

SMTC CORP
Form 10-Q
May 13, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934**
For the quarterly period ended March 30, 2008

OR

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934**
FOR THE TRANSITION PERIOD FROM ____ TO ____

COMMISSION FILE NUMBER 0-31051

SMTC CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

98-0197680
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

635 HOOD ROAD

MARKHAM, ONTARIO, CANADA L3R 4N6

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(905) 479-1810

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of March 30, 2008, SMTC Corporation had 13,865,099 shares of common stock, par value \$0.01 per share, and one share of special voting stock, par value \$0.01 per share, outstanding. As of March 30, 2008, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 7,938,011 exchangeable shares outstanding, including 7,156,777 exchangeable shares held by SMTC Corporation's wholly-owned subsidiary, SMTC Nova Scotia Company. Each exchangeable share is exchangeable into one share of common stock of SMTC Corporation.

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SMTC CORPORATION

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Table of Contents**Part I FINANCIAL INFORMATION****Item 1 Financial Statements
Consolidated Balance Sheets as of:**

(Expressed in thousands of U.S. dollars)

(Unaudited)

		March 30, 2008	December 31, 2007
Assets			
Current assets:			
Cash		\$ 473	\$ 182
Accounts receivable - net	Note 3	34,202	38,658
Inventories	Note 3	38,895	30,879
Prepaid expenses		1,115	940
		74,685	70,659
Property, plant and equipment - net	Note 3	22,123	22,295
Deferred financing fees	Note 3	1,306	1,410
Deferred income taxes	Note 7	492	483
		\$ 98,606	\$ 94,847
Liabilities and Shareholders Equity			
Current liabilities:			
Accounts payable		\$ 40,370	\$ 37,172
Accrued liabilities	Note 3	7,825	7,272
Income taxes payable		590	604
Current portion of long-term debt	Note 4	3,071	3,071
Current portion of capital lease obligations		874	736
		52,730	48,855
Long-term debt	Note 4	16,893	17,913
Capital lease obligations		1,639	1,244
Commitments and contingencies	Note 10		
Shareholders equity:			
Capital stock	Note 5	7,757	7,854
Warrants		10,372	10,372
Loans receivable		(5)	(5)
Additional paid-in capital		249,073	248,888
Deficit		(239,853)	(240,274)
		27,344	26,835
		\$ 98,606	\$ 94,847

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Operations for the three months ended**

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

		March 30, 2008	April 1, 2007
Revenue		\$ 55,140	\$ 69,477
Cost of sales		50,739	63,000
Gross profit		4,401	6,477
Selling, general and administrative expenses		3,189	3,572
Restructuring recoveries	Note 6	(225)	
Operating earnings		1,437	2,905
Interest expense	Note 3	913	1,682
Earnings before income taxes		524	1,223
Income tax expense (recovery)	Note 7		
Current		112	(1,480)
Deferred		(9)	(98)
		103	(1,578)
Net earnings, also being comprehensive income		\$ 421	\$ 2,801
Basic earnings per share	Note 8	\$ 0.03	\$ 0.19
Diluted earnings per share	Note 8	\$ 0.03	\$ 0.19
Weighted average number of shares outstanding			
Basic		14,646,333	14,641,333
Diluted		14,662,931	14,871,043

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Shareholders Equity for the three months ended

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Capital stock	Warrants	Loans receivable	Additional paid-in capital	Deficit	Shareholders equity
Balance, December 31, 2007	\$ 7,854	\$ 10,372	\$ (5)	\$ 248,888	\$ (240,274)	\$ 26,835
Stock-based compensation				88		88
Conversion of shares from exchangeable to common stock	(97)			97		
Net earnings					421	421
Balance, March 30, 2008	\$ 7,757	\$ 10,372	\$ (5)	\$ 249,073	\$ (239,853)	\$ 27,344

	Capital stock	Warrants	Loans receivable	Additional paid-in capital	Deficit	Shareholders equity
Balance, December 31, 2006	\$ 11,969	\$ 10,372	\$ (5)	\$ 244,501	\$ (242,946)	\$ 23,891
Stock-based compensation				66		66
Conversion of shares from exchangeable to common stock	(2,201)			2,201		
Net earnings					2,801	2,801
Balance, April 1, 2007	\$ 9,768	\$ 10,372	\$ (5)	\$ 246,768	\$ (240,145)	\$ 26,758

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Cash Flows for the three months ended**

(Expressed in thousands of U.S. dollars)

(Unaudited)

	March 30, 2008	April 1, 2007
Cash provided by (used in):		
Operations:		
Net earnings	\$ 421	\$ 2,801
Items not involving cash:		
Depreciation	1,124	1,309
Deferred income taxes	(9)	(88)
Non-cash interest	104	313
Stock-based compensation	208	66
Change in non-cash operating working capital:		
Accounts receivable	4,456	244
Inventories	(8,016)	(1,942)
Prepaid expenses	(175)	13
Income taxes recoverable/payable	(14)	(1,657)
Accounts payable	3,198	2,785
Accrued liabilities	433	154
	1,730	3,998
Financing:		
Repayment of long-term debt	(1,020)	(3,559)
Principal payment of capital lease obligations	(176)	(130)
	(1,196)	(3,689)
Investing:		
Purchase of property, plant and equipment	(243)	(309)
	(243)	(309)
Increase in cash and cash equivalents	291	
Cash and cash equivalents, beginning of period	182	
Cash and cash equivalents, end of the period	\$ 473	\$

See accompanying notes to consolidated financial statements.

Table of Contents**Notes to Consolidated Financial Statements****1. Nature of the business**

SMTC Corporation (the Company) is a worldwide provider of advanced electronics manufacturing services to original equipment manufacturers. The Company services its customers through manufacturing and technology centers located in the United States, Canada, Mexico and China. For the past seven years the Company has had an evolving manufacturing relationship with Alco Electronics Ltd. (Alco), a Hong Kong-headquartered, publicly-traded company with large scale manufacturing operations in China. While the Company is currently operating under the existing manufacturing relationship with Alco in establishing the new manufacturing facility in China, we expect to have a joint venture agreement finalized within the next several weeks. The new facility is expected to provide a full suite of integrated manufacturing services including assembly, testing, box build, final product integration, and expanded supply chain capabilities through a new international sourcing and procurement office.

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with the accounting principles and methods of application disclosed in the audited consolidated financial statements for the year ended December 31, 2007. The accompanying unaudited interim consolidated financial statements include adjustments that are, in the opinion of management, necessary for a fair presentation under Generally Accepted Accounting Principles in the United States (U.S. GAAP). These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007.

2. Accounting changes**Fair Value Measurements:**

In September 2006, the FASB issued SFAS 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a framework for measuring fair value of assets and liabilities, and expands disclosures about fair value measurements. SFAS 157 was adopted effective January 1, 2008 and did not have a material impact on the Company's consolidated financial statements.

Fair Value Option for Financial Assets and Financial Liabilities:

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits an entity to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 was adopted effective January 1, 2008 and did not have a material impact on the Company's consolidated financial statements as the Company did not choose to measure any applicable financial assets or financial liabilities at fair value.

3. Consolidated financial statement details

The following consolidated financial statement details are presented as of the period ended for the consolidated balance sheets and for the three months ended for each of the consolidated statements of operations and consolidated statements of cash flows.

Consolidated statements of operations***Interest expense:***

	Three months ended	
	March 30, 2008	April 1, 2007
Long-term debt	\$ 864	\$ 1,600
Obligations under capital leases	49	59
Other		23

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Interest expense	\$ 913	\$ 1,682
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Consolidated statements of cash flows

Supplemental disclosures:

	Three months ended	
	March 30,	April 1,
	2008	2007
Cash interest paid	\$ 734	\$ 1,039
Cash taxes paid - net	\$ 117	