIC is a general partner; and 3,010 shares issuable pursuant to options that are exercisable within 60 days of February 29, 2004. Allen S. Braswell, Jr. is president of BIC.

(6) Includes 7,724 shares issuable pursuant to options currently exercisable or exercisable within 60 days of February 29, 2004.

(7) Reflects 24,582,191 shares held by Thayer-Blum. See footnote 3. Messrs. Goettman, McCormick, Medeiros, and Walker disclaim beneficial ownership of these securities, except to the extent of any pecuniary interest therein.

(8) Includes 67,875 shares held by the Monfort Family Partnership; 23,168 shares held by a partnership in which Mr. Monfort is the principal investor; 11,518 shares owned by three of Mr. Monfort s minor children; and 10,010 shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 29, 2004.

(9) Includes 7,874 shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 29, 2004.

(10) Consists of 50,875 shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 29, 2004.

(11) Includes 32,188 shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 29, 2004.

(12) Consists of 94,563 shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 29, 2004.

(13) Includes 25,938 shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 29, 2004.

(14) Consists of 49,875 shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 29, 2004.

(15) Consists of 24,438 shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 29, 2004.

(16) Includes 636,224 shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 29, 2004.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Sale/Leaseback Transaction

Richard L. Monfort, currently a member of our board of directors, entered into a sale/leaseback transaction with EFTC in December 1998 whereby EFTC sold manufacturing facilities located in Newberg, Oregon and Tucson, Arizona to Mr. Monfort for $10.5 million. Mr. Monfort leased these manufacturing facilities back to us for a term of five years through December 2003. The Tucson lease provided for monthly payments of $32,000 and the Newberg lease provided for monthly payments of $58,000. Honeywell International, Inc. subleased the Tucson facility under a month-to-month agreement that required monthly payments of $32,000 through expiration of the Tucson lease in December 2003. In July 2003, we renewed the Newberg lease through December 2008 at an average monthly payment of $47,000.

Thayer-Blum Management Fees

During 2003, we paid $750,000 for management fees to affiliates of Thayer-Blum Funding L.L.C. The services provided under this arrangement consist primarily of management and consulting services related to corporate development activities.

Inventory Purchases

For the years ended December 31, 2003, the Company purchased inventories for $481,000 from TTM Technologies, Inc. An affiliate of Thayer-Blum Funding L.L.C. has a controlling ownership interest in TTM Technologies.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

KPMG LLP served as our independent auditors for the year ended December 31, 2003 and will serve in that capacity for the 2004 fiscal year.

Fees Charged By Independent Auditors

The following is a summary of fees, all of which were approved by the audit committee, billed by KPMG LLP for audit and other professional services during the years ended December 31, 2002 and 2003:

	2002	2003
Audit fees	$300,000	$235,000
Audit-related fees	19,050	
Income tax fees	217,551	64,839
All other fees	31,870	
Total fees	$568,471	$299,839

Audit-related fees include employee benefit plan audit fees and fees related to auditor consents required by various SEC filings. Income tax fees include tax return preparation and consultation on various tax issues. All other fees include due diligence assistances and accounting consultation on proposed transactions.

Pre-Approval Policy for Independent Auditor s Fees

In 2003, our Audit Committee adopted a formal policy concerning pre-approval of audit and non-audit services to be provided by our independent auditors. The policy requires that all proposed services to be provided by KPMG LLP must be pre-approved by the audit committee before any services are performed. This policy includes all audit, tax and consulting services that KPMG LLP may provide to the Company. In evaluating whether to engage KPMG LLP for non-audit services, our Audit Committee considers whether the performance of services other than audit services is compatible with maintaining the independence of KPMG LLP.

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PART IV

ITEM 15. EXHIBITS AND REPORTS ON FORM 8-K

(a) Financial Statements and Financial Statement Schedule

(1) Financial Statements and Schedule II are listed in the Index to Financial Statements on page F-1 of this Report.

Other schedules are omitted because they are not applicable, not required, or because required information is included in the consolidated financial statements or notes thereto.

(b) Reports on Form 8-K

On November 17, 2003, the Company filed a Current Report on Form 8-K reporting information under Item 12 for a press release that was issued related to the Company s earnings for the quarter ended September 28, 2003.

(c) Exhibits

Exhibit Number	Description
2.1	Amended and Restated Agreement and Plan of Merger, dated as of May 3, 2001, by and among EFTC Corporation, K*TEC Electronics Holding Corporation, Thayer-Blum Funding II, L.L.C. and the registrant. (1)
3.1	Certificate of Incorporation of the registrant. (1)
3.2	Bylaws of the registrant. (1)
4.1	Specimen Stock Certificate. (1)
10.1	Suntron Corporation Amended and Restated 2002 Stock Option Plan. (2)
10.2	Registration Rights Agreement between the registrant and Thayer-Blum. (1)
10.3	Module Supplier Agreement dated as of February 2, 2000 by and between Applied Materials, Inc. and K*TEC Electronics Corporation. (1)
10.4	Comprehensive Supplier Agreement #305038 dated as of August 3, 1997 by and between Applied Materials, Inc. and K*TEC Electronics Corporation. (1)
10.5	Employment Agreement dated as of June 23, 2000 by and between James Bass and EFTC Corporation. (1)
10.6	Lease Agreement dated as of May 10, 1999 by and between Orsett/I-17 L.L.C. and EFTC Corporation. (1)
10.7	Industrial Lease dated December 18, 1998 by and between Buckhorn Trading Co., LLC and EFTC Corporation. (1)

10.8	Commercial/Industrial Lease dated as of April 1, 2001 by and between EFTC Corporation and H. J. Brooks, LLC. (1)
10.9	Consulting Services Agreement dated as of April 24, 2002 by and between Suntron Corporation and Allen S. Braswell, Jr. (3)

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Exhibit Number	Description
10.10	Management and Consulting Agreement by and between Suntron Corporation and Thayer-Blum Funding III, L.L.C. (3)
10.11	Amended and Restated Credit Agreement dated April 11, 2003 between Suntron Corporation and Citicorp USA. (4)
21	List of Subsidiaries of the registrant.
23.1	Consent of KPMG LLP.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the Registration Statement on Form S-4 (Registration No. 333-72992) declared effective February 8, 2002.

(2) Incorporated by reference to our Annual Report on Form 10-K filed on April 15, 2003.

(3) Incorporated by reference to our Quarterly Report on Form 10-Q filed on August 14, 2002.

(4) Incorporated by reference to our Quarterly Report on Form 10-Q filed on May 13, 2003

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registration has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUNTRON CORPORATION

Date: March 26, 2004 By: /s/ James K. Bass

James K. Bass
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/James K. Bass James K. Bass	President, Chief Executive Officer (Principal Executive Officer), and Director	March 26, 2004
/s/Peter W. Harper Peter W. Harper	Chief Financial Officer and Secretary (Principal Financial Officer)	March 26, 2004
/s/James A. Doran James A. Doran	Chief Accounting Officer (Principal Accounting Officer)	March 26, 2004
/s/Allen S. Braswell, Jr. Allen S. Braswell, Jr.	Director	March 26, 2004
/s/Fred A. Breidenbach Fred A. Breidenbach	Director	March 26, 2004
/s/Jeffrey W. Goettman Jeffrey W. Goettman	Director	March 26, 2004
/s/Douglas P. McCormick Douglas P. McCormick	Director	March 26, 2004

/s/Jose S. Medeiros	Director	March 26, 2004
Jose S. Medeiros		
/s/Richard L. Monfort	Director	March 26, 2004
Richard L. Monfort		
/s/ James C. Van Horne	Director	March 26, 2004
James C. Van Horne		
/s/John C. Walker	Director	March 26, 2004
John C. Walker		

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SUNTRON CORPORATION

Index to Consolidated Financial Statements and Schedule

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INDEPENDENT AUDITORS   REPORT

The Board of Directors and Stockholders
Suntron Corporation:

We have audited the accompanying consolidated balance sheets of Suntron Corporation and subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of operations, stockholders   equity and cash flows for each of the years in the three-year period ended December 31, 2003. In connection with our audits, we also have audited the accompanying financial statement schedule for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements and financial statement schedule are the responsibility of the Company   s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Suntron Corporation and subsidiaries as of December 31, 2002 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule for each of the years in the three-year period ended December 31, 2003, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, effective January 1, 2002.

/s/ KPMG LLP

Phoenix, Arizona
February 18, 2004

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SUNTRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2002 and 2003
(Dollars in Thousands, Except Per Share Amounts)