SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For Quarter Ended April 3, 2004 **Commission File Number Number 0-11559**

KEY TRONIC CORPORATION

Washington	**91-0849125**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

**North 4424 Sullivan
Spokane, Washington 99216
(509) 928-8000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

At May 7, 2004, 9,672,580 shares of Common Stock, no par value (the only class of common stock), were outstanding.

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KEY TRONIC CORPORATION

Index

		Page No.
PART I.	FINANCIAL INFORMATION:	
Item 1.	Financial Statements:	
	Consolidated Balance Sheets - April 3, 2004 (Unaudited) and June 28, 2003	3
	Consolidated Statements of Operations (Unaudited) Third Quarters Ended April 3, 2004 and March 29, 2003	4
	Consolidated Statements of Operations (Unaudited) Nine Months Ended April 3, 2004 and March 29, 2003	5
	Consolidated Statements of Cash Flows (Unaudited) Nine Months Ended April 3, 2004 and March 29, 2003	6
	Notes to Consolidated Financial Statements	7-11
Item 2.	Management' s Discussion and Analysis of Financial Condition and Results of Operations	11-17
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	18
Item 4.	Controls and Procedures	18
PART II.	OTHER INFORMATION:	
Item 1.	Legal Proceedings	19
Item 2.	Changes in Securities and Use of Proceeds*	

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Item 3.	Defaults upon Senior Securities*	
Item 4.	Submission of Matters to a Vote of Security Holders*	
Item 5.	Other Information*	
Item 6.	Exhibits and Reports on Form 8-K	19
Signatures		20

* Items are not applicable

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Table of Contents

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	April 3, 2004	**June 28, 2003**
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$1,367	$956
Trade receivables, less allowance for doubtful accounts of $54 and $105	17,845	17,078
Inventories	25,426	24,151
Other	2,038	2,050
Total current assets	46,676	44,235
Property, plant and equipment - net	10,784	11,982
Other assets:		
Restricted cash	937	1,142
Other (net of accumulated amortization of $634 and $565)	808	1,001
Goodwill	765	765

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Total other assets	2,510	2,908
Total assets	$59,970	$59,125
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term obligations	$411	$730
Accounts payable	18,363	13,145
Accrued compensation and vacation	3,387	4,213
Litigation settlement - short-term	910	1,124
Other	1,484	3,240
Total current liabilities	24,555	22,452
Long-term liabilities:		
Revolving loan	9,505	9,864
Litigation settlement – long-term	1,861	2,593
Other	1,084	1,096
Total long-term liabilities	12,450	13,553
Total liabilities	37,005	36,005

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Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock, no par value - shares authorized 25,000; issued and outstanding 9,673 and 9,673	38,393	38,393
Accumulated deficit	(15,428)	(15,273)
Total shareholders' equity	22,965	23,120
Total liabilities and stockholders' equity	$59,970	$59,125

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Table of Contents

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Third Quarters Ended	
	April 3, 2004	March 29, 2003
	(in thousands, except per share amounts)	
Net sales	$37,316	$ 30,645
Cost of sales	33,604	26,867
Gross profit on sales	3,712	3,778
Operating expenses:		
Research, development and engineering	638	725
Selling	681	646
General and administrative	1,773	1,799
Total operating expenses	3,092	3,170
Operating income	620	608
Interest expense	(273)	(262)
Other income (expense)	3	(26)
Income before income tax provision	350	320

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Income tax provision	238	14
Net income	$112	$ 306
Earnings per share – basic and diluted:	$0.01	$ 0.03
Weighted average shares outstanding - basic	9,673	9,673
Weighted average shares outstanding - diluted	9,793	9,675

See accompanying notes to consolidated financial statements.

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Table of Contents

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Nine Months Ended	
	April 3, 2004	March 29, 2003
	(in thousands, except per share amounts)	
Net sales	$104,535	$95,230
Cost of sales	94,675	84,463
Gross profit on sales	9,860	10,767
Operating expenses:		
Research, development and engineering	1,926	2,209
Selling	1,527	1,569
General and administrative	5,268	5,425
Total operating expenses	8,721	9,203
Operating income	1,139	1,564
Interest expense	(795)	(759)
Litigation settlement	–	12,186
Other income	23	236

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Income before income tax provision	367	13,227
Income tax provision	522	368
Net income (loss)	$(155)	$12,859
Earnings (loss) per share – basic and diluted:	$(0.02)	$1.33
Weighted average shares outstanding – basic and diluted	9,673	9,673

See accompanying notes to consolidated financial statements.

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Table of Contents

KEY TRONIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	April 3, 2004	March 29, 2003
	(in thousands)	
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income (loss)	$(155)	$12,859
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	2,137	2,204
Provision for (recovery of) obsolete inventory	(530)	123
Recovery of doubtful receivables	–	(56)
Provision for warranty	100	60
Litigation settlement	–	(12,186)
Loss on disposal of assets	12	22
Changes in operating assets and liabilities:		
Trade receivables	(767)	5,529
Inventories	(745)	(3,531)

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Other assets	(136)	118
Accounts payable	5,218	(3,997)
Accrued compensation and vacation	(826)	1,064
Litigation settlement	(946)	(3,111)
Other liabilities	(2,128)	1,046
Cash provided by operating activities	1,234	144
Cash flows from investing activities:		
Purchase of property and equipment	(638)	(1,443)
Increase (decrease) in restricted cash	205	(300)
Proceeds from sale of property and equipment	4	44
Cash used in investing activities	(429)	(1,699)
Cash flows from financing activities:		
Payment of financing costs	(35)	(150)
Borrowings under revolving credit agreement	106,292	103,405
Repayment of revolving credit agreement	(106,651)	(102,352)
Cash provided by (used in) financing activities	(394)	903

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Net increase (decrease) in cash and cash equivalents	411	(652)
Cash and cash equivalents, beginning of period	956	1,205
Cash and cash equivalents, end of period	$ 1,367	$ 553

See accompanying notes to consolidated financial statements.

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Table of Contents

KEY TRONIC CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited consolidated interim financial statements reflect all adjustments of a normal and recurring nature necessary for a fair presentation, in all material respects, of the financial position, results of operations, and cash flows for the periods presented. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the interim periods are not necessarily indicative of the results for the entire year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’ s 10-K report for the fiscal year ended June 28, 2003. Certain reclassifications have been made for consistent presentation.

The Company’ s reporting period is a 52/53 week fiscal year ending on the Saturday closest to June 30. The quarter ended April 3, 2004 was a 14 week period, and the quarter ended March 29, 2003 was a 13 week period. Consequently, the first nine months of fiscal 2004 include 40 weeks, and the first nine months of fiscal 2003 consisted of 39 weeks.

On October 24, 2002, the Company announced the settlement of the litigation with F&G Scrolling Mouse LLC as explained in greater detail in Note 8 to these financial statements. Readers should be aware that the reported earnings for the nine months ended March 29, 2003, include a one-time benefit for reversal of previously recorded litigation expense.

1. NEW ACCOUNTING PRONOUNCEMENTS

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Standard requires that certain freestanding financial instruments be classified as liabilities, including mandatorily redeemable financial instruments, obligations to repurchase the issuer’ s equity shares by transferring assets and certain obligations to issue a variable number of shares. The Company adopted SFAS No. 150 on July 1, 2003. The adoption of this standard did not have a material effect on the Company’ s consolidated financial statements.

2. INVENTORIES

	April 3, 2004	**June 28, 2003**
	(in thousands)	
Finished goods	$8,666	$9,439
Work-in-process	2,776	3,117
Raw materials and supplies	17,279	15,108

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Reserve for obsolescence	(3,295)	(3,513)
	$25,426	$24,151

3. LONG-TERM OBLIGATIONS

The Company entered into a financing agreement with CIT Group/Business Credit, Inc. in August of 2001. The financing agreement was for a revolving line of credit for up to $25 million; however, the Company requested that the maximum available line of credit be reduced to $20 million as one of the terms of the Fifth Amendment to the financing agreement executed in September of 2003. The Company requested this decrease because the original credit facility was more than the Company believed it could utilize, and the reduction to $20 million resulted in a decrease in the Company' s annual fees associated with the line of credit.

The financing agreement specifies four different levels of margin to be added to the JP Morgan Chase prime rate between 0.25% and 1.00% depending on certain financial covenants calculated by the Company. The margin applicable at April 3, 2004 was 0.50%. The full rate of interest as of April 3, 2004 was 4.5%.

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Table of Contents

There have been six amendments to the financing agreement. The most recent amendment is dated February 12, 2004, and its purpose was to change the concentration reserves for some of the Company' s larger customers in anticipation of expected sales volumes over the next several months. The fifth amendment to the agreement, which was signed on September 30, 2003, permitted the Company to borrow against the receivables from one of its foreign customers and to include a portion of its finished goods inventory as borrowing collateral. This amendment also changed some of the financial covenants applicable to the Company and extended the term of the agreement from four years to five years. The financing agreement with CIT will mature on August 23, 2006. Earlier amendments to the financing agreement were primarily to change definitions of eligible accounts and modify loan covenants. The Company must currently maintain covenants for total equity, maximum capital expenditures, minimum earnings before interest, taxes, depreciation and amortization (EBITDA), and it must also maintain a rolling minimum fixed charge ratio.

As of April 3, 2004, the Company was in compliance with all loan covenants, and the outstanding revolving credit balance was approximately $9.5 million compared to approximately $9.9 million outstanding at fiscal year end June 28, 2003.

4. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended	
	April 3, 2004	March 29, 2003
	(in thousands)	
Interest payments	$ 646	$ 564
Income tax payments, net of refunds	649	250

As of April 3, 2004, and June 28, 2003, the Company' s cash balances included restricted cash of $937,000 and $1,142,000, respectively. The $937,000 includes two amounts; $506,000 is a deposit required by the state of Washington for self-insurers that would cover the Company' s maximum calculated workers' compensation liability in the event of default by the Company. The remaining $431,000 is the amount of uncollected funds in the Company' s depository account as of April 3, 2004. Such funds are considered restricted, because they cannot be used for any purpose other than to decrease the Company' s revolving debt.

5. INCOME TAXES

The income tax provision for the third quarter of fiscal year 2004 was $238,000 versus an income tax provision of $14,000 for the third fiscal quarter of the prior year. The provisions for the first nine months of fiscal years 2004 and 2003 were $522,000 and $368,000, respectively. The provisions for the third quarters and first nine months of fiscal years 2004 and 2003 were attributable primarily to the taxable earnings of foreign subsidiaries. During the third quarter of fiscal year 2004, one of the Company' s Mexican subsidiaries recorded an adjustment to its provision for income tax related to a statutory income adjustment for calendar year 2003, which was partially offset by reduced Mexican tax rates applicable to foreign income. The provisions for fiscal year 2003 were net of several tax benefits recorded in the third quarter. The Company has tax loss carryforwards of approximately $54 million, which expire in varying amounts in the years 2006 through 2022. Management has determined that a valuation allowance equal to any deferred tax asset is appropriate.

6. EARNINGS PER SHARE (EPS)

Basic EPS is computed by dividing net income (the numerator) by the weighted-average number of common shares outstanding (the denominator) during the period. Diluted EPS is computed by dividing net income by the weighted-average number of common shares and common share equivalents outstanding during the period (in thousands, except per share info. and shares outstanding):

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	Quarters Ended	
	April 3, 2004	March 29, 2003
Net income	$112	$306
Weighted average shares outstanding	9,672,580	9,672,580
Basic earnings per share	$0.01	$0.03
Diluted shares outstanding	9,792,893	9,674,503
Diluted earnings per share	$0.01	$0.03

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Table of Contents

	Nine Months Ended	
	April 3, 2004	March 29, 2003
Net income (loss)	$(155)	$12,859
Weighted average shares outstanding	9,672,580	9,672,580
Basic earnings per share	$(0.02)	$1.33
Diluted shares outstanding	9,672,580	9,672,580
Diluted earnings per share	Anti-dilutive	$1.33

During the nine months ended March 29, 2003, there were no dilutive shares as the option prices were higher than the average market price. During the nine months ended April 3, 2004, there were 103,740 options excluded from the diluted earnings per share as they were anti-dilutive due to the loss incurred.

7. STOCK OPTIONS

As allowed by SFAS No. 123, "Accounting for Stock Based Compensation", the Company accounts for its employee stock option plans in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation (FIN No. 44). Accordingly, no compensation is recognized for employee or director stock options granted with exercise prices greater than or equal to the fair value of the underlying common stock at date of grant. If the exercise price is less than the market value at the date of grant, the difference is recognized as deferred compensation expense, which is amortized over the vesting period of the options. The Company accounts for stock options issued to non-employees in accordance with the provisions of SFAS No. 123 under the fair value based method.

For purposes of disclosure under SFAS No. 123 and No. 148, the following is the pro forma effect of the options had they been recorded under the fair value based method (in thousands, except per share info):

	Quarters Ended		Nine Months Ended	
	April 3 2004	March 29 2003	April 3 2004	March 29 2003
Net income (loss), as reported	$ 112	$ 306	$(155)	$ 12,859
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	–	–	–	–

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Deduct: Total stock-based Employee compensation expense determined under fair value based method for all awards, net of related tax effects	0	0	(128)	(140)
Pro forma net income (loss)	$ 112	$ 306	$ (283)	$ 12,719
Earnings (loss) per share:				
Basic and diluted - as reported	$ 0.01	$ 0.03	$ (0.02)	$ 1.33
Basic and diluted - pro forma	$ 0.01	$ 0.03	$ (0.03)	$ 1.31

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Table of Contents

The fair value of each option grant is estimated on the date of grant using the following assumptions: 0% dividend yield, 5-year life, stock price volatility of 81.2% to 81.3% and risk free interest rates of 4.6% to 6.1%.

8. COMMITMENTS AND CONTINGENCIES

The amount of firm commitments to contractors and suppliers for capital expenditures was approximately $.7 million at April 3, 2004.

The Company leases some of its facilities, certain equipment, and automobiles under non-cancelable lease agreements. These agreements expire on various dates during the next nine years.

The Company provides warranties on certain product sales, and allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires the Company to make estimates of product return rates and expected costs to repair or to replace the products under warranty. We currently establish warranty reserves based on historical warranty costs for each product line combined with liability estimates based on the prior twelve months' sales activities. If actual return rates and/or repair and replacement costs differ significantly from our estimates, adjustments to recognize additional cost of sales may be required in future periods.

Components of the reserve for warranty costs during the nine months ended April 3, 2004:

Balance at June 28, 2003	$161,144
Additions related to current period sales	30,000
Warranty costs incurred in the current period	(35,975)
Balance at September 27, 2003	155,169
Additions related to current period sales	40,000
Warranty costs incurred in the current period	(55,041)
Balance at December 27, 2003	140,128
Additions related to current period sales	30,000
Warranty costs incurred in the current period	(44,500)

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Balance at April 3, 2004	$125,628

Litigation Settlement: On December 20, 2001, a jury in Seattle federal court rendered a verdict in the case of F&G Scrolling Mouse, LLC, Fernando Falcon and Federico Gilligan v. Microsoft Corporation, Honeywell, Inc., and Key Tronic Corporation, United States District Court for the Western District of Washington, Case No. C99-995C (the “litigation”) finding that Key Tronic misappropriated trade secrets and breached a confidentiality agreement with Plaintiffs. The jury awarded damages to the Plaintiffs in the amount of $16.5 million. The judgment against the Company was subsequently increased to approximately $19.2 million through an award of pre-judgment interest. On October 24, 2002, the Company reached a settlement of the litigation with the Plaintiffs (hereafter called “F&G”). Under the terms of the settlement, the Company has agreed to pay F&G a total of $7.0 million. The Company was required to make an initial payment to F&G of $2.5 million, as well as make quarterly payments to F&G of $200,000 or 50% of Key Tronic’ s operating income, whichever is greater, until the total payment of $7.0 million has been made, provided the total payment is completed by December 15, 2005. As of April 3, 2004, the Company has made payments to F&G totaling approximately $ 4.2 million.

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Table of Contents

If the total of $7.0 million is not paid by 12/15/2005, the total settlement amount increases on 12/15/2005 to $7.6 million. If payment of $7.6 million is not completed by 12/15/2006 the total settlement amount increases to $8.2 million. If payment of $8.2 million is not completed by 12/15/2007 the total settlement amount increases to $8.8 million. If payment of $8.8 million is not completed by 12/15/2008 the total settlement amount increases to $9.7 million. If payment of $9.7 million is not completed by 12/15/2009 the total settlement amount increases to $10.6 million. If payment of $10.6 million is not made by 12/15/2010 the total settlement amount increases to $11.5 million. Any unpaid balance remaining at 12/15/2011 will accrue interest thereafter at prime plus 1 1/2% per annum until paid. If the Company fails to make any minimum quarterly payment when due, Plaintiffs have the right to accelerate all remaining payments in the amount of $11.5 million less any amounts previously paid.

Reported earnings for the nine months ended March 29, 2003, include a one-time benefit of $12.2 million ($1.26 per share) for reversal of previously recorded litigation expense.

Item 2. Management’ s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements in addition to historical information. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Risks and uncertainties that might cause such differences include, but are not limited to those outlined in “Management’ s Discussion and Analysis of Financial Condition and Results of Operations−Risks and Uncertainties That May Affect Future Results.” Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management’ s opinions only as of the date hereof. The Company undertakes no obligation to revise or publicly release the results of any revision to forward-looking statements. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including year end reports on Form 10-K and Quarterly Reports on Form 10-Q.

OVERVIEW

Key Tronic Corporation is an independent provider of electronic manufacturing services (EMS) for original equipment manufacturers (OEMs). The Company’ s core strengths include innovative design and engineering expertise in electronics, mechanical engineering, and precision molding and tooling combined with high-quality, low-cost production and assembly on a global basis. This global production capability provides customers with benefits of improved supply-chain management, reduced inventories, lower transportation costs, and reduced product fulfillment time.

The EMS industry has historically experienced growth over the long-term as more OEMs shift to outsourced manufacturing, and industry trends continue to be very positive. The Company believes that it is positioned in the EMS industry to expand its customer base and continue business growth.

The number of Key Tronic EMS customers have continued to increase during the third quarter of fiscal 2004. Some of these customers have programs that represent small annual revenue streams and some have multi-million-dollar potential. The Company’ s new customer relationships involve a variety of products, including consumer electronics and plastics, household products, gaming devices, educational toys, exercise equipment, specialty printers and computer accessories.

The EMS industry is intensely competitive, and Key Tronic, at this time, has under 1% of the potential market. The Company is planning for growth in coming quarters by expanding its worldwide manufacturing capacity and continuing to improve its manufacturing processes. The Company believes that it can win new business, particularly those programs that may be initially too small for larger contract manufacturers. Current challenges facing the Company include the following:

Winning new customers

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Improving operating margins

Controlling costs

Developing competitive pricing strategies

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The Company maintains a strong balance sheet with a current ratio of 1.9 to 1 and a long-term debt to equity ratio of .5 to 1. The Company maintains a good working relationship with its asset-based lender, and it believes that internally generated funds and its revolving line of credit should provide adequate capital for its planned growth.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition: The Company recognizes revenue primarily when products are shipped. Staff Accounting Bulletin 101 states that revenue generally is realized or realizable and earned when all of the following criteria are met:

Persuasive evidence of an arrangement exists

Delivery has occurred or services have been rendered

The seller' s price to the buyer is fixed or determinable

Collectibility is reasonably assured

The Company believes that it meets the above criteria for the following reasons:

Customer purchase orders confirming the price and shipping terms are required prior to shipment.

The terms of the Company' s sales are generally FOB shipping point, meaning that the customer takes ownership of the goods and assumes the risk of loss when the goods leave the Company' s premises.

The seller' s price to the buyer is fixed or determinable – as noted, we require a customer purchase order, which confirms the price and shipping terms.

Collectibility is reasonably assured – the credit terms for customers are pre-established so that collection of the account can be reasonably assured.

Inactive, Obsolete and Surplus Inventory Reserve: The Company reserves for inventories that it deems inactive, obsolete or surplus. This reserve is calculated based upon the demand for the products that the Company produces. Demand is determined by expected sales or customer forecasts. If expected sales do not materialize, the Company would have surplus inventory in excess of its reserves, and it would be necessary to charge the excess against future earnings. When the Company has purchased material based upon a customer' s forecast, it is usually covered by lead-time assurance agreements. These agreements state that the financial liability for material purchased within lead-time and based upon the customer' s forecasts, lies with the customer. If the Company purchases material outside the lead-time assurance agreement and the customer' s forecasts do not materialize, the Company would have the financial liability and would have to charge the excess against future earnings.

Allowance for Doubtful Accounts: The Company values its accounts receivable net of an allowance for doubtful accounts. This allowance is based on estimates of the portion of accounts receivable that may not be collected in the future, and the amount of this allowance is disclosed in the Company' s consolidated balance sheet. The estimates used are based primarily on identification of specific potentially uncollectible accounts. Such accounts are identified using publicly available information in conjunction with evaluations of current payment activity. However, if any of the Company' s customers were to develop unexpected and immediate financial problems that would prevent payment of open invoices, the Company could incur additional and possibly material expenses that would negatively impact earnings.

Accrued Warranty: An accrual is made for expected warranty costs, with the related expense recognized in cost of goods sold. Management reviews the adequacy of this accrual quarterly based on historical analysis and anticipated product returns. Over the course of the past three years, the Company' s warranty expense has decreased. As the Company has made the transition from primarily manufacturing keyboards to EMS, its exposure to potential warranty claims has declined significantly. The Company' s warranty period for keyboards is

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significantly longer than that for EMS products. Also the Company does not warrant design defects in products manufactured for EMS customers.

Income Taxes: The Company is required to estimate income taxes in each of the jurisdictions in which it operates. This process involves estimating the actual current tax liability together with evaluating temporary differences in recognition of income

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(loss) for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company' s balance sheet. A valuation allowance against deferred tax assets is required whenever the recovery of the assets from future earnings is considered doubtful. As of April 3, 2004, the Company had approximately $54 million in tax loss carryforwards, which will begin expiring in 2006. In fiscal 2002, the Company wrote off its net deferred tax assets totaling approximately $5 million by recording additional income tax expense and increasing the valuation allowance for the deferred tax assets. The Company' s management made this decision as a result of the large financial loss recorded in that fiscal year and uncertainty due to a verdict rendered in the F&G Scrolling Mouse LLC litigation (see Note #8 on pages 10-11).

Although the Company has a history of operating losses, it is possible that future earnings may require the reinstatement of all or a portion of the deferred tax assets. If this should occur, an income tax benefit would be recorded, and this would have a favorable effect on reported earnings per share in the period of the adjustment.

CAPITAL RESOURCES AND LIQUIDITY

Operating Cash Flow

Operating activities provided $1.2 million of cash during the first nine months of fiscal year 2004 versus $.1 million of cash provided by operating activities during the same period of the prior year. The increase in cash provided by operating activities was due primarily to an increase in accounts payable offset by decreases in accrued compensation and vacation, litigation payments, and other liabilities. The increase in accounts payable from the fiscal year end was due primarily to extended payment terms from some of the Company' s largest suppliers. The decrease in litigation payments during the current year was due to the initial $2.5 million settlement payment that was made in the second quarter of fiscal 2003. The decrease in accrued compensation and vacation was the result of the payment of incentive compensation bonuses that were previously accrued at the 2003 fiscal year end. The decrease in other liabilities was primarily due to decreased accruals for certain sales and marketing promotional programs and a decrease in deferred revenue associated with one of the Company' s keyboard distribution customers.

Capital Expenditures

During the first nine months of fiscal year 2004, the Company spent $.6 million versus $1.4 million for capital additions in the same period in the previous fiscal year. The Company' s capital expenditures for the first nine months ended April 3, 2004 primarily consisted of purchases of manufacturing and computer equipment to support its worldwide operations. The $1.4 million in capital expenditures during the first nine months of fiscal year 2003 was primarily for production equipment purchased for the Company' s Las Cruces facility. The Company anticipates capital expenditures of approximately $.6 million through the remainder of the current fiscal year ending July 3, 2004. Actual capital expenditures may vary from anticipated expenditures depending upon future results of operations. See RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS, pages 16-17. Capital expenditures are expected to be financed with internally generated funds. Leases are often utilized when technical obsolescence and funding requirement advantages outweigh the benefits of equipment ownership.

Financing Cash Flow

The Company continues to finance its operations through the CIT Group using a revolving credit facility. The revolving loan is secured by substantially all the assets of the Company. Interest applicable on this loan is based on a predetermined margin rate (see Note 3) plus the JP Morgan stated prime rate. The Company was paying total interest of 4.5% on the amount outstanding at April 3, 2004. The amount outstanding on the revolving loan on April 3, 2004 was $9.5 million. The Company has the ability to borrow up to $20 million under this credit facility with approximately $4.3 million available at April 3, 2004 based on collateral held at that time. Cash requirements of the Company are affected by the level of current operations and new EMS programs. The Company utilizes cash to fund these requirements and believes it has positioned itself to grow and expand its business.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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Payments Due by Period

	Total	3 Mos. FY04	FY05	FY06	FY07	FY08	Future Years
Litigation Settlement (1)	2,771	310	800	1,661			
CIT Revolving Loan (2)	9,505				9,505		
Capital and Operating Leases (3)	7,694	771	2,640	1,833	862	448	1,140
Purchasing Orders (4)							

1) For an in-depth discussion of the litigation settlement, please see Note 8, "Commitments and Contingencies". In accordance with the terms of the litigation settlement, the Company must pay a minimum of $200,000 or fifty percent of its operating earnings each quarter whichever is greater. If the entire remainder of the settlement is not paid by December 15, 2005 additional amounts must be paid. Because payments exceeding $200,000 depend entirely on the Company' s operating earnings, which are not readily determinable, the above table indicates the minimum payments for FY05, and the remaining amount owing after those payments is shown in FY06, which includes December 2005. At this time, the Company expects to pay the entire settlement amount by December 15, 2005.

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2) The terms of the CIT revolving loan are discussed in Note 3, "Long-Term Obligations". The Company' s current financing agreement with CIT terminates on August 23, 2006, at which time the unpaid balance of the revolving loan will become immediately payable. However, the Company will more likely than not extend or replace its revolving loan agreement prior to that date. The amount payable on the Company' s revolving loan changes daily depending upon the amount of cash borrowed to support its operations and the amount of customer payments received. Under the terms of the Company' s agreement with CIT, all customers' payments are applied against the outstanding revolving loan balance as soon as the amounts clear through the banking system.

   Under the terms of the revolving credit agreement, the Company must meet a number of financial covenants. As of April 3, 2004, the Company was in compliance with all of its loan covenants. Breaching one or more of these covenants could have a material impact on the Company' s operations.

3) The Company maintains vertically integrated manufacturing operations in Mexico and Shanghai, China. Such operations are heavily dependent upon technically superior manufacturing equipment including molding machines in various tonnages, SMT lines, and automated insertion and test equipment for all of the various products that the Company is capable of producing.

   In addition, the Company leases most of its administrative and manufacturing facilities. A complete discussion of properties can be found in the Company' s annual 10-K Report that was filed in September 2003.

   Leases have proven to be an acceptable method for the Company to acquire new or replacement equipment and to maintain many facilities with a minimum impact on its operating cash flows.

   Subsequent to the quarter ended April 3, 2004, the Company entered into a $320,000 capital lease for production equipment.

4) As of April 3, 2004, the Company had open purchase order commitments for materials and other supplies of approximately $30 million and open orders for capital expenditures of approximately $.7 million. Of the $30 million in open purchase orders, there are at least 3 blanket orders for annual requirements. Actual needs under these blanket purchase orders fluctuate with the Company' s manufacturing levels. In addition, the Company has contracts with its customers that minimize its exposure to losses for material purchased within lead-times necessary to meet customer forecasts. The majority of the $.7 million in open purchase orders for capital expenditures will be billed back to the Company' s customers under various project agreements. Purchase orders generally can be cancelled without penalty within specified ranges that are determined in negotiations with the Company' s suppliers. These agreements depend in part on the type of product purchased as well as the circumstances surrounding any requested cancellations.

In addition to the cash requirements presented in tabular format, the Company also owes its suppliers approximately $18.4 million for accounts payable and shipments in transit at the end of the quarter. The Company generally pays its suppliers in a range from 30 to 120 days depending on terms offered. Quarterly payments to suppliers normally average between $15 and $21 million. These payments are financed by the Company' s revolving line of credit.

The Company believes that funds available under the revolving credit facility and internally generated funds can satisfy cash requirements for a period in excess of 12 months.

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Table of Contents

RESULTS OF OPERATIONS

NET SALES

Net Sales

	April 3, 2004	March 29, 2003
Quarter Ended	$37.3 million	$30.6 million
Nine Months Ended	$104.5 million	$95.2 million

One of the Company' s major customers decreased orders during the third quarter and nine months ended April 3, 2004. This was more than offset by increased sales to other customers.

Gross Margins

	April 3, 2004	March 29, 2003
Quarter Ended	9.9 %	12.3 %
Nine Months Ended	9.4 %	11.3 %

Gross margins decreased in both the third quarter and nine months ended April 3, 2004. Even though sales increased in both periods, the overall sales mix of revenues changed. One of the Company' s major customers decreased orders significantly. These decreased orders were offset by increased orders from some of the Company' s other customers. The margins on offsetting sales are not as favorable as the margins on the decreased business.

Research, Development and Engineering
(% are stated as of sales)

	April 3, 2004	March 29, 2003
Quarter Ended	$1.6 0.6 million/ %	$2.4 0.7 million/ %
Nine Months Ended	$1.8 1.9 million/ %	$2.3 2.2 million/ %

Research, development and engineering (R,D&E) expenses decreased for both the quarter and nine months ended April 3, 2004 primarily due to a reduction in payroll expense.

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Selling
(% are stated as of sales)

	April 3, 2004		March 29, 2003	
Quarter Ended	$1.9 0.7 million/	%	$2.1 0.6 million/	%
Nine Months Ended	$1.4 1.5 million/	%	$1.6 1.6 million/	%

The decrease in selling expenses for the quarter and nine months ended April 3, 2004 is primarily due to decreased commission expenses and decreased sales and marketing promotional programs.

General and Administrative
(% are stated as of sales)

	April 3, 2004		March 29, 2003	
Quarter Ended	$4.8 1.8 million/	%	$5.9 1.8 million/	%
Nine Months Ended	$5.1 5.3 million/	%	$5.7 5.4 million/	%

The decrease in overall general and administrative (G&A) expenses for the quarter and nine months ended April 3, 2004 is primarily due to a reduction in payroll expense.

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[Table of Contents](#)

INTEREST

Interest

	April 3, 2004	March 29, 2003
Quarter Ended	$0.27 million	$0.26 million
Nine Months Ended	$0.80 million	$0.76 million

Interest expense has not fluctuated significantly because borrowing amounts and interest rates have been relatively stable.

INCOME TAXES

Income Taxes

The income tax provision for the third quarter of fiscal year 2004 was $238,000 versus an income tax provision of $14,000 for the third fiscal quarter of the prior year. The provisions for the first nine months of fiscal years 2004 and 2003 were $522,000 and $368,000, respectively. The provisions for the third quarters and first nine months of fiscal years 2004 and 2003 were attributable primarily to the taxable earnings of foreign subsidiaries. During the third quarter of fiscal year 2004, one of the Company' s Mexican subsidiaries recorded an adjustment to its provision for income tax related to a statutory income adjustment for calendar year 2003, which was partially offset by reduced Mexican tax rates applicable to foreign income. The provisions for fiscal year 2003 were net of several tax benefits recorded in the third quarter. The Company has tax loss carryforwards of approximately $54 million, which expire in varying amounts in the years 2006 through 2022. Management has determined that a valuation allowance equal to any deferred tax asset is appropriate.

BACKLOG

Backlog

	April 3, 2004	March 29, 2003
Quarter Ended	$60.7 million	$30.4 million

As of June 28, 2003, the Company had an order backlog of approximately $35.6 million. Order backlog consists of purchase orders received for products expected to be shipped within the next 12 months although shipment dates are subject to change due to design modifications or other customer requirements. Order backlog should not be considered an accurate measure of future sales.

RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

The following risks and uncertainties could affect the Company' s actual results and could cause results to differ materially from past results or those contemplated by the Company' s forward-looking statements. When used herein, the words "expects", "believes", "anticipates" and similar expressions are intended to identify forward-looking statements.

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Potential Fluctuations in Quarterly Results The Company’ s quarterly operating results have varied in the past and may vary in the future due to a variety of factors, including changes in overall demand for customers’ products, success of customers’ programs, timing of new programs, new product introductions or technological advances by the Company, its customers and its competitors and changes in pricing policies by the Company, its customers, its suppliers and its competitors. For example, the Company relies on customers’ forecasts to plan its business. If those forecasts are overly optimistic, the Company’ s revenues and profits may fall short of expectations. Conversely, if those forecasts are too conservative, the Company could have an unexpected increase in revenues and profits. The products which the Company manufactures for its customers have relatively short product lifecycles, therefore the Company’ s business, operating results and financial condition are dependent in significant part on the Company’ s ability to obtain orders from new customers and new product programs from existing customers.

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Competition The EMS industry is intensely competitive. Competitors may offer customers lower prices on certain high volume programs. This could result in price reductions, reduced margins and loss of market share, all of which would materially and adversely affect the Company' s business, operating results and financial condition. The Company' s inability to provide comparable or better manufacturing services at a lower cost than its competitors could cause sales to decline. In addition, competitors can copy the Company' s non-proprietary designs after the Company has invested in development of products for customers, thereby enabling such competitors to offer lower prices on such products due to savings in development costs.

Concentration of Major Customers The concentration of the Company' s customers can change significantly on a quarterly basis. As an example, at the quarter ended April 3, 2004, the Company' s third largest customer year to date represented approximately 16% of sales, which made them our second largest customer for the quarter. Because of these fluctuations on a quarterly basis as well as for comparative purposes from year to year, the Company reports its customer concentration percentages as of its fiscal year end.

The Company' s largest EMS customer accounted for 31% of net sales in fiscal year 2003. This same customer accounted for 39% of sales in 2002. Three of the Company' s EMS customers accounted for 9%, 8%, and 8% of net sales during fiscal year 2003. These same customers accounted for 10%, 13%, and 10% of net sales in fiscal year 2002. There can be no assurance that the Company' s principal customers will continue to purchase products from the Company at current levels. Moreover, the Company typically does not enter into long-term volume purchase contracts with its customers, and the Company' s customers have certain rights to extend or delay the shipment of their orders. The loss of one or more of the Company' s major customers, or the reduction, delay or cancellation of orders from such customers, could materially and adversely affect the Company' s business, operating results and financial condition.

Dependence on Suppliers The Company is dependent on many suppliers, including sole source suppliers, to provide key components and raw materials used in manufacturing customers' products. Delays in deliveries from suppliers or the inability to obtain sufficient quantities of components and raw materials could cause delays or reductions in shipment of products to our customers which could adversely affect the Company' s operating results and damage customer relationships.

Dependence on Key Personnel The Company' s future success depends in large part on the continued service of its key technical, marketing and management personnel and on its ability to continue to attract and retain qualified employees. The competition for such personnel is intense and there can be no assurance that the Company will be successful in attracting and retaining such personnel. The loss of key employees could have a material adverse effect on the Company' s business, operating results and financial condition.

Foreign Manufacturing Operations Virtually all products manufactured by the Company are produced at the Company' s facilities located in Mexico and China. Accordingly the Company' s operations are subject to a variety of risks unique to international operations including import and export duties and value added taxes, import and export regulation changes, the burden and cost of compliance with foreign laws and foreign economic and political risk.

Technological Change and New Product Risk The markets for the Company' s customers' products is characterized by rapidly changing technology, evolving industry standards, frequent new product introductions and relatively short product life cycles. The introduction of products embodying new technologies or the emergence of new industry standards can render existing products obsolete or unmarketable. The Company' s success will depend upon its customers' ability to enhance existing products and to develop and introduce, on a timely and cost-effective basis, new products that keep pace with technological developments and emerging industry standards and address evolving and increasingly sophisticated customer requirements. Failure of the Company' s customers to do so could substantially harm the Company' s customers' competitive positions. There can be no assurance that the Company' s customers will be successful in identifying, developing and marketing products that respond to technological change, emerging industry standards or evolving customer requirements.

Stock and Dilution Price Volatility As of April 3, 2004, there were outstanding options for the purchase of approximately 2,082,000 shares of common stock of the Company (Common Stock), of which options for approximately 1,916,000 shares were vested and exercisable. Of the outstanding options, 26% have exercise prices more than twice the closing price on April 3, 2004. Holders of the Common Stock will suffer immediate and substantial dilution to the extent outstanding options to purchase the Common Stock are exercised. The stock price of the

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Company may be subject to wide fluctuations and possible rapid increases or declines over a short time period. These fluctuations may be due to factors specific to the Company such as variations in quarterly operating results or to factors relating to the EMS and computer industries or to the securities markets in general, which, in recent years, have experienced significant price fluctuations. These fluctuations often have been unrelated to the operating performance of the specific companies whose stocks are traded.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is subject to the risk of fluctuating interest rates in the normal course of business. The Company' s major market risk relates to its secured debt. The term and revolving debt is secured substantially by all of the Company' s assets. The interest rates applicable to the Company' s revolving loan fluctuate with the JP Morgan Chase Bank prime rate. As of May 1, 2004, the JP Morgan Chase Bank prime rate was 4.00%.

The Company does not enter into derivative transactions or leveraged swap agreements.

Although the Company has international operations, the functional currency for all active subsidiaries is the U.S. dollar. The Company imports for its own use raw materials that are used in its manufacturing operations. Substantially all of the Company' s purchases are denominated in U.S. dollars and are paid under normal trade terms.

Item 4. Controls and Procedures

a) As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company' s chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company' s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the chief executive officer and chief financial officer concluded that the Company' s disclosure controls and procedures are effective.

b) There have been no changes during the quarter covered by this report in the Company' s internal controls over financial reporting during the quarterly period ended April 3, 2004 that have materially affected, or are reasonably likely to materially affect, the Company' s internal control over financial reporting or in other factors which could significantly affect internal controls over financial reporting.

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Table of Contents

PART II. OTHER INFORMATION:

Item 1. Legal Proceedings

On March 31, 2004, a former employee of the Company filed a compliant against the Company in the Superior Court of the State of Washington, Spokane County. Anthony DeStefano, Jr. v Key Tronic Corporation, Case No. 04201480-2. The complaint asserts claims for breach of contract, wrongful withholding of wages and wrongful discharge and seeks an unspecified amount of damages. Management believes that the plaintiff' s claims are without merit and intends to vigorously defend this lawsuit.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(10.1) Sixth Amendment to Financing Agreement

(31.1) Certification of Chief Executive Officer (Exchange Act Rules 13(a)-14 and 15(d)-14)

(31.2) Certification of Chief Financial Officer (Exchange Act Rules 13(a)-14 and 15(d)-14)

(32.1) Certification of Chief Executive Officer (18 U.S.C. 1350)

(32.2) Certification of Chief Financial Officer (18 U.S.C. 1350)

(b) Reports on Form 8-K

(1) Current Report, January 27, 2004

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SIGNATURES

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

KEY TRONIC CORPORATION

/s/ Jack W. Oehlke Date: May 18, 2004

Jack W. Oehlke

(Director, President and

Chief Executive Officer)

/s/ Ronald F. Klawitter Date: May 18, 2004

Ronald F. Klawitter

(Principal Financial Officer

Principal Accounting Officer)

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SIXTH AMENDMENT TO FINANCING AGREEMENT

This Sixth Amendment to Financing Agreement ("Amendment") is made and entered into as of this 12th day of February, 2004 between Key Tronic Corporation ("Company") and The CIT Group/Business Credit, Inc. ("CIT") in reference to that certain Financing Agreement between Company and CIT dated August 22, 2001, as amended (hereinafter "Financing Agreement"). Capitalized terms herein, unless otherwise defined herein, shall have the meaning set forth in the Financing Agreement.

Company and CIT desire to amend the Financing Agreement as set forth below.

NOW, THEREFORE, the parties hereto do hereby agree as follows:

1. Amendments to Financing Agreement.

(a). The definition of "Eligible Accounts Receivable" is hereby amended and restated to read as follows:

"**Eligible Accounts Receivable** shall mean the gross amount of the Company' s Trade Accounts Receivable that are subject to a valid, exclusive, first priority and fully perfected security interest in favor of CIT, which conform to the warranties contained herein and which, at all times, continue to be acceptable to CIT in the exercise of its reasonable business judgment, less, without duplication, the sum of: (a) any returns, discounts, claims, credits and allowances of any nature (whether issued, owing, granted, claimed or outstanding), and (b) reserves for any such Trade Accounts Receivable that arise from or are subject to or include: (i) sales to the United States of America, any state or other governmental entity or to any agency, department or division thereof, except for any such sales as to which the Company has complied with the Assignment of Claims Act of 1940 or any other applicable statute, rules or regulation, to CIT' s satisfaction in the exercise of its reasonable business judgment; (ii) foreign sales, other than sales which otherwise comply with all of the other criteria for eligibility hereunder and are either (y) to foreign subsidiaries of the following United States corporations: Flextronix, Hewlett Packard, Lexmark International, Clorox and Unisys or other foreign subsidiaries of United States corporations approved by CIT in its sole discretion, provided such Accounts do not exceed the lesser of 30% of all Eligible Accounts Receivable and $5,000,000 in the aggregate at any one time or (z) to DBK, provided such Accounts do not to exceed $2,000,000 in the aggregate at any one time and are at all times supported by credit insurance payable to CIT and in form, substance and amount and by an issuer acceptable to CIT; (iii) Accounts that remain unpaid more than ninety (90) days from invoice date; (iv) contra Accounts (excluding Lexmark International, Cognitive, Clorox, Lexmark International Technology, S.A. and Axiohm so long as such account debtors have executed CIT' s agreement referenced in Section 2.1(bb) herein, provided such Accounts do not exceed the Maximum Contra Exposure in the aggregate at any one time); (v) sales to any subsidiary, or to any company affiliated with the Company in any way; (vi) bill and hold (deferred shipment) (except to the extent CIT receives a bill and hold letter acceptable to CIT) or consignment sales; (vii) sales to any customer which is: (A) insolvent, (B) the debtor in any bankruptcy, insolvency, arrangement, reorganization, receivership or similar proceedings under any federal or state law, (C) negotiating, or has called a meeting of its creditors for purposes of negotiating, a compromise of its debts, or (D) financially unacceptable to CIT or has a credit rating unacceptable to CIT (unless backed by a letter of credit assigned to and in form and substance acceptable to CIT); (viii) all sales to any customer if fifty percent (50%) or more of the aggregate dollar amount of all outstanding invoices to such customer are unpaid more than ninety (90) days from invoice date (except that with respect to Little Tikes Company such sales shall not exceed 25%); (ix) pre-billed receivables and receivables arising from progress billing; (x) an amount representing, historically, returns, discounts, claims, credits, allowances and applicable terms; (xi) sales to an account debtor whose Accounts represent an amount greater than 20% of the Company' s Accounts (and with respect to Little Tikes Company, Accounts greater than 30%, further limited to $5,700,000.00 in Availability), to the extent of such excess; (xii) sales not payable in United States currency; (xiii) engineering services related Accounts and tooling services related Accounts; and (xiv) any other reasons deemed necessary by CIT in its reasonable business judgment, including without limitation, for distribution customers that have excess inventory on hand (as determined by CIT in its sole discretion) those which are customary either in the commercial finance industry or in the lending practices of CIT."

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2. Conditions Precedent. The initial and continued effectiveness of this Amendment are further conditioned upon satisfaction of each of the following (except to the extent expressly waived by CIT in writing):

(a) CIT shall have received this Amendment, duly executed and delivered by Company prior to 5:00 p.m. Pacific Daylight time on February 13, 2004.

3. Counterparts. This Amendment may be signed in counterparts with the same affect as if the signatures to each counterpart were upon a single instrument.

4. Reference to and Effect on the Existing Financing Agreement. Except as modified by the terms herein, the Financing Agreement and the Loan Documents remain in full force and effect in accordance with their terms without offset, counterclaim or recoupment.

5. Governing Law. This Amendment shall be governed by the laws of the State of California.

6. Attorneys' Fees; Costs; Jury Trial Waiver. Company agrees to pay, on demand, all reasonable attorneys' fees and costs incurred in connection with the negotiation, documentation and execution of this Amendment. COMPANY AND CIT HEREBY WAIVE ALL RIGHTS EITHER MAY HAVE TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE, DEFEND, INTERPRET OR OTHERWISE CONCERNING THIS AMENDMENT.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

KEY TRONIC CORPORATION

By

/s/ Ronald F. Klawitter

Its Executive V.P. of Admin. & CFO

THE CIT GROUP/BUSINESS CREDIT, INC.

By

/s/ Jeannette M. Behm

Its Vice President

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Each of the undersigned confirms that the foregoing Amendment shall not affect, modify or diminish such undersigned' s obligations under any instrument of Guaranty and/or any related pledge or security agreements executed in favor of CIT and reaffirms and ratified each of the terms and conditions of such Guaranty and/or related pledge or security agreements.

KEY TRONIC JUAREZ, SA DE CV

By: /s/ Ronald F. Klawitter

Name: Ronald F. Klawitter

Title: Secretary & Treasurer

KEY TRONIC REYNOSA, SA DE CV

By: /s/ Ronald F. Klawitter

Name: Ronald F. Klawitter

Title: Director, Sec. & Treas.

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EXHIBIT 31.1

CERTIFICATION

I, Jack W. Oehlke, President and Chief Executive Officer of Key Tronic Corporation, certify that:

1. I have reviewed this quarterly report on form 10-Q of Key Tronic Corporation;

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

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

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

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

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

    c) disclosed in this report any change in registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

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

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

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

Dated: May 18, 2004

/s/ Jack W. Oehlke

Jack W. Oehlke

President and Chief Executive Officer

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EXHIBIT 31.2

CERTIFICATION

I, Ronald F. Klawitter, Chief Financial Officer of Key Tronic Corporation, certify that:

1. I have reviewed this quarterly report on form 10-Q of Key Tronic Corporation;

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

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

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

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

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

   c) disclosed in this report any change in registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

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

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

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

Dated: May 18, 2004

/s/ Ronald F. Klawitter

Ronald F. Klawitter

Executive Vice President of Administration,

Chief Financial Officer and Treasurer

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EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Key Tronic Corporation (the "Company") on Form 10-Q for the period ended April 3, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I Jack W. Oehlke, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 18, 2004

/s/ Jack W. Oehlke

Jack W. Oehlke

President and Chief Executive Officer

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EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Key Tronic Corporation (the "Company") on Form 10-Q for the period ended April 3, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I Ronald F. Klawitter, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 18, 2004

/s/ Ronald F. Klawitter

Ronald F. Klawitter

Executive Vice President of Administration,

Chief Financial Officer and Treasurer

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