

Edgar Filing: EFTC CORP/ - Form 10-Q

EFTC CORP/  
Form 10-Q  
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED: SEPTEMBER 30, 2001
- TRANSITION REPORT PURSUANT SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number: 0-23332

EFTC CORPORATION  
(Exact name of registrant as specified in its charter)

COLORADO 84-0854616  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

2501 WEST GRANDVIEW ROAD  
PHOENIX, ARIZONA 85023  
(Address of principal executive offices)

(602) 789-6600  
(Issuer's telephone number)

NOT APPLICABLE  
(Former name, former address and former fiscal year,  
if changed since last report)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS) AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.  YES  No

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON EQUITY, AS OF THE LATEST PRACTICABLE DATE.

COMMON STOCK, PAR VALUE \$0.01	48,243,632 SHARES
(Class of Common Stock)	(Outstanding at October 31, 2001)

EFTC CORPORATION

FORM 10-Q

INDEX

PAGE

Edgar Filing: EFTC CORP/ - Form 10-Q

NUMBER(S)

-----

PART I. FINANCIAL INFORMATION

ITEM 1. UNAUDITED FINANCIAL STATEMENTS

Consolidated Balance Sheets-	
December 31, 2000 and September 30, 2001	3-4
Consolidated Statements of Operations-	
For the Quarters and the Nine Months Ended	
September 30, 2000 and 2001	5
Consolidated Statements of Cash Flows-	
For the Nine Months Ended September 30, 2000	
and 2001	6-7
Notes to Consolidated Financial Statements	8-13

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

General	14
Merger Agreement	14-15
Results of Operations	15-19
Impact of Recently Issued Accounting Standards	19-20
Liquidity and Capital Resources	21-22
Special Note Regarding Forward-looking Statements	22

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

23

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS	23
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS	23
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	23
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	23
ITEM 5. OTHER INFORMATION	23
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	23

SIGNATURES	24
------------	----

2

PART I. FINANCIAL INFORMATION

ITEM 1. UNAUDITED FINANCIAL STATEMENTS

EFTC CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

ASSETS	December 31, 2000 ----	September 30, 2001 ----
CURRENT ASSETS:		
Cash and equivalents	\$ 43	\$ 70
Trade receivables, net of allowance for doubtful accounts of \$1,671 and \$2,805, respectively	42,270	24,070
Receivable from sale of assets	500	--

Edgar Filing: EFTC CORP/ - Form 10-Q

Inventories, net	82,220	66,068
Prepaid expenses and other	1,380	1,360
	-----	-----
Total Current Assets	126,413	91,568
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Leasehold improvements	4,249	5,877
Buildings and improvements	2,127	2,124
Manufacturing machinery and equipment	15,432	15,475
Furniture, computer equipment and software	13,149	16,030
	-----	-----
Total	34,957	39,506
Less accumulated depreciation and amortization	(14,581)	(18,043)
	-----	-----
Net Property, Plant and Equipment	20,376	21,463
	-----	-----
INTANGIBLE AND OTHER ASSETS:		
Goodwill, net of accumulated amortization of \$1,025 and \$1,226, respectively	6,997	6,796
Intellectual property, net of accumulated amortization of \$2,403 and \$2,715, respectively	2,585	1,947
Debt issuance costs, net of accumulated amortization of \$811 and \$468, respectively	2,470	467
Deposits and other	731	724
	-----	-----
Total Intangible and Other Assets	12,783	9,934
	-----	-----
	\$ 159,572	\$ 122,965
	=====	=====

The Accompanying Notes Are an Integral Part of These  
Consolidated Financial Statements.

3

EFTC CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS, Continued  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

LIABILITIES AND SHAREHOLDERS' EQUITY	DECEMBER 31, 2000 ----
CURRENT LIABILITIES:	
Accounts payable	\$ 39,944
Outstanding checks in excess of cash balances	5,471
Accrued compensation and benefits	7,463
Other accrued liabilities	1,498
	-----
Total Current Liabilities	54,376
LONG-TERM LIABILITIES:	
Long-term debt, net of current maturities:	
Banks	28,559
Convertible Notes, including accrued interest	59,093
Related parties	3,000

Edgar Filing: EFTC CORP/ - Form 10-Q

Other	339
	-----
Total Liabilities	145,367
	-----
SHAREHOLDERS' EQUITY:	
Preferred stock, \$.01 par value. Authorized 5,000,000 shares; issued and outstanding 14,233 shares of Series B Convertible Preferred Stock at December 31, 2000	14,683
Common stock, \$.01 par value. Authorized 75,000,000 shares; issued and outstanding 15,933,489 and 48,243,632 shares, respectively	159
Additional paid-in capital related to common stock	93,222
Settlement obligation to issue 910,000 shares of common stock	2,303
Deferred stock compensation cost	(280)
Accumulated deficit	(95,882)
	-----
Total Shareholders' Equity	14,205
	-----
	\$ 159,572
	=====

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

4

EFTC CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FOR THE QUARTER ENDED SEPTEMBER 30,		
	2000	2001	
	-----	-----	
NET SALES	\$ 86,281	\$ 84,084	\$
COST OF GOODS SOLD	80,514	74,922	
	-----	-----	-----
Gross profit	5,767	9,162	
OPERATING COSTS AND EXPENSES:			
Selling, general and administrative expenses	8,903	4,277	
Recapitalization and merger transaction costs	424	117	
Impairment of furniture, computer equipment and software	--	--	
Goodwill amortization	67	67	
	-----	-----	-----
Total operating costs and expenses	9,394	4,461	
	-----	-----	-----
Operating income (loss)	(3,627)	4,701	
OTHER INCOME (EXPENSE):			
Interest expense	(2,877)	(135)	
Gain (loss) on sale of assets	4	43	
Gain (loss) on sale of division	4,357	--	
Other, net	14	16	
	-----	-----	-----
Income (loss) before income taxes	(2,129)	4,625	

Edgar Filing: EFTC CORP/ - Form 10-Q

INCOME TAX EXPENSE	--	(146)	
	-----	-----	-----
Net income (loss)	\$ (2,129)	\$ 4,479	\$
	=====	=====	=====
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS:			
Basic	\$ (4,282)	\$ 4,479	\$
	=====	=====	=====
Diluted	\$ (4,282)	\$ 4,479	\$
	=====	=====	=====
EARNINGS (LOSS) PER SHARE:			
Basic	\$ (0.27)	\$ 0.09	\$
	=====	=====	=====
Diluted	\$ (0.27)	\$ 0.09	\$
	=====	=====	=====
NUMBER OF SHARES USED FOR COMPUTATION:			
Basic	15,590,000	49,145,000	15,
	=====	=====	=====
Diluted	15,590,000	49,147,000	15,
	=====	=====	=====

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

5

EFTC CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(DOLLARS IN THOUSANDS)

	FOR THE NINE MONTHS SEPTEMBER 30	
	2000	2001
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (25,257)	\$
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	6,328	
Amortization of debt issuance costs	743	
Impairment of property, plant and equipment	1,662	
Accrued interest on exchangeable and convertible notes	4,043	
Provision for excess and obsolete inventories	4,821	
Provision for doubtful accounts receivable	596	
Loss (gain) on sale of assets	6	
Loss (gain) on sale of division	(4,357)	
Stock-based compensation and services expense	263	
Changes in operating assets and liabilities, net of effects of sale of business:		
Decrease (increase) in:		
Trade receivables	(3,932)	
Inventories	(43,760)	
Income taxes receivable	2,106	
Prepaid expenses and other	1,786	

Edgar Filing: EFTC CORP/ - Form 10-Q

Increase (decrease) in:		
Accounts payable	(5,443)	(
Accrued compensation and benefits	(362)	
Other accrued liabilities	(6,478)	
	-----	-----
Net cash provided (used) by operating activities	(67,235)	
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	12,846	
Payment of commissions related to sale of business	(500)	
Capital expenditures	(5,075)	
	-----	-----
Net cash provided (used) by investing activities	7,271	
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	296,706	2
Principal payments on long-term debt	(243,138)	(3
Payments for debt issuance costs	(2,770)	
Increase (decrease) in outstanding checks in excess of cash balances	8,506	
Proceeds from exercise of stock options	--	
	-----	-----
Net cash provided (used) by financing activities	59,304	(
	-----	-----
Net increase (decrease) in cash and equivalents	(660)	
	-----	-----
CASH AND EQUIVALENTS:		
Beginning of period	716	
	-----	-----
End of period	\$ 56	\$
	=====	=====

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

6

EFTC CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED  
(DOLLARS IN THOUSANDS)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2000	2001
	----	----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 2,797	\$ 801
	=====	=====
Cash received (paid) for income taxes	\$ 2,106	\$ (171)
	=====	=====
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of 23,763,349 shares of common stock as a result of conversion of Convertible Notes	\$ --	\$ 61,309

## Edgar Filing: EFTC CORP/ - Form 10-Q

Issuance of 8,462,994 shares of common stock as a result of conversion of Convertible Preferred Stock	\$ --	\$ 15,233
Issuance of 390,000 shares of common stock in connection with lawsuit settlement obligation	\$ 987	\$ --
Obligation to issue common stock in lawsuit settlement	\$ 2,303	\$ --
Issuance of preferred stock for exchangeable notes, net of debt issuance costs of \$206	\$ 14,207	\$ --
Stock options granted as deferred compensation	\$ 377	\$ --
Proceeds from sale of assets placed in escrow account	\$ 500	\$ --
Issuance of warrants to purchase common stock for debt issuance costs	\$ 326	\$ --

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

7

EFTC CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

### 1. BASIS OF PRESENTATION

Effective January 1, 2001, the Company changed its interim financial reporting to end on the Sunday closest to the last day of each calendar quarter, except for the fourth quarter of each year which will continue to end on December 31st. The third quarter of 2001 ended on September 30, 2001. This change did not have a material effect on the comparability between the first nine months and the third quarter of fiscal 2000 and 2001.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter and the nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. The unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

### 2. EARNINGS PER SHARE

Basic Earnings Per Share excludes dilution for potential common shares and is computed by dividing net income or loss applicable to common shareholders by the weighted average number of common shares outstanding for the period. For the computation of Basic Earnings Per Share, accrued dividends on preferred stock

## Edgar Filing: EFTC CORP/ - Form 10-Q

were deducted to arrive at net income or loss applicable to common stockholders.

Diluted Earnings Per Share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Basic and Diluted Earnings Per Share are the same for all periods in 2000, as all potential common shares were antidilutive. For the nine months ended September 30, 2001, Diluted Earnings Per Share gives effect to shares issuable prior to the May 31, 2001 conversion of the Company's Convertible Notes and Convertible Preferred Stock, using the if-converted method. Under the if-converted method, it is assumed that conversion occurred at the beginning of the period, and that the Company would not have been required to incur interest and dividends on the Convertible Notes and Convertible Preferred Stock, respectively.

Presented below is the calculation of Net Income Applicable to Common Shareholders used in the calculation of Diluted Earnings Per Share for the quarter and the nine months ended September 30, 2001:

	QUARTER -----	NINE MONTHS -----
Net income	\$ 4,479	\$ 12,234
Interest on Convertible Debt	--	2,217
	-----	-----
Net Income Applicable to Common Stockholders	\$ 4,479 =====	\$ 14,451 =====

8

EFTC CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Presented below is the calculation of the number of shares used in the calculation of Diluted Earnings Per Share for the quarter and the nine months ended September 30, 2001:

	QUARTER -----	NINE MONTHS -----
Basic Weighted Average Shares Outstanding	49,145,000	31,417,000
Shares related to Convertible Debt before conversion	--	12,585,000
Shares related to Preferred Stock before conversion	--	4,482,000
Options and warrants	2,000	11,000
	-----	-----
Number of Shares Used in Computation	49,147,000 =====	48,495,000 =====

Stock options and warrants for approximately 4,396,000 shares exercisable at prices ranging from \$2.59 per share to \$14.31 per share were outstanding at September 30, 2001 but were not included in the computation of Diluted Earnings



## Edgar Filing: EFTC CORP/ - Form 10-Q

Per Share because the exercise price of the options and warrants was greater than the average market price of the Company's common stock during the nine months ended September 30, 2001. Stock options and warrants for approximately 5,034,000 shares exercisable at prices ranging from \$2.32 per share to \$14.31 per share were outstanding at September 30, 2001 but were not included in the computation of Diluted Earnings Per Share because the exercise price of the options and warrants was greater than the average market price of the Company's common stock during the third quarter of 2001.

### 3. INVENTORIES

Inventories at December 31, 2000 and September 30, 2001 consist of the following:

	2000	2001
	----	----
Purchased parts and completed subassemblies	\$65,905	\$52,490
Work-in-process	14,284	8,329
Finished goods	2,031	5,249
	-----	-----
	\$82,220	\$66,068
	=====	=====

### 4. RESTRUCTURING AND SALE OF ASSETS

Beginning in the fourth quarter of 1998, the Company took actions to increase capacity utilization through the closure of facilities and the sale of assets. The aggregate operating results related to these locations, derived from the Company's divisional accounting records (excluding corporate costs, interest and income taxes), for the quarter and the nine months ended September 30, 2000 are summarized as follows:

9

EFTC CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FOR THE PERIOD ENDED	
	SEPTEMBER 30, 2000	
	QUARTER	NINE MONTHS
	-----	-----
Net sales	\$ --	\$ 11,932
Cost of goods sold	27	14,011
	-----	-----
Gross profit (loss)	\$ (27)	\$ (2,079)
	=====	=====
Selling, general and administrative expenses	\$ (11)	\$ (812)
	=====	=====
Impairment of long-lived assets	\$ --	\$ (250)

## Edgar Filing: EFTC CORP/ - Form 10-Q

=====

Management estimates that approximately \$8,000 of the net sales shown above for the nine-month period relate to customers who agreed to transition the manufacture of their products to other facilities operated by the Company. Following is a description of each location that was impacted by a sale or restructuring during the first nine months of 2000.

**SALE OF TUCSON ASSETS.** In December 1999, the Company commenced negotiations with Honeywell International, Inc. for the sale of inventory and equipment at the Company's leased facility in Tucson, Arizona. On February 17, 2000, these assets were sold to Honeywell for a purchase price of \$13,240.

**SOUTHEAST OPERATIONS.** In September 1999, the Company initiated a plan to consolidate and close its Southeast Operations in Fort Lauderdale, Florida. In connection with the restructuring, the Company recognized a charge of approximately \$700 for severance costs related to approximately 200 employees who were terminated in the second quarter of 2000. During the first quarter of 2000, the Company recognized charges totaling \$950 for retention bonuses, relocation costs and other closure activities. During the second quarter of 2000, the Company recognized additional charges of \$1,186 related to operations, impairment of equipment and final closure activities. The closure was substantially complete by the end of the second quarter of 2000 and all severance and retention costs were paid as of September 30, 2000.

### 5. HEADQUARTERS RELOCATION AND CHANGE IN ESTIMATES

In July 2000, the Company announced plans to relocate its corporate headquarters from Denver to Phoenix. During the second quarter of 2000, management assessed the estimated useful lives of the assets located in Denver and determined that it was not practical to utilize certain assets at the Phoenix location. In June 2000, the Company also evaluated the carrying value of intellectual property related to a customer whose business was transitioned to a new location. The aggregate carrying value of the Denver assets and the intellectual property as of March 31, 2000 was \$2,133. Accordingly, during the second quarter of 2000 the estimated useful lives of these assets were shortened to coincide with the expected period that the assets will continue to be used in the business. This change in estimate resulted in an increase in depreciation and amortization expense of \$711 (\$.05 per share) during the third quarter of 2000, and \$1,422 (\$.09 per share) for the nine months ended September 30, 2000.

In connection with the Denver headquarters relocation and other changes in management, during the second and third quarters of 2000 the Company incurred an aggregate of \$3,090 for severance, moving costs, and recruiting fees for new management and employees.

10

EFTC CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

### 6. DEBT FINANCING

At December 31, 2000 and September 30, 2001, long-term debt consisted of the following:

Edgar Filing: EFTC CORP/ - Form 10-Q

	2000 ----	2001 ----
Senior Subordinated Convertible Notes, interest at 8.875%, due June 2006	\$59,093	\$ --
Note payable to director, interest at 10%, unsecured, due March 2004	3,000	--
Note payable to bank under revolving line of credit, interest at the prime rate plus .5% (6.0% at September 30, 2001), collateralized by substantially all assets, due March 2003	28,559 -----	-- -----
Total long-term debt	\$90,652 =====	\$ -- =====

In connection with the signing of the Merger Agreement discussed in Note 7, on May 31, 2001, the Senior Subordinated Convertible Notes with an aggregate principal and accrued interest balance of \$61,309 were converted to 23,763,349 shares of the Company's common stock. Unamortized debt issuance costs of \$1,635 related to the Notes were charged to additional paid-in capital in connection with the conversion. In June 2001, the Company repaid the \$3,000 note payable to one of its directors.

7. MERGER AGREEMENT

On May 2, 2001, the Company; K\*TEC Electronics Holding Corporation, formerly known as K\*TEC Electronics Corporation ("K\*TEC"); Thayer-Blum Funding II, L.L.C. ("TBF II"); and Suntek Corporation, formerly known as Express EMS Corporation ("Suntek"), a newly formed wholly owned subsidiary of the Company, entered into an Agreement and Plan of Merger (the "Merger Agreement"), providing for, among other things, the merger of one wholly owned subsidiary of Suntek with and into the Company (the "EFTC Merger") and the merger of one wholly owned subsidiary of Suntek with and into K\*TEC (the "K\*TEC Merger"). K\*TEC is a privately held electronic manufacturing services company based in Sugar Land, Texas. K\*TEC is 100% owned by TBF II, an affiliate of Thayer-BLUM Funding L.L.C. ("TBF"), the Company's principal shareholder. TBF currently controls approximately 78% of the outstanding voting stock of the Company. A special committee comprised of the Company's independent directors negotiated the terms of the Merger Agreement on behalf of the minority shareholders of the Company.

On May 3, 2001, the parties to the Merger Agreement agreed to substitute TBF II as a party to the K\*TEC Merger. Such substitution is reflected in the Amended and Restated Agreement and Plan of Merger dated as of May 3, 2001 by and among the Company, K\*TEC, TBF II and Parent (the "Amended and Restated Merger Agreement").

EFTC CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

In connection with the signing of the Merger Agreement, the Company entered into a stockholder agreement, as amended (the "Stockholder Agreement"), with TBF, TBF II and Suntek that required TBF to convert the Senior Subordinated Convertible Notes and the Series B preferred stock of the Company held by TBF into common

## Edgar Filing: EFTC CORP/ - Form 10-Q

stock on or before May 31, 2001. These conversions resulted in the issuance of approximately 32.2 million additional shares of common stock to TBF, which increased its voting control of the Company from 58% to approximately 78%. Pursuant to the Stockholder Agreement, TBF agreed to vote all of its shares of the Company's common stock in favor of the business combination.

Pursuant to the Amended and Restated Merger Agreement, Suntek is required to form two new wholly owned subsidiaries, which will merge with and into EFTC and TBF II, respectively. Following completion of the transactions, the Company and TBF II will be wholly owned subsidiaries of Suntek, whose common stock is expected to be traded on the Nasdaq National Market under the trading symbol "SNTX". Based upon the Amended and Restated Merger Agreement's exchange ratios, it is expected that the owner of TBF II will receive approximately 56% of Suntek's capital stock, while the Company's current shareholders (including TBF) will receive approximately 44% of the shares. Following consummation of the proposed business combination, TBF and its affiliates are expected to own approximately 90% of the outstanding capital stock of Suntek.

Consummation of the proposed business combination is subject to a number of closing conditions. Consequently, there can be no assurance that the business combination will be consummated. If the merger is consummated, management expects that it will be accounted for as a reorganization of entities under common control.

During the second and third quarters of 2001, the Company incurred transaction costs of \$996 and \$117, respectively, related to the proposed merger, primarily related to a fairness opinion and professional fees. Since the merger will be accounted for as a reorganization of entities under common control, the transactions costs are required to be charged to operations in the period incurred.

### 8. NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, Business Combinations and Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. Statement No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

The provisions of Statement No. 141 apply to all business combinations initiated after June 30, 2001. The provisions also apply to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. The provisions of Statement No. 142 are required to be adopted by the Company beginning in the first quarter of 2002. Goodwill and intangible assets

acquired after June 30, 2001, would be subject to the amortization provisions of

## Edgar Filing: EFTC CORP/ - Form 10-Q

this Statement immediately.

The effect of these Statements on the Company will be the elimination of EFTC's current 30-year straight-line amortization of goodwill and the requirement to begin testing goodwill and other intangible assets for impairment at least on an annual basis. Because of the extensive effort needed to comply with the adoption of Statements 141 and 142, it is not currently practicable to estimate the impact of adopting these Statements on the Company's consolidated financial statements, including whether any transitional impairment losses will be required to be recognized. If such losses are required to be recognized upon the initial application of these Statements, they would be accounted for as the cumulative effect of a change in accounting principle.

In August 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. This standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. Management does not believe the initial application of Statement 143 will have a significant impact on the Company's consolidated financial statements.

In October 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which replaces FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, for the disposal of segments of a business. Statement 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. Statement 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of Statement 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Management does not believe the initial application of Statement 144 will have a significant impact on the Company's consolidated financial statements.

### ITEM 2. 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 Quarterly Report on Form 10-Q. 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

## Edgar Filing: EFTC CORP/ - Form 10-Q

statements as a result of specified factors, including those set forth in the section below entitled "Special Note Regarding Forward-Looking Statements" and elsewhere in this Quarterly Report on Form 10-Q.

### GENERAL

We are a provider of electronic manufacturing services to original equipment manufacturers. We focus on high-mix solutions that target the aerospace, industrial controls and instrumentation, medical equipment, semiconductor capital equipment, networking and telecommunications equipment industries. Our manufacturing services consist of assembling complex printed circuit boards (using both surface mount and pin-through-hole technologies), cables, electro-mechanical devices and complete "box-build" products. High-mix manufacturing involves processing printed circuit board assemblies in small-lots (up to 100 assemblies per production run) in a flexible manufacturing environment.

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operations and financial condition. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere herein, as well as with the consolidated financial statements, notes thereto and the related management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2000.

### MERGER AGREEMENT

As discussed in Note 7 to the Financial Statements included in Item 1 of this Report, in May 2001 we signed a definitive merger agreement with K\*TEC Electronics Holding Corporation, an electronic manufacturing services company based in Sugar Land, Texas. K\*Tec is controlled by an affiliate of Thayer-BLUM Funding, L.L.C., our principal shareholder. A special committee comprised of our independent directors negotiated the terms of the merger agreement on behalf of our minority shareholders.

Following completion of the transaction, EFTC and K\*TEC will be wholly owned subsidiaries of Suntek Corporation, a newly formed holding company whose common stock is expected to be traded on the Nasdaq National Market under the trading symbol "SNTX". In connection with the signing of the merger agreement, Thayer-BLUM Funding, L.L.C. converted the Series B preferred stock and the Senior Subordinated Convertible Notes into shares of our common stock in May 2001.

Our current directors will serve as the directors of Suntek following the merger. Consummation of the proposed business combination is subject to a number of closing conditions. Consequently, there can be no assurance that the business combination will be

14

consummated. If the merger is consummated, management expects that it will be accounted for as a reorganization of entities under common control. For more information regarding the proposed combination, see our proxy statement, which is included in the Registration Statement on Form S-4 filed by Suntek with the Securities and Exchange Commission.

### RESULTS OF OPERATIONS

Our results of operations are affected by several factors, primarily the

## Edgar Filing: EFTC CORP/ - Form 10-Q

level and timing of customer orders (especially orders from Honeywell). 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. Other factors affecting our quarterly results of operations may include, among other things, our performance under the agreement with Honeywell, price competition, disposition of divisions and closure of operating units, our ability to obtain inventory from our suppliers on a timely basis, our level of experience in manufacturing a particular product, the degree of automation used in the assembly process, the efficiencies we achieve through managing inventories and other assets, the timing of expenditures in anticipation of increased sales, and fluctuations in the cost of components or labor.

The following table sets forth certain operating data as a percentage of net sales:

	QUARTER ENDED		NINE MONTHS ENDED	
	-----		-----	
	SEPTEMBER 30:		SEPTEMBER 30:	
	2000	2001	2000	2001
	-----	-----	-----	-----
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	93.3%	89.1%	97.0%	89.6%
	-----	-----	-----	-----
Gross profit	6.7%	10.9%	3.0%	10.4%
Selling, general and administrative	10.3%	5.1%	9.7%	4.7%
Recapitalization and merger costs	0.5%	0.1%	2.4%	0.4%
Impairment of furniture, computer equipment and software	--	--	0.7%	--
Goodwill amortization	0.1%	0.1%	0.1%	0.1%
	-----	-----	-----	-----
Operating income (loss)	(4.2%)	5.6%	(9.9%)	5.2%
	=====	=====	=====	=====

QUARTER ENDED SEPTEMBER 30, 2000 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2001

Net Sales. Net sales decreased \$2.2 million, or 2.5%, from \$86.3 million for the quarter ended September 30, 2000 to \$84.1 million for the quarter ended September 30, 2001. Approximately 55% of our net sales for the third quarter of 2000 related to manufacturing services for Honeywell at our Phoenix plant, compared to approximately 58% for the third quarter of 2001. Despite the increase in sales to Honeywell in the third quarter of 2001, sales to other customers were lower, primarily due the general economic slowdown. For the third quarter of 2001, sales to Honeywell accounted for 85% of our consolidated net sales.

We estimate that net sales for the fourth quarter of 2001 may decline up to approximately 40% sequentially from net sales for the third quarter of 2001, due to overall order softness from our existing customers. We are not able to provide guidance beyond the fourth quarter of 2001 due to the uncertainty in the

## Edgar Filing: EFTC CORP/ - Form 10-Q

markets served by many of our customers.

15

**Gross Profit.** Our gross profit increased by \$3.4 million from a gross profit of \$5.8 million in the third quarter of 2000 to a gross profit of \$9.2 million in the third quarter of 2001. Similarly, gross profit as a percentage of net sales improved from 6.7% of net sales in the third quarter of 2000 to 10.9% of net sales in the third quarter of 2001. The improvement in gross profit during the third quarter of 2001 is primarily attributable to an overall improvement in operational efficiency and more favorable product mix with our customers.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses ("SG & A") decreased \$4.6 million, or 52.0%, from \$8.9 million in the third quarter of 2000 to \$4.3 million in the third quarter of 2001. SG & A expenses for the quarter ended September 30, 2000 included \$1.5 million for consulting services intended to accelerate operational improvement at each of our facilities. Additionally, SG & A expenses for the third quarter of 2000 include a charge of \$0.7 million for accelerated depreciation and amortization of assets that were not expected to be utilized after the 2000 relocation of our corporate headquarters to Phoenix. We also recognized charges of \$1.3 million for severance, recruiting and other costs associated with changes in management during the third quarter of 2000.

After excluding all of the charges discussed above, SG & A expenses decreased \$1.1 million from \$5.4 million for the third quarter of 2000 to \$4.3 million in the third quarter of 2001. This decrease in SG & A is primarily attributable to a decrease in costs related to the relocation of our corporate headquarters to Phoenix.

**Recapitalization and Merger Transaction Costs.** During 2001, we incurred costs, primarily for professional fees, of \$0.1 million related to our proposed combination with K\*TEC. If this combination is consummated, it will be accounted for as a reorganization of entities under common control and, accordingly, these costs were charged to operations in the third quarter. During 2000, we incurred costs of \$0.4 million related to the August 2000 Special Shareholders Meeting for the approval of the recapitalization by Thayer-BLUM Funding L.L.C.

**Interest Expense.** Interest expense decreased \$2.8 million, or 95.3%, from \$2.9 million in the third quarter of 2000 to \$0.1 million in the third quarter of 2001. Our weighted average borrowings have decreased from \$90.8 million for the third quarter of 2000 to \$0.5 million for the third quarter of 2001. The decreased debt level in 2001 was primarily due to the conversion of \$61.3 million of debt to common stock on May 31, 2001. The reduction in debt was also attributable to improved working capital management during 2001.

Lower interest rates in 2001 also contributed to the reduction in interest expense. The interest rate on the \$54 million of Exchangeable Notes that were outstanding during the third quarter of 2000 accrued interest at 15% compared to the reduced rate of 8.875% that went into effect after the recapitalization was approved by our shareholders in August 2000. Additionally, the prime rate has decreased by 1.25 percentage points during the third quarter of 2001, and this also had a favorable impact because the interest rate on the revolving line of credit is a variable rate based on the prime rate.

**Income Taxes.** Due to significant net losses in 1999 and 2000, we have recorded a valuation allowance for all of our net deferred tax assets. Utilization of our net operating loss carryforwards is subject to limitation as a result of the change in ownership of our company that occurred during 2000. Accordingly, if we continue to generate taxable earnings in future periods,



## Edgar Filing: EFTC CORP/ - Form 10-Q

16

these net operating losses may not be sufficient to eliminate our entire current income tax liability.

Based on the increased level of earnings generated in the third quarter of 2001, we determined that an income tax provision of \$0.1 million should be recognized. This provision was due to a valuation allowance for Federal alternative minimum tax and a provision for state income taxes at locations where the state net operating loss carryovers were not sufficient to offset expected taxable income for 2001.

### NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

**Net Sales.** Net sales increased \$63.7 million, or 28.2%, from \$225.8 million for the first nine months of 2000 to \$289.4 million for the first nine months of 2001. Approximately 48% of our net sales for the first nine months of 2000 related to manufacturing services for Honeywell at our Phoenix plant, compared to approximately 60% for the first nine months of 2001. All of the increase in net sales during the first nine months of 2001 was attributable to increased sales to Honeywell at our Phoenix plant. For the first nine months of 2001, the overall concentration of business with Honeywell accounted for 82% of our consolidated net sales.

We estimate that net sales for the fourth quarter of 2001 may decline up to 40% sequentially from net sales for the third quarter of 2001, due to overall order softness from our existing customers. We are not able to provide guidance beyond the fourth quarter of 2001 due to the uncertainty in the markets served by many of our customers.

**Gross Profit.** Our gross profit increased \$23.4 million from \$6.8 million for the first nine months of 2000 compared to \$30.2 million for the first nine months of 2001. Similarly, gross profit as a percentage of net sales improved from 3.0% of net sales in the first nine months of 2000 to 10.4% of net sales in the first nine months of 2001. The improvement in gross profit during the first nine months of 2001 is primarily attributable to an overall improvement in capacity utilization and operational efficiency at our facilities, and more favorable product mix with our customers. The improvement in capacity utilization was driven by changes initiated in 1999 and the first nine months of 2000, including the closure of our Ft. Lauderdale facility and the sale of the assets of our Tucson facility. The Ft. Lauderdale and Tucson facilities generated a combined gross profit deficiency of \$2.1 million during the first nine months of 2000. Gross profit for the first nine months of 2000 was also negatively impacted by \$0.8 million related to the transition of additional manufacturing services under the Honeywell agreement in the first quarter of 2000.

During the first nine months of 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 the first nine months of 2001. Accordingly, we recognized impairment expense of \$1.2 million that is included in our cost of goods sold in 2001.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses ("SG & A") decreased \$8.3 million, or 37.4%, from \$22.0 million for the nine months ended September 30, 2000 to \$13.7 million for the

## Edgar Filing: EFTC CORP/ - Form 10-Q

first nine months of 2001. SG & A expenses

17

for the first nine months of 2000 included \$3.0 million for consulting services intended to accelerate operational improvement at each of our facilities. SG & A for the first nine months of 2000 also included a charge of \$1.4 million for accelerated depreciation and amortization of assets that were not expected to be utilized after the 2000 relocation of our corporate headquarters to Phoenix. We also recognized charges of \$3.1 million for severance, recruiting and other costs associated with changes in management during the first nine months of 2000. Finally, the results for the first nine months of 2000 include \$0.8 million for SG & A at divisions that were sold or closed by the end of September 2000.

After excluding all of the charges discussed above, SG & A expense amounted to \$13.7 million for the first nine months of 2000 and 2001. Despite the significant increase in sales, SG & A expenses have remained stable, primarily due to the elimination of costs as a result of the closure of the Denver headquarters in the fourth quarter of 2000.

**Impairment of Long-lived Assets.** During the first nine months of 2000, we recognized an impairment charge of \$1.7 million, including \$1.3 million for software that we decided to abandon.

**Recapitalization and Merger Transaction Costs.** In connection with the March 2000 recapitalization, we incurred charges totaling \$5.3 million for financial advisor fees, a fee paid to Thayer-BLUM Funding, costs related to a Special Shareholder Meeting to approve the recapitalization, and due diligence costs for legal, accounting and management consultants. We capitalized costs associated with the Senior Subordinated Exchangeable Notes and the new revolving credit agreement, and all other costs were charged to operations during the first nine months of 2000.

In the first nine months of 2001, we incurred costs, primarily for a fairness opinion and professional fees, of \$1.1 million related to the proposed combination with K\*TEC. If this combination is consummated, it will be accounted for as a reorganization of entities under common control and, accordingly, these costs were charged to operations in the first nine months of 2001.

**Interest Expense.** Interest expense decreased \$4.0 million, or 54.4%, from \$7.3 million for the first nine months of 2000 to \$3.3 million in the first nine months of 2001. Our outstanding debt decreased from \$86.5 million at September 30, 2000 to none at September 30, 2001. The decreased debt level at September 30, 2001 was primarily due to the conversion of \$61.3 million of debt to common stock on May 31, 2001. The reduction in debt was also attributable to improved working capital management during the first nine months of 2001, which resulted in the repayment of nearly \$29 million of debt under our revolving credit agreement and a \$3 million note payable owed to a director.

Lower interest rates in 2001 also contributed to the reduction in interest expense. The interest rate on the \$54 million of Exchangeable Notes that were outstanding during the second and third quarters of 2000 accrued interest at 15% compared to the reduced rate of 8.875% that went into effect after the recapitalization was approved by our shareholders in August 2000. Additionally, the prime rate has decreased by four percentage points during the first nine months of 2001, and this also had a favorable impact because the interest rate on the revolving line of credit is a variable rate based on the prime rate.

18

## Edgar Filing: EFTC CORP/ - Form 10-Q

Gain (Loss) on Sale of Assets. During 1999, the Company recognized a loss of \$20.6 million in connection with the sale of substantially all of the assets of the Services Division. The 1999 loss gave effect to the deferral of \$2.5 million of the proceeds for a post closing Earn-Out Contingency. During 2000, the purchaser agreed to pay \$1.9 million under the Earn-Out Contingency provision of the sales agreement. Accordingly, the Company recognized a gain of \$4.4 million in the first nine months of 2000, consisting of \$2.5 million of the 1999 proceeds that the Company was entitled to retain and the additional consideration of \$1.9 million that the purchaser agreed to pay. However, in the fourth quarter of 2000 we notified the purchaser that we believed we were entitled to a higher payment than the \$1.9 million that they calculated.

In April 2001, we entered into a settlement agreement with respect to the earn-out calculation and, as a result of this agreement, we received a final payment of \$0.6 million that accounted for the \$0.6 million gain on sale of division in 2001. During the first nine months of 2001, we also recognized a gain of \$0.2 million from the sale of equipment.

Income Taxes. Due to significant net losses in 1999 and 2000, we have recorded a valuation allowance for all of our net deferred tax assets. Based on the level of earnings generated through the third quarter of 2001, we determined that an income tax provision of \$0.5 million should be recognized. This provision was due to a valuation allowance for Federal alternative minimum tax and a provision for state income taxes at locations where the state net operating loss carryovers were not sufficient to offset expected taxable income for 2001. Utilization of the Company's net operating loss carryovers is subject to limitation as a result of the change in ownership of the Company that occurred during 2000.

### IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board issued Statement No. 141, Business Combinations and Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. Statement No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

The provisions of Statement No. 141 apply to all business combinations initiated after June 30, 2001. The provisions also apply to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. The provisions of Statement No. 142 are required to be adopted by us beginning in the first quarter of 2002. Goodwill and intangible assets acquired after June 30, 2001, would be subject to the amortization provisions of this Statement immediately.

The effect of these Statements on the Company will be the elimination of EFTC's current 30-year straight-line amortization of goodwill and the requirement to begin testing goodwill and other intangible assets for impairment at least on an annual basis. Because of the extensive effort needed to comply with the adoption of Statements 141 and 142, it is not currently practicable to estimate the impact of adopting these Statements on the Company's consolidated financial

statements, including whether any transitional impairment losses will be required to be recognized. If such losses are required to be recognized upon the initial application of these Statements, they would be accounted for as the cumulative effect of a change in accounting principle.

In August 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. This standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. Management does not believe the initial application of Statement 143 will have a significant impact on the Company's consolidated financial statements.

In October 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which replaces FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, for the disposal of segments of a business. Statement 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. Statement 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of Statement 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Management does not believe the initial application of Statement 144 will have a significant impact on the Company's consolidated financial statements.

#### LIQUIDITY AND CAPITAL RESOURCES

Our working capital at September 30, 2001 totaled \$55.2 million compared to \$72.0 million at December 31, 2000. At September 30, 2001, we did not have any outstanding borrowings under our \$45.0 million revolving credit facility and unused availability was approximately \$33.2 million under the credit facility.

Cash Flows from Operating Activities. Net cash provided by operating activities for the first nine months of 2001 was \$41.4 million, compared with net cash used in operating activities of \$67.2 million in the first nine months of 2000. The difference between our net income in the first nine months of 2001 of \$12.2 million and our \$41.4 million operating cash flow was primarily attributable to a \$17.8 million decrease in trade receivables, a reduction in inventories of \$12.0 million, \$4.7 million of depreciation and amortization expense, a \$4.2 million provision for excess and obsolete inventories, a \$2.2 million increase in accrued interest on convertible debt, and an impairment charge of \$1.2 million, partially offset by a reduction of \$12.3 million in

## Edgar Filing: EFTC CORP/ - Form 10-Q

accounts payable.

Days sales outstanding (based on annualized net sales for the quarter and net trade receivables outstanding at the end of the quarter) decreased to 26 days for the third quarter of 2001, compared to 31 days for the third quarter of 2000. Days sales outstanding for the third quarter of 2001 were affected favorably by a new financing program for a substantial portion of our receivables whereby the receivables are generally collected in 10 days in exchange for a discount of 0.5%.

Inventories decreased 19.6% to \$66.1 million at September 30, 2001, compared to \$82.2 million at December 31, 2000. For the third quarter of 2001, inventory turns (i.e., annualized net sales divided by period end inventory) amounted to 5.1 times per year. This compares to 3.9 times for the third quarter of 2000. During 2000, one of our biggest challenges involved financing the higher levels of inventories required to support increased sales at our Phoenix facility. During the last nine months of 1999 and much of 2000, these difficulties worsened because of industry-wide shortages of components that ultimately delayed shipment of finished goods to customers. By the fourth quarter of 2000, the component shortages had diminished and we had generally improved our inventory management practices, which contributed to improved inventory turns in 2001 compared to 2000.

Cash Flows from Investing Activities. Net cash used in investing activities in the first nine months of 2001 was \$4.8 million compared with net cash provided by investing activities of \$7.3 million in the first nine months of 2000. Our investing cash flows in the first nine months of 2001 reflect \$6.3 million in capital expenditures (including leasehold improvements of \$1.6 million at our new Northeast facility, \$1.2 million for information technology assets, and \$1.1 million for new manufacturing equipment), partially offset by \$1.5 million of proceeds from the sale of assets. The proceeds from asset sales consisted primarily of \$0.6 million received as a final settlement under the earn-out provision from the September 1999 sale of our Services Division, and the release of \$0.5 million of proceeds from the February 2000 sale of Tucson assets that were required to be released from escrow one year after closing.

During the first nine months of 2001, we entered into a 10-year operating lease that provides for annual payments of approximately \$0.6 million for a new manufacturing facility in Lawrence, Massachusetts. This facility opened in October 2001 and replaces our facility in

21

Wilmington, Massachusetts that provided for annual lease payments of approximately \$0.7 million.

Cash Flows from Financing Activities. Net cash used in financing activities in the first nine months of 2001 was \$36.6 million, compared with net cash provided by financing activities of \$59.3 million in the first nine months of 2000. Our financing cash flows in the first nine months of 2001 reflect a net reduction in borrowings under our revolving line of credit of \$28.6 million, the repayment of a \$3.0 million loan from a director, and a \$5.3 million reduction in outstanding checks in excess of cash balances.

We believe we have adequate capital resources to fund working capital and other cash requirements for the next 12 months. At September 30, 2001, we had unused availability of approximately \$33.2 million under our revolving credit facility.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

## Edgar Filing: EFTC CORP/ - Form 10-Q

Certain statements in this Report constitute "forward-looking statements" within the meaning of the federal securities laws. Additional written or oral forward-looking statements may be made by us from time to time, in press releases, annual or quarterly reports to shareholders, filings with the Securities and Exchange Commission, presentations or otherwise. Such forward-looking statements may include, among other things, statements concerning our plans, objectives and future economic prospects, prospects for achieving cost savings, future capacity utilization, future sales, profitability and capital expenditures, our proposed merger with K\*TEC Electronics Holding Corporation, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause such differences include, but are not limited to, the recent declining sales trend; the dependence on Honeywell; general economic conditions and specific conditions in the markets EFTC addresses, including the recent significant economic slowdown in the technology sector and the recent terrorist activities and resulting military and other action and their impact on the aerospace segment of the electronics industry; the impact of the proposed business combination with K\*TEC; integration of management, information, operating and financial systems; control by our majority shareholder; new management team; diversion of management attention; and other factors detailed in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2000 and our preliminary proxy statement included in the Registration Statement on Form S-4 filed by Suntek on November 8, 2001.

Readers are cautioned not to place undue reliance on any forward-looking statements contained herein, which speak only as of the date hereof. These statements reflect our current expectations, and we do not undertake to update or revise these forward-looking statements, even if experience or future changes make it clear that any projected results expressed or implied in this or other company statements will not be realized.

22

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On March 30, 2000, we entered into a \$45 million revolving line of credit agreement with Bank of America, N.A. The interest rate under this agreement is based either on the prime rate or LIBOR rate, plus applicable margins. Therefore, as interest rates fluctuate, we may experience changes in interest expense that will impact our financial results. We have not entered into any interest rate swap agreements, or similar instruments, to protect against the risk of interest rate fluctuations. Assuming outstanding borrowings of \$45 million, if interest rates were to increase or decrease by 1%, the result would be an increase or decrease in our annual interest expense of \$450,000.

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

Not Applicable.

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Edgar Filing: EFTC CORP/ - Form 10-Q

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

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

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

Not Applicable.

(b) REPORTS ON FORM 8-K:

Not Applicable.

23

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

EFTC CORPORATION

-----  
(Registrant)

Date: November 14, 2001

/s/ James K. Bass

-----  
James K. Bass  
Chief Executive Officer

Date: November 14, 2001

/s/ Peter W. Harper

-----  
Peter W. Harper  
Chief Financial Officer

Date: November 14, 2001

/s/ James A. Doran

-----  
James A. Doran  
Chief Accounting Officer

