

SMTC CORP  
Form 10-K  
March 11, 2011

**FORM 10-K**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended January 2, 2011**

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)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**98-0197680**

(IRS Employer Identification Number)

**635 Hood Road, Markham, Ontario, Canada**

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(Address of Principal Executive Offices)

L3R 4N6

(Zip Code)

Registrant's telephone number, including area code: 905-479-1810

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

Title of each class	Name of each exchange on which registered
Common stock, par value \$.01 per share	NASDAQ Global Market
	Toronto Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer 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

The aggregate market value of common stock of the registrant held by non-affiliates of the registrant was approximately \$41.2 million on July 4, 2010, including the value of the common stock for which the exchangeable shares of the registrant's subsidiary, SMTC Manufacturing Corporation of Canada, are exchangeable. For purposes of the foregoing sentence, the term "affiliate" includes each director and executive officer of the registrant and each holder of more than 10% of the registrant's common stock. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The computation of the aggregate market value is based upon the closing price of the common stock as reported on The NASDAQ Global Market on July 4, 2010, the last business day of the registrant's most recently completed second quarter.

As of March 1, 2011, SMTC Corporation had 15,349,712 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 1, 2011, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 582,048 exchangeable shares outstanding, excluding 7,366,262 exchangeable shares owned by the Company's wholly-owned subsidiary, SMTC Nova Scotia Company, each of which is exchangeable for one share of common stock of SMTC Corporation.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the registrant's definitive Proxy Statement relating to the registrant's 2011 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A are incorporated by reference in Part III of this Report.

**PART I**

**FORWARD-LOOKING STATEMENTS**

*This Annual Report contains forward-looking statements as defined under the federal securities laws. See Forward-looking statements below. Actual results could vary materially. Factors that could cause actual results to vary materially are described herein and in other documents. Readers should pay particular attention to the considerations described in the section of this report entitled Risk-Factors that May Affect Future Results. Readers should also carefully review any risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.*

*Where we say we, us, our, the Company or SMTC, we mean SMTC Corporation or SMTC Corporation and its subsidiaries, as applicable. Where we refer to the industry, we mean the electronics manufacturing services industry. Certain statements in this Annual Report contain words such as could, expects, may, anticipates, believes, intends, estimates, plans, envisions, seeks and other similar language and are considered forward looking statements or information under applicable securities laws. These statements are based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate. These statements are subject to important assumptions, risks and uncertainties, which are difficult to predict and the actual outcome may be materially different. Although we believe expectations reflected in such forward-looking statements are reasonable based upon the assumptions in this Annual Report, they may prove to be inaccurate and consequently our actual results could differ materially from our expectations set out in this Annual Report.*

**Item 1: Business**

**BUSINESS**

**Overview**

SMTC Corporation is a mid-tier provider of end-to-end electronics manufacturing services, or EMS, including product design and sustaining engineering services, printed circuit board assembly, or PCBA, production, enclosure fabrication, systems integration and comprehensive testing services, configuration to order and end customer fulfillment. SMTC facilities span a broad footprint in the United States, Canada, Mexico, and China, with approximately 1,500 full-time employees. SMTC's services extend over the entire electronic product life cycle from the development and introduction of new products through to growth, maturity and end-of-life phases. SMTC offers fully integrated contract manufacturing services to global original equipment manufacturers, or OEMs, and technology companies primarily within the industrial, networking and computing, and communications market segments.

SMTC has customer relationships with industry leading OEMs. We developed these relationships by capitalizing on the continuing trend of OEMs to outsource non-core manufacturing services, to consolidate their supply base and to form long-term strategic partnerships with selected high quality EMS providers. We work closely with and are highly responsive to our customers throughout the design, manufacturing and distribution process, providing value-added services. We seek to grow our business through the addition of new, high quality customers, the expansion of our share of business with existing customers, and growth of existing customers, while minimizing the impact of attrition.

We believe that fundamental to our key benefits is our strategic approach in working with customers premised upon gaining insight into their business and bringing innovative solutions to enhancing our customers' competitiveness and profitability. SMTC lowers total cost of ownership; improves product quality and reliability; accelerates new products to market; improves service and end customer delivery; reduces working capital requirements and capital expenditures that results in improvement of our customers' overall margins and end customer satisfaction.

Our Markham, Ontario (Toronto) site serves as the Company's primary technical center of excellence, with particular emphasis on assisting current and new customers to develop, prototype and bring new products to full production. This site also continues to manufacture lower volume, higher complexity printed circuit board assemblies.

Our Chihuahua, Mexico facility serves as SMTC's largest assembly operation, offering customers high quality services in a highly efficient, cost effective site. In 2008, we expanded our operations in Chihuahua, Mexico to offer low cost Enclosure Systems manufacturing capabilities previously performed in our Boston, Massachusetts operation. As a result of the challenging economy and the resulting reduced revenue, the Boston facility was closed at the end of the second quarter of 2009. Our San Jose, California operations specialize in printed circuit board assemblies, system integration and configuration and other related activities.

The Company has had a ten year manufacturing relationship with Alco Electronics Ltd. (Alco), a Hong Kong-headquartered, publicly-traded company with large scale manufacturing operations in China. SMTC, through its subsidiary SMTC Asia Ltd., and Alco have a dedicated manufacturing facility in Chang An, China. Capitalizing on the strengths of both companies, this site provides SMTC current and prospective customers with highly efficient, low cost Asia-based manufacturing solutions. This facility provides a full suite of integrated manufacturing services including assembly, testing, box build, final product integration, and expanded supply chain capabilities through an international sourcing and procurement office.

### **Industry Background**

The EMS sector is the outsourced portion of the worldwide electronics assembly industry. There is currently considerable outsourcing of manufacturing by OEMs in response to rapidly changing markets, technologies and accelerating product life cycles as well as the need to lower total costs and convert typical fixed costs into a variable cost model.

Historically, OEMs were vertically integrated manufacturers that invested significantly in manufacturing assets and facilities around the world to manufacture service and distribute their products. EMS originated as primarily labor intensive functions were outsourced by OEMs to obtain additional capacity during periods of high demand. Early EMS providers were essentially subcontractors, providing production capacity on a transactional basis. However, with significant advances in manufacturing process technology, EMS providers developed additional capabilities and were able to improve quality and dramatically reduce OEMs' costs. Furthermore, as the capabilities of EMS companies expanded, an increasing number of OEMs adopted and relied upon EMS outsourcing strategies. Over time, OEMs engaged EMS providers to perform a broader array of manufacturing services, including design and development activities. In recent years, EMS providers have further expanded their range of services to include advanced manufacturing, configuration, packaging and distribution and overall supply chain management. In addition, many OEMs are reducing the number of vendors from which outsourced services are purchased, and are partnering with EMS suppliers, specializing in manufacturing and offering expertise.

By outsourcing manufacturing, OEMs take advantage of the technology and manufacturing expertise of EMS companies and focus on their core business, while leveraging the manufacturing efficiency and capital investment of EMS providers. OEMs use EMS providers to enhance their competitive position by:

*Lowering Product Costs.* EMS providers are better able to reduce total product costs due to electronic manufacturing expertise and higher utilization of manufacturing capacity spread over a wider range of product types. Due to their scale of operations as well as established and ongoing relationships with suppliers, EMS providers are able to demonstrate aptitude to achieve better pricing and better inventory management.

*Reducing Time-to-Market.* Electronics products are experiencing shorter product life cycles, requiring OEMs to continually reduce the time required to bring new products to market. OEMs can significantly improve product development cycles and enhance time-to-market by benefiting from the expertise and

infrastructure of EMS providers. This expertise includes capabilities relating to design, quick-turn prototype development and rapid ramp-up of new products to high volume production, with the critical support of worldwide supply chain management.

*Improving Supply Chain Management.* OEMs that manufacture internally are faced with greater complexities in planning, sourcing, procurement and inventory management due to frequent design changes, short product life cycles and product demand fluctuations. OEMs can address these complexities by outsourcing to EMS providers that possess sophisticated supply chain management capabilities and can leverage significant component procurement advantages to lower product costs.

*Accessing Advanced Manufacturing Capabilities and Process Technologies.* Electronics products and electronics manufacturing technology have become increasingly sophisticated and complex, making it difficult for many OEMs to maintain the necessary technological expertise and focus required to efficiently manufacture products internally. By working closely with EMS providers, OEMs gain access to high quality manufacturing expertise and capabilities in the areas of advanced process, interconnect and test technologies.

*Improving Access to Global Markets.* OEMs are generally increasing their international activities in an effort to expand sales through access to foreign markets. EMS companies with worldwide capabilities are able to offer such OEMs global manufacturing solutions enabling them to meet local content requirements and to distribute products efficiently around the world at lower costs.

*Reducing Capital Investments.* OEMs are able to reduce their capital investments in inventory, facilities and equipment by outsourcing their manufacturing to EMS providers and allocating their resources towards their core business activities.

*Shift from a Fixed to Variable Cost Model.* Through outsourcing, OEMs are able to shed substantial fixed costs of manufacturing and take advantage of EMS providers' efficient and highly utilized facilities, resulting in a highly variable and efficient cost structure.

#### **SMTC Capabilities and Performance**

SMTC's electronic manufacturing services span the entire electronic product life cycle from the development and introduction of new products through the growth, maturity, and end-of-life phases. We believe that SMTC's manufacturing services have the capabilities and innovation to reduce our customers' product costs and time-to-market to improve competitiveness. We continuously work with our customers to identify, prioritize and implement opportunities for cost reduction.

SMTC offers two vertically integrated manufacturing streams: PCBA Products and Larger-scale Systems. For each of these streams, SMTC provides a broad range of end-to-end manufacturing services, from assembly, test, integration and box-build through to system level test, configure-to-order, and end-customer order fulfillment. These core services are complemented with enclosure and precision metal fabrication, cable assembly, interconnect and engineering design services. SMTC's two manufacturing streams are vertically integrated to better control quality, lead times and inventory risk and to avoid the margin stacking when these services are provided by loosely connected entities. Customers benefit from lower costs, better quality, and shorter lead times.

Our vertically integrated manufacturing services include:

*PCBA Assembly Services.* We provide advanced product assembly and system level integration and test services combined with advanced manufacturing equipment and processes. Our flexible environment allows SMTC to support medium to high mix and volume manufacturing requirements as well as deliver a final product directly to the end customer.

*System-Level Integration, Box-Build and Test.* Our system and subsystem assembly services involve combining a wide range of subassemblies, including PCBAs, cables and harnesses, battery boxes and connector

blocks, power supplies, backplanes and thermal controls. Our test expertise encompasses the full array of technologies present in today's system-level products, including high-speed digital, radio frequency (RF), precision analog, power, thermal and optical. We provide complete electrical and mechanical testing for cables, harnesses, PCBA's, subassemblies and systems to meet our customers' requirements and specifications. Our in-house expertise enables us to provide custom test development services to our customers and to implement their product-specific tests.

*Enclosures and Precision Metal Fabrication.* SMTC uses premium grade sheet steel, stainless steel, and aluminum ensuring high quality. Technologically advanced equipment and processes enable SMTC to produce medium to complex product enclosures and metal parts while still achieving a low overall product cost. Our soft tooling approach minimizes upfront costs and provides flexibility to respond quickly to engineering changes.

*Custom Interconnect.* We are experienced in the design, development and manufacturing of interconnect assemblies such as optical and electrical cable and harness assemblies offering customers advanced expertise and low cost options.

*Engineering Services.* We provide services across the entire product life cycle including product design, prototyping, qualification testing, value and sustaining engineering through product end of life.

*Global Procurement and Supply Chain Network.* As an extension of our offering of vertically integrated manufacturing services, SMTC's Global Procurement Group plays a fundamental role in our managing a portfolio of assets and relationships in the most efficient manner. Our Global Procurement expertise includes outsourcing based on market conditions and demand management criteria established with the customer; building flexibility into the supply chain network; designing a supply chain specific to individual customer needs; and having the ability to proactively plan. SMTC's supply chain management team is responsible for all aspects of the Company's supply network. This team works together with its customers to establish customized inventory, logistics and distribution services to ensure that any unique delivery requirements are met. Through the use of various management tools, this team focuses on driving improved inventory turns, lowers excess and obsolete inventory risk and reduces overall costs to SMTC customers.

*Management Methods and Tools.* SMTC has a web-based system through which it can communicate, collaborate and plan throughout the entire supply chain in real-time with its customers and suppliers. This system accelerates the timeliness and effectiveness of decision making and the efficiency and flexibility with which SMTC can respond to customers experiencing unexpected market fluctuations. SMTC employs technologically advanced quality assurance systems, manufacturing process planning and continuous improvement methodologies.

### **SMTC Footprint**

SMTC has four manufacturing/technology centers worldwide, approximately 400,000 square feet of capacity, and more than 50 manufacturing and assembly lines, including a manufacturing relationship with Alco Electronics in China. These facilities are strategically located across a broad footprint in the United States, Canada, Mexico, and China, offering regional centers for new product introductions and low volume product production as well as low cost centers for higher volume production. All SMTC facilities adhere to the Copy Exact methodology. That means every SMTC facility employs virtually the same manufacturing equipment and software systems and follows the same standardized processes. Copy Exact allows for a seamless and timely transition of production between facilities helping customers reach their cost and volume targets faster. SMTC assigns a dedicated manufacturing unit to each customer. Certain equipment is customer specific including computer controlled inventory carousels, high-speed surface mount technology placement systems, customer specific x-ray, ICT or functional test, assembly and packing solutions.

## SMTC Key Benefits to Customers

Three overarching themes form the core of SMTC's differentiation and unique customer value proposition: Trusted, Proven, and Professional.

**Operational Counterpart:** We take the time to understand our customers' business objectives, end markets, performance expectations, competitive advantage, positioning and strategy to drive better value. We get involved with our customers at both a strategic and operational level. Inevitably, we become an extension of their business, helping our customers grow, improve competitiveness, margins, and gain market share.

**The SMTC Customer Experience:** We believe that SMTC combines strong performance with a partnership approach that delivers tangible, bottom line benefits through committing expertise and resources towards customer goals. It is one of many reasons why most SMTC customers have been with us for more than 8 years, and some more than 17 years.

**Our People:** SMTC's customer-based teams are tied to the customer at a strategic, operational and organizational level. Our people create an environment that celebrates collaboration and teamwork. We foster a participatory workplace that enables people, at every level of the organization, to get involved in making decisions that put the customer first.

**Executive Mindshare:** SMTC fully engages with its customers on many levels from operational and executive mindshare, to custom-tailored solutions to its strategic partnership approach. Senior management is accessible to and involved with customers. Our customers receive the attention they need from highly experienced professional management.

**Strategic Fit:** Fit matters. Winning OEMs look for winning manufacturing partners. SMTC mitigates the risk of outsourcing and consistently delivers results and value. Nine of our top ten customers are leaders in their respective markets.

**Global Footprint:** SMTC offers the best strategic and operational footprint with four manufacturing / technology centers worldwide, approximately 400,000 square feet of capacity, and more than 40 manufacturing and assembly lines. Our facilities are strategically located across a broad footprint in the United States, Canada, Mexico, and China.

**Superior Value:** SMTC continuously works collaboratively with customers to identify, prioritize and implement opportunities for cost reduction. Working collaboratively helps ensure superior service, operations excellence and continuous cost improvement.

**Customized Solutions:** SMTC is proactive we provide innovative manufacturing solutions responsive to the dynamics of the customer's marketplace.

## SMTC's Strategy

Our objective is to create increasing long term value to our stockholders through continuing growth in sales, profitability and debt reduction. A cornerstone to SMTC's strategy is our customer-centric focus throughout the organization. Our key strategies include:

*Provide Outstanding Customer Service and Performance* Customer acquisition and loyalty comes from our ongoing commitment to understanding our customers' business performance requirements and our expertise in meeting or exceeding these requirements and enhancing their competitive edge. SMTC's customer focus extends to our unique offering of dedicated resources, a detailed understanding of our customers' challenges and how we can support our customers in meeting their goals. Our dedicated teams approach is used throughout SMTC facilities and comprises of members from all functional areas working together to better understand the



unique needs of the customer, their challenges and future plans. Our strong customer partnership approach includes involvement from both operations and SMTC's senior executive team demonstrating our commitment to understanding each customer's goals, challenges, strategies, operations and products to provide a better overall solution.

*Focus on Well Defined Customer Markets* SMTC focuses on specific customer sectors that align well with the Company's capabilities. These sectors primarily include industrial, networking and computing, communications and medical industries. Customers with unique medium to high mix and volume production requirements with a need for a high level of responsiveness to changing market demands are particularly well suited for SMTC's capabilities. SMTC continues to leverage its experience and established relationships in its existing market segments.

*Provide Advanced Technological Capabilities* We remain committed to enhancing our capabilities and value-added services to become an integral part of our customers' operations. Through our investment in assembly technologies and in design, engineering and test capabilities, we are able to provide our customers with a variety of advanced design and manufacturing solutions.

*Provide Comprehensive Service Offerings* SMTC's broad array of electronic manufacturing services spans the entire electronic product life cycle from introduction and development of new products to the support of products to growth and maturity phases. We perform advanced printed circuit board assembly and test and complement these capabilities with precision enclosure fabrication, system integration, product configuration, and build-to-order services. As products mature, we provide comprehensive value engineering services to reduce the cost of the products we produce without compromising quality or function. As products near their end of life, SMTC sustaining engineering, warranty repair, and supply chain management systems ensure continued availability and support of hard to source components while mitigating the risks associated with declining inventories. We believe that our breadth of services provides greater control over quality, delivery and costs and enables us to offer our customers a complete, end-to-end solution that is time and cost effective.

*Maintain a Competitive, Scalable Cost Structure.* We maintain a competitive cost structure that not only delivers highly competitive pricing to customers but also is both variable and scalable as market conditions dictate. We strive to improve profitability through tight cost containment measures, performance excellence, leveraging fixed costs and increased capacity utilization. We have made key investments in manufacturing capacity and will continue to do so as we continue to grow.

### **Technology, Processes and Development**

The SMTC engineering services team delivers a range of design, engineering and manufacturing solutions. We have electronic engineering expertise in many markets, including power, instrumentation, wired, wireless and optical telecommunications, industrial and consumer markets. We maintain manufacturing equipment and tools to the highest calibration standards possible. We follow a comprehensive preventative maintenance program. Customers rely on our full range of design services from software and firmware development, to electronic design and PCB layout. We partner with our customers to deliver innovative manufacturing solutions aligned with their business objectives. We offer everything from full-service, turnkey product development and manufacturing to on-site engineering support.

Our test expertise encompasses the full array of technologies present in today's system-level products, including high-speed digital, RF, precision analog, power, thermal, and optical. We provide complete electrical and mechanical testing for cables, harnesses, PCBAs, subassemblies and systems to meet our customer's requirements and specifications. Our in-house expertise enables us to provide custom test development services to our customers and to implement their product-specific tests.

SMTC's box build experience spans the past 11 years with all manufacturing sites supporting current customers in this level of outsourcing. Our integration and box build assembly services involve combining a

wide range of subassemblies, including PCBAs, cables and harnesses, external housing (plastic and metal), monitors, battery boxes and connector blocks, power supplies, fan trays, backplanes and thermal controls. Integrated units are packaged, together with manuals, software, and peripherals. Order fulfillment and configuration to order is handled throughout the integration service, specific to the needs of the customer.

SMTC's order fulfillment and distribution operations help our customers reduce material storage, lower handling costs and achieve higher inventory turns. We can implement a responsive, efficient and cost-effective configure-to-order and order fulfillment solution. We align our processes with the customers' operations, selling and distribution objectives to eliminate redundancies and associated costs.

Our design services capability optimizes product design for maximum performance, higher yields, and faster time-to-market, with the objective to assist our customers become more profitable and more competitive. SMTC provides access to an extensive range of design, value engineering and sustaining engineering services in addition to key process and test engineering capabilities. We support the customer in bringing products to market, enhancing and cost reducing current products and extending life cycle. Early in the product development cycle, SMTC's design services assist customers in selecting the best architecture for their product based on unit and development cost targets, product functionality and time to market goals. SMTC helps customers develop detailed design specifications and test plans to ensure that their products are both designed and fully tested to their requirements prior to going into volume manufacturing.

We believe that SMTC applies best-in-class quality programs, processes and metrics to achieve exceptional quality standards. We endeavor to fully understand the quality requirements for every customer and we continuously review and improve our quality performance to exceed customer expectations. All SMTC sites use Computer Integrated Manufacturing (CIM), a common quality management platform. The CIM System tracks quality assurance processes in real-time and reports on all steps in the manufacturing process. We use a customer-centric, team-based approach to quality assurance. Dedicated professionals work with our customers to determine key quality requirements, and where applicable, they ensure suppliers adhere to those standards as well. All SMTC sites are registered to the ISO-9001 quality management system standard. The corporate headquarters is registered as a TL9000 facility and is ISO 13485 certified. Our San Jose and Mexico facilities are also ISO 13485 certified. SMTC builds PCB assemblies according to IPC guidelines. We also work closely with standards organizations such as UL and CSA, in compliance with customer requirements.

#### **Marketing and Sales**

SMTC has a direct sales channel model with territorial assignments based on geographical coverage of our target markets in North America. Our geographical coverage is enhanced through select manufacturers' representative companies. Our marketing and sales team works collectively to gain insight on potential customers' business, market positioning and business challenges and focuses on a solutions-based approach to enhancing profitability, market positioning and business performance for that customer. Our customer-centric focus continues through to the execution phase of our relationships with a dedicated team-based manufacturing approach throughout all SMTC facilities.

#### **Global Procurement and Supply Chain Management**

SMTC delivers supply chain capabilities and solutions that support the total product lifecycle. Our teams work closely with customers' supply-base partners to integrate the entire supply chain. Our extended supply chain model recognizes the need for collaboration between OEM customers, SMTC and supply partners to ensure overall supply chain optimization, from product design processes, manufacturing, sourcing, order management and fulfillment to transportation and logistics. The end result is greater control over a complex, extended supply chain to help SMTC customers realize flexibility, cost savings, process improvements, and competitive advantages.

In lean manufacturing environments, success is defined by how fast and how effectively manufacturers can respond to evolving customer demands and new global supply chain conditions. SMTC leverages supply chain tools and systems to respond rapidly and effectively to changing real-world conditions. Our customers rely on SMTC's core processes and capabilities to drive the success of their supply chains. Each supply chain solution we deliver is tailored to address each customer's unique requirements.

SMTC employs Agile Product Lifecycle Management ( Agile ) solutions software to help OEMs accelerate revenue, reduce costs, improve quality, ensure compliance, and drive innovation throughout the product lifecycle. Agile provides comprehensive support for product lifecycle business processes, platform and integration requirements. Agile enables a single enterprise view of the product and part records across the entire system, helping customers accelerate new product introduction time, reduce direct material costs and ensure regulatory compliance.

The demand management process is a core process at SMTC which drives short and long term planning and execution activities. Effective demand management optimizes materials availability, supply base performance and overall liability management. At SMTC we recognize the need to deploy people, process and technology, as well as extensive customer communication and visibility, to ensure effective demand management execution. This allows for real time analysis, feedback and implementation of changes in customer and end-market demand. Rapid communication to suppliers of changes in requirements, and a truly responsive end-to-end supply chain.

SMTC also employs Kinaxis *RapidResponse*, an integrated Response Management tool that allows supply chain professionals to access real-time information and enable collaboration across extended supply networks. The tool allows SMTC to perform real-time demand scenario simulation, review supply constraints, perform rapid manufacturing resource planning, and communicate changes in requirements to suppliers all on the same day. With *RapidResponse*, SMTC teams achieve high levels of supply chain agility, with immediate response to changes in demand, supply, capacity and daily operations. The platform enables real-time supply chain visibility and on-line collaboration anywhere in the world. SMTC gains the insight needed to quickly and effectively respond to a wide variety of supply chain challenges.

Visibility solutions are customized to support a range of requirements, including inventory visibility, MPS simulation, clear-to-build (CTB), available-to-promise (ATP), end-market demand steering, and service parts management. Kinaxis provides a single view of inventory across all SMTC plants and hubs as well as a view of materials supply. Custom reports can be set up to automatically email within SMTC and to SMTC customers on regular intervals. Inventory and supply base liabilities dashboard has proven to be a valuable tool for both SMTC and our customers. Visibility solutions include intercompany processes and multi-node supply chains.

The Company established a purchasing office in Kowloon, Hong Kong in 2010 which serves to improve access to the broad base of component suppliers in the Asia region and provide the Company with competitive pricing. The Hong Kong office manages component sourcing to support the Asian manufacturing operations, as well as providing support for the Company's operations in North America.

### **SMTC Suppliers**

*Rapid Response* works hand-in-hand with E-plenishment, SMTC's electronic business-to-business process that provides real-time and daily information exchange and transactions with suppliers. Through E-plenishment, SMTC has an ongoing view into supplier on hand inventories and is able to more effectively plan factory capacities and provide customer delivery commitments. The tools allow SMTC to support the available to promise process of our OEM customers, and increase the reliability of their commitments to the end customers.

With our web-based collaborative planning systems, our customers' needs are integrated with our suppliers in a more efficient and cost effective manner than is achievable through traditional electronic data interchange. In fiscal 2010, we purchased approximately \$200 million in materials. We believe this volume of procurement enhances our ability to obtain better pricing, influence component packaging and design and obtain supply of components in constrained markets.

We generally order materials and components under our agreements with customers only to the extent necessary to satisfy existing customer orders or forecasts. We have implemented specific inventory management strategies with certain suppliers such as supplier owned inventory and other SMTC supply chain velocity and flexibility programs. Fluctuations in material costs typically are passed through to customers. We may agree, upon request from our customers, to temporarily delay shipments, which causes a corresponding delay in our revenue recognition and an increase in inventory. Ultimately, however, our customers generally are responsible for all materials purchased and goods manufactured on their behalf.

During fiscal 2010, there was one supplier that represented greater than 13% of our total purchases for the year. We believe that there is a sufficient availability of raw materials and supplies to serve our needs. However, we continue to experience supply chain challenges as a result of the improving economy. We expect these challenges to be temporary, and will improve as suppliers fully adjust to demand.

#### **SMTC Customers**

SMTC is a distinctive mid-tier EMS provider, supporting customers in industrial, networking and computing, communications, consumer and medical markets.

Revenue in fiscal 2010 was attributed to the following industry sectors: 81% from industrial, 13% from networking and computing and 6% from communications. Our medical sector, while expanding, is less than 1% for 2010. We have focused on developing relationships with a large number of industrial customers to achieve a level of diversification and to reduce exposure to the volatility of certain electronics sectors.

Industrial product expertise includes:

Semiconductor manufacturing and test equipment

Electrical distribution, industrial controls

Point of sale (POS) terminals

Currency recognition devices

Residential and commercial security systems

GPS navigation and positioning systems

Components and sub-systems for rapid prototyping equipment

RF modules for satellite -based tracking systems

Protocol analyzers

Power supplies for high precision instruments

Networking and Computing product expertise includes:

Professional audio and video processing and distribution systems

Handheld internet access devices

High-end storage devices

Office printers, networked production and industrial printing systems

Mid-range servers and computing systems

Electronic display systems

Financial terminals with biometric authentication

Communications product expertise includes:

VoIP infrastructure, accessing, IVR systems

Carrier class switching and routing systems

Broadcast communication equipment

Broadband accessing, ADSL and wireless gateway, modem

Video and audio signal processing and distribution systems

Network traffic management devices

Network application delivery and optimization

Consumer product expertise includes:

High end audio systems

Home security systems

Recreational gear

SMTC has achieved ISO 13485 certification at its Mexico, Markham and San Jose facilities. ISO 13485 is an internationally recognized quality management system and standard for the manufacture of medical devices. The standard is governed by the International Organization for Standardization (ISO). All SMTC sites are registered to the ISO 9001 quality management system standard. The ISO 13485 certification may open up new opportunities in the medical device industry for SMTC. The certification validates SMTC's expertise and capabilities that provide the safe design, manufacturing, testing, servicing and installation of products for the medical industry and builds on more than 20 years experience working in partnership with OEMs in the industrial, computing and networks, and communications markets.

### **Our Competition**

The EMS industry is composed of numerous companies that provide a range of manufacturing services for OEMs, from printed circuit board assembly, to design, prototyping, final system assembly, configuration, order fulfillment, repair and aftermarket services. The EMS market consists of contract manufacturers, or CMs, and original design manufacturers, or ODMs. CMs manufacture products that have been designed by the OEM; ODMs also design their own products, primarily commodities, and in many instances are in direct competition with the OEMs. SMTC participates in the mid-sized CM sector.

CM providers fall within one of four tiers:

Large/Tier 1: Global operations with manufacturing facilities in North America, Europe and Asia, and low-cost manufacturing sites in Asia, Mexico and Eastern Europe. Large CMs annual revenues normally are greater than \$1.5 billion.

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Mid-size/Tier 2: Usually focused in one region such as North America, or Europe or Asia, with facilities in that region supported by additional facilities in low-cost regions. Mid-sized CMs may have annual revenues ranging from approximately \$200 million up to \$1.5 billion.

Regional /Tier 3: Usually focused in a sub-region, northeast USA for instance, typically with no low-cost facilities.

Small/Tier 4: Usually single facility operations, with annual revenues less than \$20 million.

SMTC competes against large contract manufacturers such as Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., Sanmina-SCI, Inc., Benchmark Electronics Inc., and Plexus Corp., as well as numerous mid-size, regional and smaller EMS providers.

## **Governmental Regulation**

Our operations are subject to certain federal, state, provincial and local regulatory requirements primarily relating to environmental compliance and site cleanups, waste management and health and safety matters. In particular, we are subject to regulations pertaining to health and safety in the workplace and the use, storage, discharge and disposal of hazardous chemicals used in the manufacturing process.

Our commitment is to conduct our business in such a way that protects and preserves the environment, health and safety of our employees, our customers and the communities where we all live and operate. The Company fully cooperates with government agencies that have the mandate to verify compliance to relevant environmental laws.

In 2006, the electronics industry became subject to the European Union's Restrictions of Hazardous Substances, or RoHS, and Waste Electrical and Electronic Equipment, or WEEE, directives. Beginning January 1, 2007 the State of California put into effect a similar measure under the Electronic Waste Recycling Act of 2003 which requires the California Department of Toxic Substances Control to adopt regulations to prohibit the sale of electronic devices if they are prohibited from sale in the European Union because they contain certain heavy metals. Parallel initiatives are being proposed in other jurisdictions, including several other states in the United States and in the People's Republic of China. RoHS prohibits the use of lead, mercury and certain other specified substances in electronics products and WEEE requires industry OEMs to assume responsibility for the collection, recycling and management of waste electronic products and components. SMTC's sites are fully capable of producing RoHS compliant products as directed by our customers. In the case of WEEE, the compliance responsibility rests primarily with OEMs rather than with EMS companies. However, OEMs may turn to EMS companies for assistance in meeting their WEEE obligations.

To date, the costs of compliance and environmental remediation have not been material. Nevertheless, additional or modified requirements may be imposed in the future. If such additional or modified requirements are imposed on us, or if conditions requiring remediation are found to exist, we may be required to incur additional expenditures.

## **Our Structure and Our History**

The SMTC family of companies includes the following companies, with their jurisdictions of incorporation or organization in parentheses:

SMTC Corporation (Delaware)

HTM Holdings, Inc. (Delaware)

940862 Ontario Inc. (Ontario, Canada)

Qualtron, Inc. (Massachusetts)

Radio Componentes de Mexico, S.A. de S.V. (Mexico)

SMTC Asia Ltd. (Hong Kong)

SMTC de Chihuahua S.A. de C.V. (Mexico)

SMTC Ireland Company (Ireland)

SMTC Manufacturing Corporation of California (California)

SMTC Manufacturing Corporation of Canada (Ontario, Canada)

SMTC Manufacturing Corporation of Colorado (Delaware)

SMTC Manufacturing Corporation of Massachusetts (Massachusetts)

SMTC Manufacturing Corporation of North Carolina (North Carolina)

SMTC Manufacturing Corporation of Texas (Texas)



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SMTC Manufacturing Corporation of Wisconsin (Wisconsin)

SMTC Mex Holdings, Inc. (Delaware)

SMTC Nova Scotia Company (Nova Scotia, Canada)

SMTC R&D Teoranta (Ireland)

SMTC Teoranta (Ireland)

Our company's present corporate structure resulted from the July 1999 combination of predecessor companies Surface Mount and HTM Holdings Inc. in a transaction accounted for under the purchase method of accounting as the acquisition of Surface Mount by HTM Holdings Inc. Subsequent to the combination, all of Surface Mount's operating subsidiaries, other than SMTC Canada, SMTC Manufacturing Corporation of Ireland Limited, SMTC Teoranta, SMTC R&D Teoranta and Qualtron, Inc., became subsidiaries of HTM Holdings Inc.

### **Backlog**

Although we obtain firm purchase orders from our customers, our customers typically do not make firm orders for delivery of products more than 30 to 90 days in advance. We do not believe that the backlog of expected product sales covered only by firm purchase orders is a meaningful measure of future sales since additional orders may be added, or orders rescheduled or canceled.

### **Employees**

As of January 2, 2011, we employed approximately 1,500 full time employees. In addition, we employ varying levels of temporary employees as our production demands. Given the variable nature of our project flow and the quick response time required by our customers, it is critical that we be able to quickly adjust our production levels to maximize efficiency. To achieve this, our strategy has been to employ a skilled temporary labor force, as required. We use outside contractors to qualify our temporary employees on a site-by-site basis. Our production level temporary employees are compensated by the hour. We believe we are team-oriented, dynamic and results-oriented with an emphasis on customer service and quality at all levels. We believe this environment is a critical factor for us to be able to fully utilize the intellectual capital of our employees. Because of the surplus of available talent on the market, and the strength of our total compensation packages, to date we have not experienced any issues attracting skilled employees.

As of January 2, 2011, our only unionized employees were at our Mexico facility. We have never experienced a work stoppage or strike and believe we have sound employee relations.

### **Item 1A: Risk Factors**

#### **FORWARD-LOOKING STATEMENTS**

A number of the matters and subject areas discussed in this Form 10-K are forward-looking in nature. The discussion of such matters and subject areas is qualified by the inherent risks and uncertainties surrounding future expectations generally. SMTC cautions readers that all statements other than statements of historical facts included in this annual report on Form 10-K regarding SMTC's financial position and business strategy may constitute forward-looking statements. All of these forward-looking statements are based upon estimates and assumptions made by SMTC's management, which although believed to be reasonable, are inherently uncertain. Therefore, undue reliance should not be placed on such estimates and statements. No assurance can be given that any of such estimates or statements will be realized, and it is possible that actual results will differ materially from those contemplated by such forward-looking statements. Factors that may cause such differences include:

(1) increased competition; (2) increased costs; (3) the inability to implement our business plan and maintain covenant compliance under our credit agreements; (4) the loss or retirement of key members of management; (5) increases in SMTC's cost of borrowings or lack of availability of additional debt or equity capital on terms considered reasonable by management; (6) adverse state, federal or foreign legislation or regulation or adverse determinations by regulators; (7) changes in general economic conditions in the markets in which SMTC may compete and fluctuations in demand in the electronics industry; (8) the inability to manage inventory levels efficiently in light of changes in market conditions; and (9) the inability to sustain historical margins as the industry develops. SMTC has attempted to identify certain of the factors that it currently believes may cause actual future experiences to differ from SMTC's current expectations regarding the relevant matter or subject area. In addition to the items specifically discussed in the foregoing, SMTC's business and results of operations

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are subject to the risks and uncertainties described under the heading "Factors That May Affect Future Results" below. The operations and results of SMTC's business may also be subject to the effect of other risks and uncertainties. Such risks and uncertainties include, but are not limited to, items described from time to time in SMTC's reports filed with the Securities and Exchange Commission.

## **FACTORS THAT MAY AFFECT FUTURE RESULTS**

### **RISKS RELATED TO OUR BUSINESS AND INDUSTRY**

#### **The financial markets have constricted in recent years.**

If we attempt to obtain future financing or renegotiate our current financing, the constriction of the credit market could negatively impact our ability to obtain such financing. In addition, the constriction of the credit market could negatively impact certain of our customers, certain of their customers, and our suppliers. These impacts could lead to a decrease in demand for our products, as well as our customers' products, or a decrease in supply of our inputs, which could result in a negative effect on our results of operations or they could result in customers having insufficient financing to support their business.

#### **We are exposed to general economic conditions, which could have an adverse impact on our business, operating results and financial condition.**

As a result of unfavorable economic conditions, reduced capital spending and changes in our customers' manufacturing requirements, our sales declined during fiscal years 2002 to 2005 and in 2009. If general economic conditions deteriorate we may experience an adverse impact on our business, operating results and financial condition, since end customer demand for our customers' products could be adversely affected. Due to the uncertainty surrounding the economy and the Company's ability to predict the effect such conditions will have on its customers, the Company cannot predict the scope or magnitude of the negative effect that such economic slowdown will have on it.

#### **A majority of our revenue comes from a small number of customers; if we lose any of our larger customers, our revenue could decline significantly.**

We operate in a highly competitive and dynamic marketplace in which current and prospective customers often seek to lower their costs through a competitive bidding process among EMS providers. This process creates an opportunity to increase revenue to the extent we are successful in the bidding process, however, there is also the potential for revenue decline to the extent we are unsuccessful in the process. Furthermore, even if we are successful, there is the potential for our margins to decrease.

Four of our largest customers represented 15.8%, 14.5%, 13.3% and 12.7% of total revenue from continuing operations for the year ended January 2, 2011, respectively. For the fourth quarter of 2010, our top ten largest customers collectively represented 88% of our total revenue. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenue. In addition to having a limited number of customers, we manufacture a limited number of products for each of our customers. If we lose any of our largest customers or any product line manufactured for one of our largest customers, we would experience a significant reduction in our revenue. The insolvency of one or more of our largest customers or the inability of one or more of our largest customers to pay for its orders would decrease revenue. As many of our costs and operating expenses are relatively fixed, a reduction in net revenue can decrease our profitability and adversely affect our business, financial condition and results of operations.

#### **We are exposed to fluctuations in currencies, particularly the weakening of the US dollar.**

Most of our sales and component purchases are denominated in U.S. dollars. Our Canadian, Mexican and Asian payroll, Euro based component purchases and other various expenses are denominated in local currencies. As a result, we have limited exposure to foreign currency exchange risk for modest changes in exchange rates.

However, for more significant changes in exchange rates, the Company is subject to much greater variations, particularly changes in the Canadian dollar. Every \$0.01 change in the US dollar results in a change in expenses of approximately \$0.3 million. The strengthening of the Canadian dollar results in an increase in costs to the organization and may lead to a reduction in reported earnings.

**Our industry is very competitive and we may not be successful if we fail to compete effectively.**

The electronics manufacturing services (EMS) industry is highly competitive. We compete against numerous large domestic and foreign EMS providers including Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., Sanmina-SCI, Inc., Benchmark Electronics Inc. and Plexus Corp. In addition, we compete against numerous smaller competitors. We may in the future encounter competition from additional large electronics manufacturers that are selling, or may begin to sell, electronics manufacturing services. Some of our competitors have substantially greater manufacturing, financial, research and development and marketing resources and lower cost structures than us. We also face competition from the manufacturing operations of current and potential customers, which are continually evaluating the merits of manufacturing products internally versus the advantages of using external manufacturers.

**We may experience variability in our operating results, which could negatively impact the price of our shares.**

Our annual and quarterly results have fluctuated in the past. The reasons for these fluctuations may similarly impact our business in the future. Prospective investors should not rely on results of operations in any past period to indicate what our results will be for any future period. Our operating results may fluctuate in the future as a result of many factors, including:

variations in the timing and volume of customer orders relative to our manufacturing capacity;

variations in the timing of shipments of products to customers;

introduction and market acceptance of our customers' new products;

changes in demand for our customers' existing products;

the accuracy of our customers' forecasts of future production requirements;

changes in customers and customer or product attrition;

effectiveness in managing our manufacturing processes, inventory levels and costs;

changes in competitive and economic conditions generally or in our customers' markets;

willingness of suppliers to supply the Company on normal credit terms; and

changes in the cost or availability of components or skilled labor.

In addition, most of our customers typically do not commit to firm production schedules more than 30 to 90 days in advance. Accordingly, it is difficult for us to forecast the level of customer orders with certainty. As a result, we may not be able to schedule production to maximize utilization of our manufacturing capacity. In the past, we have been required to increase staffing, purchase materials and incur other expenses to meet the anticipated demand of our customers. Sometimes anticipated orders from certain customers have failed to materialize, and at times delivery schedules have been deferred as a result of changes in a customer's needs. Any material delay, cancellation or reduction of orders from

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our larger customers could cause our revenue to decline. In addition, as many of our costs and operating expenses are relatively fixed, a reduction in customer demand can decrease our gross margins and adversely affect our business, financial condition and results of operations. On other occasions, customers have required rapid and unexpected increases in production, which have placed burdens on our manufacturing capacity and supply chain function and adversely affected costs.

Any of these factors or a combination of these factors could have an adverse impact on our business, financial condition and results of operations.

**We are dependent upon the electronics industry, which produces technologically advanced products with short life cycles.**

Most of our customers are in the electronics industry, which is characterized by intense competition, short product life-cycles and significant fluctuations in product demand. In addition, the electronics industry is generally subject to rapid technological change and product obsolescence. If our customers are unable to create products that keep pace with the changing technological environment, their products could become obsolete and the demand for our services could significantly decline. Our success is largely dependent on the success achieved by our customers in developing and marketing their products. Furthermore, the electronics industry is subject to economic cycles and has in the past experienced downturns. A decline in the electronics industry would likely have an adverse impact on our business, financial condition and results of operations.

**Consolidation in the electronics industry may adversely affect our business by increasing customer buying power or increasing competition.**

Consolidation in the electronics industry among our competitors, our customers, or both may result in increasing or strengthening large electronics companies. The significant buying and market power of these companies may increase competitive pressures on us. In addition, if any of our large customers is acquired or merged with another provider of similar services, we may lose that customer's business.

**Shortages or price fluctuations of component parts specified by our customers could delay product shipment and affect our profitability.**

A substantial portion of our revenue is derived from turnkey manufacturing. In turnkey manufacturing, we provide both the materials and the manufacturing services. If we fail to manage our inventory effectively, we may bear the risk of fluctuations in materials costs, scrap and excess inventory, all of which can have an adverse impact on our business, financial condition and results of operations. In addition, delays, cancellations or reductions of orders by our customers could result in an excess of materials. Orders received from customers within component lead time, rapid increases in orders or lengthening of lead times by suppliers could cause a shortage of materials. A shortage of materials could lengthen production schedules and increase costs. An excess of materials may increase the costs of maintaining inventory and may increase the risk of inventory obsolescence, both of which may increase expenses and decrease profit margins and operating income.

Many of the products we manufacture require one or more components that we order from sole-source suppliers. Supply shortages for a particular component can delay production of all products using that component or cause cost increases in the services we provide. In addition, in the past, some of the materials we use, such as memory and logic devices, have been subject to industry-wide shortages. As a result, suppliers allocate available quantities among their customers, and we have not been able to obtain all of the materials required. Our inability to obtain these materials could slow production or assembly, delay shipments to our customers, increase costs and reduce operating income. Also, we may bear the risk of periodic component price increases, which could reduce operating income. Also we rely on a variety of common carriers for materials transportation, and we route materials through various world ports. A work stoppage, strike or shutdown of a major port or airport could result in manufacturing and shipping delays or expediting charges, which could have an adverse impact on our business, financial condition and results of operations.

**If we are unable to respond to rapidly changing technology and process development, we may not be able to compete effectively.**

The market for our products and services is characterized by rapidly changing technology and continuing process development. The future success of our business will depend in large part upon our ability to maintain

and enhance our technological capabilities, to develop and market services that meet changing customer needs, and to successfully anticipate or respond to technological changes on a cost-effective and timely basis. In addition, the EMS industry could in the future encounter competition from new or revised technologies that render existing technology less competitive or obsolete or that reduce the demand for our services. There can be no assurance that we will effectively respond to the technological requirements of the changing market. To the extent we determine that new technologies and equipment are required to remain competitive, the development, acquisition and implementation of such technologies and equipment may require us to make significant capital investments. There can be no assurance that capital will be available for these purposes in the future or that investments in new technologies will result in commercially viable technological processes.

**If our components and or products are defective, demand for our services may decline and we may be exposed to product liability and product warranty liability.**

Defects in the products we manufacture, whether caused by a design, engineering, manufacturing or component failure or deficiencies in our manufacturing processes, could result in product or component failures, which may damage our business reputation, and expose us to product liability or product warranty claims.

Although, generally liability for these claims in our contracts rest with our customers, our customers may not, or may not have the resources to, satisfy claims for costs or liabilities arising from a defective product or component for which they have assumed responsibility.

If our product or component is found to cause any personal injury or property damage or is otherwise found to be defective, we could incur significant expenditures to resolve the claim. A successful product liability or product warranty claim could have a material adverse effect on our business and its results.

**We may encounter significant delays or defaults in payments owed to us by customers for products we have manufactured or components that are unique to particular customers.**

We structure our agreements with customers to mitigate our risks related to obsolete or unsold inventory. However, enforcement of these contracts may result in material expense and delay in payment for inventory. If any of our significant customers become unable or unwilling to purchase such inventory, our business may be materially harmed.

**We are subject to the risk of increased taxes.**

We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. Our tax position, however, is subject to review and possible challenge by taxing authorities and to possible changes in law. We cannot determine in advance the extent to which some jurisdictions may assess additional tax or interest and penalties on such additional taxes.

**Our business will suffer if we are unable to attract and retain key personnel and skilled employees.**

Our business depends on our ability to continue to recruit, train and retain skilled employees, particularly executive management, engineering and sales personnel. Recruiting personnel in our industry is highly competitive. Our ability to successfully implement our business plan depends in part on our ability to attract and retain management and existing employees. Currently, management is conducting a search for a new Chief Executive Officer. There can be no assurance that we will be able to attract and retain executive officers and key personnel or attract qualified management in the future. In addition, if we receive a significant volume of new orders at any one time, we may have difficulty recruiting skilled workers to respond to such orders and accordingly may experience delays that could adversely affect our ability to meet customers delivery schedules.

**Risks particular to our international manufacturing operations could adversely affect our overall results.**

Our international manufacturing operations are subject to inherent risks, including:

fluctuations in the value of currencies and high levels of inflation;

longer payment cycles and greater difficulty in collecting amounts receivable;

reduced credit and payment terms with vendors;

unexpected changes in and the burdens and costs of compliance with a variety of foreign laws;

political and economic instability;

increases in duties and taxation;

imposition of restrictions on currency conversion or the transfer of funds; and

trade restrictions

**We are subject to a variety of environmental laws, which expose us to potential financial liability.**

Our operations are regulated under a number of federal, state, provincial, local and foreign environmental and safety laws and regulations which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of such materials. Compliance with these environmental laws is a major consideration for us because we use metals and other hazardous materials in our manufacturing processes. We may be liable under environmental laws for the cost of cleaning up properties we own or operate if they are or become contaminated by the release of hazardous materials, regardless of whether we caused such release. In addition we may be liable for costs associated with an investigation and remediation of sites at which we have arranged for the disposal of hazardous wastes, if such sites become contaminated, even if we fully comply with applicable environmental laws. In the event of a contamination or violation of environmental laws, we could be held liable for damages including fines, penalties and the costs of remedial actions and could also be subject to revocation of our discharge permits. Any such revocations could require us to cease or limit production at one or more of our facilities, thereby having an adverse effect on our operations. Environmental laws could also become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with any violation, which could have an adverse effect on our business, financial condition and results of operations.

**Our customers may cancel their orders, change production quantities or locations, or delay production, and the inherent difficulties involved in responding to these demands could harm our business.**

Our industry must provide increasingly rapid product turnaround for its customers. We generally do not obtain firm, long-term purchase commitments from our customers and we continue to experience reduced lead-times in customer orders. Customers may cancel their orders, change production quantities, delay production or change their sourcing strategy for a number of reasons. Such changes, delays and cancellations may lead to our production and possession of excess or obsolete inventory which we may not be able to sell to the customer or a third party. The success of our customers' products in the market affects our business. Cancellations, reductions, delays or changes in sourcing strategy by a significant customer or by a group of customers could negatively impact our operating results by reducing the number of products that we sell, delaying the payment to us for inventory that we purchased and reducing the use of our manufacturing facilities which have associated fixed costs not dependent on our level of revenue.



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In addition, we make significant decisions, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimate of customer requirements. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products reduce our ability to accurately estimate the future requirements of those customers.

On occasion, customers may require rapid increases in production, which can stress our resources and reduce operating margins. In addition, because many of our costs and operating expenses are relatively fixed, a reduction in customer demand can harm our gross profits and operating results.

**Intellectual property infringement claims against our customers or us could harm our business.**

Our design and manufacturing services offerings involve the creation and use of intellectual property rights, which subject us to the risk of claims of intellectual property infringement from third parties, as well as claims arising from the allocation of intellectual property rights among us and our customers. In addition, our customers may require that we indemnify them against the risk of intellectual property infringement. If any claims are brought against us or our customers for such infringement, whether or not these have merit, we could be required to expend significant resources in defense of such claims. In the event of such an infringement claim, we may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. We may not be successful in developing such alternatives or obtaining such licenses on reasonable terms or at all.

**If OEMs stop or reduce their manufacturing and supply chain outsourcing, our business could suffer.**

Future growth in our revenues depends on new outsourcing opportunities in which we assume additional manufacturing and supply chain management responsibilities from OEMs. Current and prospective customers continuously evaluate our capabilities against other providers and the merits of manufacturing products themselves. To the extent that outsourcing opportunities are not available, either because OEMs decide to perform these functions internally or because they use other providers of these services, our future growth would be limited.

**From time to time, we are involved in various legal proceedings.**

In the past, we have been notified of claims relating to various matters including intellectual property rights, contractual matters or other issues arising in the ordinary course of business. In the event of such a claim, we may be required to spend a significant amount of money to defend or otherwise address the claim. Any litigation, even where a claim is without merit, could result in substantial costs and diversion of resources. Accordingly, the resolution or adjudication of such disputes, even those encountered in the ordinary course of business, could have a material adverse effect on our business, consolidated financial conditions and results of operations.

**RISKS RELATED TO OUR CAPITAL STRUCTURE**

**Our indebtedness could adversely affect our financial health and severely limit our ability to plan for or respond to changes in our business.**

On May 18, 2010, the Company and its lenders signed an amendment to extend the repayment schedule and the term of the debt agreement to August 2013, to reset the EBITDA and leverage covenants, to eliminate the fixed charge coverage ratio covenant, and to reduce interest rates. The revolving line of credit bears interest at prime to prime plus 1% and the term loan from EDC bears interest at LIBOR plus 2.5% to 3.5 %, depending on the achievement of financial performance levels as specified in the debt agreement. Under the amendment, repayments of the term loan to EDC for fiscal 2010 were postponed and payments are scheduled to recommence on April 1, 2011. Management believes that the Company will be in compliance with the amended covenants for the foreseeable future. Accordingly, the outstanding balances under the lending agreements continue to be classified as long-term. Continued compliance with its covenants, however, is dependent on the Company achieving certain forecasts. While management is confident in its plans, market conditions have been difficult to predict and there is no assurance that the Company will achieve its forecasts.

Our debt under the Wells Fargo EDC Facilities could have adverse consequences for our business, including:

We will be more vulnerable to adverse general economic conditions.

We will be required to dedicate a substantial portion of our cash flow from operations to repayment of debt, limiting the availability of cash for other purposes.

We may have difficulty obtaining financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes.

We may have limited flexibility in planning for, or reacting to, changes in our business and industry.

We could be limited in our borrowing of additional funds and making strategic investments by restrictive covenants and the borrowing base formula in our credit arrangements.

We may fail to comply with covenants under which we borrowed our indebtedness, including various financial covenants under our Wells Fargo EDC Facilities. These covenants, applicable to specific four quarter rolling periods, include (i) a minimum consolidated EBITDA target, (ii) a maximum total debt to EBITDA ratio, and (iii) maximum capital expenditures. Our failure to comply with covenants could result in an event of default. If an event of default occurs and is not cured or waived, it could result in all amounts outstanding, together with accrued interest, becoming immediately due and payable. If we were unable to repay such amounts, our lenders could proceed against any collateral granted to them to secure that indebtedness. There can be no assurance that we will maintain compliance with the covenants under the Wells Fargo EDC Facilities.

Our Wells Fargo EDC Facilities contain subjective acceleration clauses. There can be no assurance that the lender will not exercise their rights to accelerate repayment under the terms of the agreement.

There can be no assurance that our leverage and such restrictions will not materially adversely affect our ability to finance our future operations or capital needs or to engage in other business activities. In addition, our ability to pay principal and interest on our indebtedness to meet our financial and restrictive covenants and to satisfy our other debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, certain of which are beyond our control, as well as the availability of revolving credit borrowings under the Wells Fargo EDC Facilities or successor facilities.

**We face significant restrictions on our ability to operate under the terms of our credit facilities.**

The terms of our credit facilities generally restrict, among other things, our ability to incur additional indebtedness, complete acquisitions, make certain investments, pay dividends or make certain other restricted payments, consummate certain asset sales, make capital expenditures, enter into certain transactions with affiliates, merge, consolidate or sell, assign, transfer, lease, convey or otherwise dispose of our assets (other than in the ordinary course of business). We are also required to maintain specified EBITDA levels under the credit facilities. The revolver portion of the credit facilities also has a borrowing base formula that limits our ability to borrow based on the characteristics, including geographic location, of our accounts receivable and inventory. Substantially all of our assets and those of our subsidiaries are pledged as security under our credit facilities.

If we are not able to comply with these covenants and requirements, customers may lose confidence in us and reduce or eliminate their orders with us, which may have an adverse impact on our business, financial condition and results of operations. If our borrowing base is diminished we may not have sufficient access to capital to finance operations or capital needs.

**Our ability to recognize tax benefits on our existing U.S. net operating loss position may be limited.**

We have generated substantial loss carryforwards and other tax assets for U.S. tax purposes that can be used to reduce our future federal income tax obligations. Our ability to fully use these tax assets will be adversely affected if we have an ownership change within the meaning of Section 382 of the Internal Revenue Code ( IRC ). An ownership change is generally defined as a greater than 50 percentage point increase in equity ownership by five-percent shareholders (as that term is defined for purposes of Section 382 of the IRC) in a rolling three-year period.

On July 28, 2010, our board of directors and shareholders approved a Tax Benefits Preservation Plan, (the Plan ) in order to protect our ability to utilize our NOLs and other tax assets from an ownership change under U.S. federal income tax rules. However, there is no guarantee that the Plan will be effective in protecting our NOLs and other tax assets.

**There may be adverse consequences resulting from future governmental tax audits of the Company's tax returns.**

The Company has taken various tax positions in determining its tax liabilities and the related expense. It is possible that future tax audits or changes in tax regulation may require the Company to change its prior period tax returns and also to incur additional costs. This may negatively affect future period results.

**Certain differences may exist between the trading market of our common stock and the trading market for the exchangeable shares of SMTC Canada**

Although the exchangeable shares of SMTC Canada are intended to be functionally and economically equivalent to shares of our common stock, there can be no assurance that the market price of the exchangeable shares will be identical, or even similar, to the market price of our common stock.

**Item 1B: Unresolved Staff Comments.**

None.

**Item 2: Properties  
Facilities**

We conduct our operations within approximately 400,000 square feet of building space. We believe our facilities are currently adequate for our operating needs and provide capacity for future volume growth. Our principal service at all locations is assembly of electronic components, with the exception of the Chihuahua facility where we also manufacture precision enclosures. Our operating facilities are as follows:

Location	Approx. Square Footage	Leased/Owned
Markham, Ontario	100,000	Leased
San Jose, California	75,000	Leased
Chihuahua, Mexico	225,000	Owned

In addition, SMTC has a third party agreement with Alco Electronics Ltd. in Chang An, China providing access to a 40,000 square foot facility designed around SMTC's copy-exact model. During 2009, the Company closed its Boston, Massachusetts facility.

All of our principal facilities are ISO certified to ISO 9001 or ISO 9002 standards. ISO 9001 and ISO 9002 are commonly recognized standards in the EMS industry that are published by the International Organization for Standardization and relate to quality management systems. ISO 9001 contains requirements for quality assurance in design, development, production, installation and servicing. ISO 9002 contains requirements for quality assurance in production, installation and servicing. In addition, SMTC achieved ISO 13485 certification at its Mexico, Markham and San Jose facilities. ISO 13485 is an internationally recognized quality management system and standard for the manufacture of medical devices.

The principal executive office of SMTC and SMTC Canada is located at 635 Hood Road, Markham, Ontario, Canada, L3R 4N6.

**Item 3: Legal Proceedings**

We are a party to various legal actions arising in the ordinary course of our business. We believe that the resolution of these legal actions will not have an adverse effect on our financial position or results of operations.

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**PART II**
**Item 5: Market for Registrant's Common Equity and Related Stockholder Matters**  
**Market Information**

Our common stock trades on the NASDAQ Stock Market under the symbol SMTX. The following table shows the high and low sales price for our common stock as reported by the NASDAQ Stock Market for each quarter in the years ended January 2, 2011 and January 3, 2010.

	Common Stock Price			
	2010		2009	
	High	Low	High	Low
First Quarter	\$ 2.95	\$ 0.80	\$ 0.80	\$ 0.23
Second Quarter	4.30	2.50	1.19	0.38
Third Quarter	3.69	2.33	0.95	0.64
Fourth Quarter	4.67	3.04	1.15	0.70

**Stock performance graph**

The following graph sets forth the Company's total cumulative stockholder return as compared to the NASDAQ Composite Index, a peer group chosen by the Company for fiscal 2010 (the Peer Group). The Peer Group is comprised of the following companies: Benchmark Electronics, Inc., Celestica Inc., CTS Corp., Flextronics International Ltd., Jabil Circuit, Inc., Key Tronic Corp., Plexus Corp., Sanmina-Sci Corporation and Sigmatron International Inc.

The total stockholder return assumes \$100 invested on December 31, 2005 in Common Stock of the Company, the NASDAQ Composite Index and the Peer Group of companies that are, (i) publicly traded, and (ii) mid or large tier providers of advanced electronics manufacturing services. Total return assumes reinvestment of dividends. Historical stock price performance is not necessarily indicative of future price performance.

## Holders

As of March 1, 2011, there were approximately 150 holders of record of the Company's common stock.

As of March 1, 2011, the Company's capital stock consisted of 26,000,000 authorized shares of common stock, par value \$.01 per share, of which, as of such date, 15,337,512 shares were issued and outstanding, and 5,000,000 authorized shares of special voting stock, par value \$.01 per share, of which, as of such date, one share was issued and outstanding. As of March 1, 2011, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 582,048 exchangeable shares outstanding, excluding 7,366,262 exchangeable shares owned by the Company's wholly-owned subsidiary, SMTC Nova Scotia Company, each of which is exchangeable for one share of common stock of SMTC Corporation.

## Dividends

The Company has never declared a cash dividend on its common stock. The Board of Directors of the Company has no present intention to authorize the payment of dividends on common stock in the foreseeable future. It is the present policy of the Company to retain earnings, if any, to provide for growth and working capital needs. Further, the Company's credit facilities restrict the Company from paying dividends.

## Item 6: Selected Financial Data

The data set forth below should be read in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto appearing elsewhere in this Annual Report.

Our consolidated financial statements and our selected consolidated financial data have been prepared in accordance with accounting principles generally accepted in the United States ( US GAAP ).

**Consolidated Statement of Operations Data:**

(in millions, except per share amounts)

	Years Ended				
	January 2, 2011	January 3, 2010	January 4, 2009	December 31, 2007	December 31, 2006
Revenue	\$ 262.6	\$ 179.5	\$ 206.9	\$ 201.0	\$ 201.0
Cost of sales	233.1	162.0	188.5	180.7	179.0
Gross profit	29.5	17.5	18.4	20.3	22.0
Selling, general and administrative expenses	17.9	12.7	12.9	12.6	13.5
Restructuring (a)					
Restructuring (recoveries) charges		0.8	0.5	0.2	(1.4)
Gain on sale of assets					(1.2)
Loss on extinguishment of debt			0.6	0.4	
Other expenses (recoveries) (b)			(0.2)		0.8
Operating earnings	11.6	4.0	4.6	7.1	10.3
Interest expense	1.7	2.0	2.9	5.5	5.4
Earnings before income taxes and discontinued operations	9.9	2.0	1.7	1.6	4.9
Income tax expense (recovery)	(2.5)	(0.3)	0.1	(1.3)	(2.0)
Earnings from continuing operations	12.4	2.3	1.6	2.9	6.9
Earnings (loss) from discontinued operations (c)		(5.9)	(7.5)	(0.2)	3.6
Net earnings (loss), also being comprehensive income (loss)	\$ 12.4	\$ (3.6)	\$ (5.9)	\$ 2.7	\$ 10.5
Basic earnings (loss) per share					
Basic earnings per share from continuing operations	\$ 0.82	\$ 0.16	\$ 0.11	\$ 0.19	\$ 0.47
Basic earnings (loss) per share from discontinued operations		(0.41)	(0.51)	(0.01)	0.24
Basic earnings (loss) per common share	\$ 0.82	\$ (0.25)	\$ (0.40)	\$ 0.18	\$ 0.71
Diluted earnings (loss) per share					
Diluted earnings per share from continuing operations	\$ 0.79	\$ 0.16	\$ 0.11	\$ 0.19	\$ 0.47
Diluted earnings (loss) per share from discontinued operations		(0.41)	(0.51)	(0.01)	0.24
Diluted earnings (loss) per common share	\$ 0.79	\$ (0.25)	\$ (0.40)	\$ 0.18	\$ 0.71
Weighted average number of shares outstanding					
Basic	15.1	14.6	14.6	14.6	14.6
Diluted	15.6	14.6	14.6	15.0	14.9

## (a) Fiscal 2009 Charges:

During 2009, the Company recorded net restructuring charges of \$0.8 million consisting of severance charges related to the 2009 Plan.

## Fiscal 2008 Charges:

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During the period ended January 4, 2009, the Company recorded restructuring charges consisting of severances of \$0.7 million relating to the 2008 Plan, partially offset by proceeds of liquidation pertaining to assets written off under the 2002 Plan, of \$0.2 million.



2007 Charges:

During 2007, the Company recorded net restructuring charges of \$0.2 million consisting of severance charges related to the 2007 Plan.

2006 Net recoveries:

During 2006, the Company recorded net restructuring recoveries of \$1.4 million consisting of a \$1.8 million recovery resulting from a change in previously estimated amounts to be paid under the 2002 Plan and additional charges of \$0.4 million under a plan initiated in 2006 related to the restructuring of management roles. The Company also recorded a \$1.2 million gain on sale of an asset previously written down under the 2002 Plan.

(b) In Fiscal 2008, the Company recorded an unrealized gain on derivative instruments of \$0.2 million. Beginning in 2005 and through the first three quarters of 2006, the Company incurred advisory fees related to a strategic initiative the Company did not pursue.

(c) Discontinued operations: Effective June 30, 2009, the Company closed its Boston, Massachusetts facility. Results of this operation are reported as discontinued operations for the current and comparative reporting periods.

**Consolidated Balance Sheet Data and Other Financial Data:**

(in millions)

	At and for the Years Ended				
	January 2, 2011	January 3, 2010	January 4, 2009	December 31, 2007	December 31, 2006
Cash	\$ 0.9	\$ 1.6	\$ 2.6	\$ 0.2	\$
Working capital	23.2	24.3	20.8	21.8	17.4
Total assets	98.4	93.6	87.3	94.8	115.9
Long term debt, including current maturities	10.8	25.7	18.7	21.0	41.0
Shareholders' equity	32.9	18.3	21.3	26.8	23.9
Capital expenditures	2.2	1.0	2.8	2.5	4.4
Cash flows provided by (used in) operating activities	14.0	(6.3)	7.1	24.7	(9.5)
Cash flows provided by (used in) financing activities	(13.5)	5.5	(3.6)	(22.6)	10.5
Cash flows provided by (used in) investing activities	(1.2)	(0.2)	(1.1)	(1.9)	(1.0)

## Quarterly Results

The following tables set forth our unaudited historical quarterly results for the eight quarters ended January 2, 2011. This information has been prepared on the same basis as our annual consolidated financial statements and it includes all adjustments necessary for a fair presentation of the financial results of such periods. This information should be read in conjunction with our annual consolidated financial statements for the years ended January 2, 2011 and January 3, 2010. The operating results for any previous quarter are not necessarily indicative of results for any future periods.

(in millions, except per share amounts)

	Quarters Ended							
	Apr 5, 2009	July 5, 2009	Oct 4, 2009	Jan 3, 2010	Apr 4, 2010	July 4, 2010	Oct 3, 2010	Jan 2, 2011
Revenue	\$ 44.9	\$ 39.2	\$ 44.2	\$ 51.2	\$ 61.4	\$ 71.2	\$ 65.4	\$ 64.6
Gross profit	3.9	4.0	3.7	5.9	6.4	8.3	7.9	6.9
Earnings (loss) from continuing operations	(0.9)	0.4	0.5	2.4	2.1	3.2	2.6	4.5
Loss from discontinued operations	(1.6)	(3.8)	(0.3)	(0.2)				
Net earnings (loss)	(2.5)	(3.4)	0.2	2.2	2.1	3.2	2.6	4.5
Earnings (loss) per share from continuing operations basic	\$ (0.06)	\$ 0.03	\$ 0.03	\$ 0.16	\$ 0.14	\$ 0.21	\$ 0.17	\$ 0.29
Loss per share from discontinued operations basic	\$ (0.11)	\$ (0.26)	\$ (0.02)	\$ (0.02)	\$	\$	\$	\$
Earnings (loss) per share from continuing operations diluted	\$ (0.06)	\$ 0.03	\$ 0.03	\$ 0.16	\$ 0.14	\$ 0.20	\$ 0.16	\$ 0.28
Loss per share from discontinued operations diluted	\$ (0.11)	\$ (0.26)	\$ (0.02)	\$ (0.02)	\$	\$	\$	\$
Weighted average number of shares outstanding basic	14.6	14.6	14.6	14.6	14.6	14.8	15.0	15.8
Weighted average number of shares outstanding diluted	14.6	14.6	14.6	14.6	14.8	15.7	15.7	16.2

### Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

Where we say *we*, *us*, *our*, *the Company* or *SMTC*, we mean *SMTC Corporation or SMTC Corporation and its subsidiaries*, as it may apply. Where we refer to the *industry*, we mean the *electronics manufacturing services industry*.

You should read this *Management's Discussion and Analysis of Financial Condition and Results of Operation ( MD&A )* in combination with the accompanying audited consolidated financial statements and the accompanying notes to the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States ( *US GAAP* ) included within this annual report on Form 10-K. The forward-looking statements in this discussion regarding the electronics manufacturing services industry, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion include numerous risks and uncertainties, some of which are as described in the *Risk-Factors That May Affect Future Results* section above. Certain statements in this MD&A contain words such as *could*, *expects*, *may*, *anticipates*, *believes*, *intends*, *estimates*, *plans*, *envisions*, *seeks* and other similar language and are considered forward looking statements or information under applicable securities laws. These statements are based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate. These statements are subject to important assumptions, risks and uncertainties, which are difficult to predict and the actual outcome may be materially different. Although we believe expectations reflected in such forward-looking statements are

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*reasonable based upon the assumptions in this MD&A, they may prove to be inaccurate and consequently our actual results could differ materially from our expectations set out in this MD&A. We may not update these forward-looking statements after the date of this Annual Report, even though our situation may change in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.*

*This MD&A contains discussion in US dollars unless specifically stated otherwise.*

## **Overview**

SMTC Corporation is a mid-tier provider of end-to-end electronics manufacturing services, or EMS, including product design and sustaining engineering services, printed circuit board assembly, or PCBA, production, enclosure fabrication, systems integration and comprehensive testing services. SMTC facilities span a broad footprint in the United States, Canada, Mexico, and China, with approximately 1,500 full-time employees. SMTC's services extend over the entire electronic product life cycle from the development and introduction of new products through to growth, maturity and end-of-life phases. SMTC offers fully integrated contract manufacturing services with a distinctive approach to global original equipment manufacturers, or OEMs, and technology companies primarily within the industrial, computing and networking, and communications, consumer and medical market segments.

## **Developments in the year ended January 2, 2011**

Growth, profitability and debt reduction are the primary goals of the Company. As anticipated, the Company's customer end markets rebounded in the year ended January 2, 2011 (fiscal 2010) as they recovered from the recession of 2009. The increase in demand by the Company's customer end market and rebuilding of customer inventory levels reduced in 2009, combined with the addition of several new customers, more than offset attrition and resulted in the Company's revenue increasing by 46% from the year ended January 3, 2010 (fiscal 2009). The increase in revenue together with the continuation of cost management and transferring production to the Company's lower cost facilities resulted in gross profit of \$29.5 million in 2010 compared to \$17.6 million in 2009; a 68% increase

Net income from continuing operations increased to \$12.4 million in 2010 compared to \$2.4 million in 2009. The increase in revenue and gross margin along with the decrease in interest costs accounted for the majority of the increase. In addition, the Company has determined that it is appropriate to lower the valuation allowance relating to the deferred tax assets of the US taxable entities as it is more likely than not that a portion of the future tax assets will be realized due to a record of past performance and earnings expected in the U.S. in future years. This resulted in a deferred tax asset and an increase of net income of \$2.8 million. To protect our future ability to utilize our NOLs and other tax assets from an ownership change under U.S. federal income tax rules, on July 28, 2010, our board of directors and shareholders approved a Tax Benefits Preservation Plan, (the Plan) adopted solely to preserve the Company's tax benefits and not to deter strategic transactions or share accumulations. However, there is no guarantee that the Plan will be effective in protecting our NOLs and other tax assets.

A substantial increase in cash generated from operating activities enabled the Company to reduce net bank debt by \$14.9 million to a new record low of \$9.9 million. On May 18, 2010, the Company and its lenders signed an amendment to extend the repayment schedule and the term of the debt agreement to August 2013, to reset the EBITDA and leverage covenants, to eliminate the fixed charge coverage ratio covenant, and to reduce interest rates. Interest rates are grid based, dependent on the financial performance of the Company. As at January 2, 2011 the Company was at the lowest level of interest on both loans based on its financial performance.

In addition, the Company has purchased \$1.2 million of new machinery and equipment with cash, acquired \$1.0 million of machinery and equipment via capital leases, and has purchase commitments for an additional \$1.0 million of new machinery at January 2, 2011.

The Company established a purchasing office in Kowloon, Hong Kong in fiscal 2010 which serves to improve access to the broad base of component suppliers in the Asia region and provide the Company with competitive pricing. The Hong Kong office manages component sourcing to support the Asian manufacturing operations, as well as providing support for the Company's operations in North America.

### Results of Operations

Our contractual arrangements with our key customers generally provide a framework for our overall relationship with our customers. Revenue from the sale of products is recognized when goods are shipped to customers and title has passed to the customer, persuasive evidence of an arrangement exists, performance has occurred, all customer-specified test criteria have been met and the earnings process is complete. Actual production volumes are based on purchase orders for the delivery of products. Typically, these orders do not commit to firm production schedules for more than 30 to 90 days in advance. To minimize inventory risk, generally we order materials and components only to the extent necessary to satisfy existing customer forecasts or purchase orders. Fluctuations in material costs typically are passed through to customers. We may agree, upon request from our customers, to temporarily delay shipments, which causes a corresponding delay in our revenue recognition. The Company also derives revenue from engineering and design services. Service revenue is recognized as services are performed.

The consolidated financial statements of SMTC are prepared in accordance with US GAAP.

The following table sets forth certain operating data expressed as a percentage of revenue for the fiscal periods ended:

	January 2, 2011	January 3, 2010	January 4, 2009
Revenue	100.0%	100.0%	100.0%
Cost of sales	88.8%	90.2%	91.1%
Gross profit	11.2%	9.8%	8.9%
Selling, general and administrative expenses	6.9%	7.1%	6.2%
Restructuring charges		0.4%	0.2%
Loss on extinguishment of debt			0.3%
Other recoveries			(0.1)%
Operating earnings	4.3%	2.2%	2.3%
Interest expense	0.6%	1.1%	1.4%
Earnings from continuing operations before income taxes	3.7%	1.1%	0.9%
Income tax (recovery) expense			
Current	0.1%	(0.3)%	0.1%
Deferred	(1.1)%	0.1%	
	(1.0)%	(0.2)%	
Net earnings from continuing operations	4.7%	1.3%	0.8%
Loss from discontinued operations		(3.3)%	(3.6)%
Net earnings (loss)	4.7%	(2.0)%	(2.8)%

### Fiscal period ended January 2, 2011 compared to the fiscal period ended January 3, 2010

#### Revenue

Revenue increased by \$83.1 million, or 46.3%, from \$179.5 million for fiscal 2009 to \$262.6 million for fiscal 2010. The substantial increase in revenue was due to several factors. The majority of SMTC's customers

end markets were favorably impacted by increased demand and the requirement to rebuild inventories as end markets recovered from the impact of the recession in 2009. In addition, newer customers have contributed \$40.7 million of the increased revenue, more than offsetting attrition. The Company also benefited from increased share of business with certain customers.

During fiscal 2010, revenue from the industrial sector represented 81.2% of revenue compared to 84.5% of revenue in fiscal 2009. Revenue from the industrial sector increased by \$33.7 million or 22.2%, however greater percentage increases in the networking and communications sectors resulted in a marginal decrease in the industrial sector as a percentage of total revenue. The percentage of revenue attributable to the networking and enterprise computing sector was 13.0% during fiscal 2010, increasing from 11.4% in fiscal 2009 mainly due to one new customer and an increase of revenue from an existing customer, resulting in an increase in absolute dollars of \$13.5 million or 65.8%. The percentage of revenue attributable to the communications sector increased to 5.8% during fiscal 2010 from 4.1% during fiscal 2009. Revenue from the communications sector increased by \$7.9 million or approximately double the fiscal 2009 revenue mainly due to a new customer in this sector.

During fiscal 2010, we recorded approximately \$3.9 million of sales of raw materials inventory to customers, which carried no margin, compared to \$1.3 million in fiscal 2009. The Company purchases raw materials based on customer purchase orders. To the extent a customer requires an order to be altered or changed the customer is generally obligated to purchase the original on-order raw material at cost.

Due to changes in market conditions, the life cycle of products, the nature of specific programs and other factors, revenues from a particular customer typically vary from year to year. The Company's ten largest customers represented 88.1% of revenue from continuing operations during fiscal 2010, compared to 91.8% in fiscal 2009. Revenue from our four largest customers during fiscal 2010 was \$41.6 million, \$38.0 million, \$34.9 million and \$33.2 million, representing 15.8%, 14.5%, 13.3% and 12.7%, of revenue from continuing operations for fiscal 2010, respectively. This compares with revenue of \$39.2 million, \$28.6 million, \$28.2 million, \$24.9 million and \$18.7 million, representing 21.9%, 15.9%, 15.7%, 13.9% and 10.4% of revenue from continuing operations for the five largest customers of fiscal 2009, respectively. No other customer represented more than 10% of revenue in either year.

During fiscal 2010, 47.7% of our revenue from continuing operations was attributable to our operations in Mexico, 23.8% in Asia, 20.3% in Canada and 8.2% in the US. During fiscal 2009, 38.6% of our revenue from continuing operations was attributable to our operations in Mexico, 27.3% in Canada, 26.4% in Asia and 7.7% in the US. The decrease in Canada and increase in Mexico was a result of production transferring to our lower cost facilities and some attrition in Canada.

The Company operates in a highly competitive and dynamic marketplace in which current and prospective customers from time to time seek to lower their costs through a competitive bidding process among EMS providers. This process creates an opportunity to increase revenue to the extent we are successful in the bidding process, however, there is also the potential for a decline in revenue to the extent we are unsuccessful in this process. Furthermore, even if we are successful, there is potential for our margins to decline. If we lose any of our larger product lines manufactured for any one of our customers, or lose customers we could experience declines in revenue.

#### *Gross Profit*

Gross profit increased from \$17.6 million in fiscal 2009 to \$29.5 million in fiscal 2010. This was largely due to increased revenue levels, leveraging fixed costs, combined with continued cost management. Gross profit as a percentage of revenue improved from 9.8% in fiscal 2009 to 11.2% in fiscal 2010. The improvement in gross profit as a percentage of revenue was primarily due to cost reduction initiatives, product mix and additional products transferring to our lower cost facilities.

The Company adjusts for estimated obsolete or excess inventory for the difference between the cost of inventory and estimated realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers and the ability to sell back inventory to customers or suppliers. If these estimates change, additional write-downs may be required.

#### *Selling, General & Administrative Expenses*

Selling, general and administrative expenses increased from \$12.8 million in fiscal 2009 to \$17.9 million in fiscal 2010, but decreased as a percentage of revenue to 6.8% for fiscal 2010 from 7.1% of revenue for fiscal 2009. The increase in fiscal 2010 was due to an increase in variable compensation tied to Company performance, an increase in salaries and benefits, an increase in stock based compensation mark to market adjustments, increased professional fees for recruiting and legal expenses and increased sales and marketing expenses to obtain new customers.

The Company determines the allowance for doubtful accounts for estimated credit losses based on the length of time the accounts receivable have been outstanding, customer and industry concentrations, the current business environment and historical experience.

#### *Restructuring Charges*

During fiscal 2009 the Company recorded restructuring charges of \$0.8 million, consisting largely of severance charges of \$0.5 million in the Mexican segment, \$0.3 million in the Canadian segment, and a nominal amount in the U.S. segment. The Company reduced staff levels by approximately 160 in response to expected lower revenues resulting from the global economic recession. There were no restructuring activities during fiscal 2010.

#### *Interest Expense*

Interest expense decreased by \$0.3 million from \$2.0 million in fiscal 2009 to \$1.7 million in fiscal 2010. Included in interest expense is amortization of deferred financing fees of \$0.2 million in fiscal 2010, compared to \$0.3 million in fiscal 2009.

Interest expense decreased in fiscal 2010 due to lower average debt balances outstanding and lower interest rates compared to fiscal 2009 due to the achievement of financial performance levels as specified in the amended debt agreement signed on May 18, 2010. The weighted average interest rates with respect to the debt were 4.7% and 5.4%, for the periods ended January 2, 2011 and January 3, 2010, respectively.

#### *Income Tax Expense*

The net tax recovery for fiscal 2010 of \$2.5 million is due to a \$3.0 million deferred tax recovery primarily related to a release of valuation allowance associated with deferred tax assets in the U.S., offset by minimum taxes in Mexico and income taxes in California, compared with a net income tax recovery for fiscal 2009 of \$0.3 million which was due to a \$0.5 million recovery of certain minimum taxes previously paid as a result of changes in tax legislation, offset by minimum taxes in Mexico.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. Guidance under Accounting Standards Codification ( ASC ) 740, Income Taxes , ( ASC 740 ) states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax

assets relate. At the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainty in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets. Commencing in 2004, it was determined by management that it was more likely than not that the deferred tax assets associated with the Mexican jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets since 2004. In 2010, it was determined by management that it was more likely than not that certain deferred tax assets associated with the U.S. jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets. The Canadian jurisdiction continues to have a full valuation allowance recorded against the deferred tax assets.

At January 2, 2011, the Company had total net operating loss carry forwards of \$101.3 million, of which \$1.3 million will expire in 2012, \$10.3 million will expire in 2014, \$4.2 million will expire in 2015, \$1.1 million will expire in 2018, \$0.1 million will expire in 2019, \$13.7 million will expire in 2021, \$16.2 million will expire in 2022, \$27.3 million will expire in 2023, and the remainder will expire between 2025 and 2029.

#### *Discontinued Operations*

In June 2009, the Company ceased manufacturing operations at its Boston, Massachusetts facility. The Company entered into an agreement with the landlord to terminate the existing lease and conducted a sale of plant equipment. As of July 5, 2009, the Boston facility was classified as a discontinued operation and its results of operations have been separately reported for all periods presented.

Loss from discontinued operations before disposal was \$3.6 million in fiscal 2009. There were no discontinued operations in fiscal 2010.

#### **Fiscal period ended January 3, 2010 compared to the fiscal period ended January 4, 2009**

##### *Revenue*

Revenue decreased \$27.4 million, or 13.2%, from \$206.9 million for the period ended January 4, 2009 ( fiscal 2008 ) to \$179.5 million for the period ended January 3, 2010 ( fiscal 2009 ). The decrease in revenue was primarily due to the impact of the recession on all of SMTC's longstanding customers as all but one customer, experienced a decrease in demand in fiscal 2009 compared to 2008. Somewhat offsetting these reductions, newer customers and customers for which we are ramping as a result of increased share of business generated an increase of approximately \$22 million in revenue for fiscal 2009.

The reclassification of the Boston facility as a discontinued operation resulted in the revenues of this business of \$7.0 million in fiscal 2009 being excluded from reported revenues, compared to \$35.8 million in 2008. The Company has disengaged with most customers in Boston whose production requirements were best suited for local supply. Certain customers were transitioned to Mexico. Those customers transitioned to Mexico continued to be impacted by the economy through fiscal 2009.

During fiscal 2009, revenue from the industrial sector represented 84.5% of revenue compared to 78.1% of revenue in 2008. The increase in the percentage of revenue generated from the industrial sector in fiscal 2009 compared to 2008 is due to the net growth in revenue driven by a ramping customer for which SMTC has greater share of their business, new customers and a longstanding customer experiencing growth. The percentage of sales attributable to the networking and enterprise computing sector was 11.4% during fiscal 2009, increased from 10.7% during 2008 however a reduction in absolute dollars was experienced as the segment was impacted by the recession. The percent increase was driven by two newer customers. The percentage of sales attributable to the communications sector decreased to 4.1% during fiscal 2009 from 11.2% during 2008 due to various market driven reductions and a 2008 disengagement.

During fiscal 2009, we recorded approximately \$1.3 million of sales of raw materials inventory to customers, which carried no margin, compared to \$4.2 million in 2008. The Company purchases raw materials based on customer purchase orders. To the extent a customer requires an order to be altered or changed the customer is generally obligated to purchase the original on-order raw material at cost.

Due to changes in market conditions, the life cycle of products, the nature of specific programs and other factors, revenues from a particular customer typically vary from year to year. The Company's ten largest customers represented 91.8% of revenue from continuing operations during fiscal 2009, compared to 93.4% in 2008. Revenue from our five largest customers during fiscal 2009 was \$39.2 million, \$28.6 million, \$28.2 million, \$24.9 million and \$18.7 million, representing 21.9%, 15.9%, 15.7%, 13.9% and 10.4%, of revenue from continuing operations for fiscal 2009, respectively. This compares with revenue of \$48.2 million, \$44.0 million and \$40.9 million, representing 23.3%, 21.3% and 19.8% of revenue from continuing operations for the three largest customers of 2008, respectively. No other customer represented more than 10% of revenue in either year.

During fiscal 2009, 38.6% of our revenue from continuing operations was attributable to our operations in Mexico, 27.3% in Canada, 26.4% in Asia and 7.7% in the US. During 2008, 40.1% of our revenue from continuing operations was attributable to our operations in Mexico, 33.1% in Canada, 18.3% in Asia and 8.5% in the US. The decrease in Canada and increase in Asia was a result of production transferring to our lower cost facilities, some of which started late in 2008.

The Company operates in a highly competitive and dynamic marketplace in which current and prospective customers from time to time seek to lower their costs through a competitive bidding process among EMS providers. This process creates an opportunity to increase revenue to the extent we are successful in the bidding process, however, there is also the potential for a decline in revenue to the extent we are unsuccessful in this process. Furthermore, even if we are successful, there is potential for our margins to decline. If we lose any of our larger product lines manufactured for any one of our customers, we could experience declines in revenue.

#### *Gross Profit*

Gross profit as a percentage of revenue improved from 8.9% in fiscal 2008 compared to 9.8% in fiscal 2009, but decreased in absolute terms from \$18.5 million in fiscal 2008 to \$17.6 million for fiscal 2009 as a result of the reduction in volume arising from the effect of the recession. The improvement in gross profit as a percentage of revenue was primarily due to cost reduction initiatives and the resulting improved efficiency, despite the negative impact of the economy on volume of business and the resulting impact on ability to cover fixed costs, as well as the negative impact of the strengthening Canadian dollar.

The Company adjusts for estimated obsolete or excess inventory for the difference between the cost of inventory and estimated realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers and the ability to sell back inventory to customers or suppliers. If these estimates change, additional write-downs may be required.

#### *Selling, General & Administrative Expenses*

Selling, general and administrative expenses decreased slightly from \$12.9 million in 2008 to \$12.8 million in fiscal 2009, but increased as a percentage of revenue to 7.1% for fiscal 2009 from 6.2% of revenue for 2008; the result of the reduction in revenue. While significant cost reductions were made in fiscal 2009, the negative impact of the strengthening Canadian dollar and an increase in non-cash stock based compensation offset these improvements.

The Company determines the allowance for doubtful accounts for estimated credit losses based on the length of time the accounts receivables have been outstanding, customer and industry concentrations, the current business environment and historical experience.

#### *Restructuring Charges*

During fiscal 2009 the Company recorded restructuring charges of \$0.8 million, consisting largely of severance charges of \$0.5 million in the Mexican segment, \$0.3 million in the Canadian segment, and a nominal amount in the U.S. segment. The Company reduced staff levels by approximately 160 in response to expected lower revenues resulting from the global economic recession.



During fiscal 2008, the Company implemented restructuring activities as a result of the transfer of production from the Chihuahua facility to the Company's China operation. Termination payments of \$0.7 million were recorded as restructuring charges and were paid during the year. In addition, the Company recorded a restructuring recovery of \$0.2 million consisting of a dividend from the liquidation of the Company's Donegal, Ireland facility, which was initiated under the Company's restructuring plan of 2002.

#### *Loss on extinguishment of debt*

Upon the early repayment of the Company's pre-existing term debt with Garrison during the third quarter of 2008, the Company recorded a non-cash charge of \$0.6 million for the remaining unamortized deferred financing assets related to this extinguished debt.

#### *Other Income*

During the period ended January 4, 2009, the Company entered into forward foreign exchange contracts to reduce its exposure to foreign exchange currency rate changes related to forecasted Canadian dollar denominated payroll, rent and utility cash flows in the first quarter of fiscal 2009. These contracts were effective as hedges from an economic perspective, but were not designated as hedges for accounting purposes. Accordingly, changes in the fair value of these contracts were recognized in the consolidated statement of operations and comprehensive income. The Company does not enter into forward foreign exchange contracts for trading or speculative purposes.

As of January 4, 2009, forward foreign exchange contracts with an aggregate exercise value of \$3.6 million were outstanding, which were settled between January 9, 2009 and April 3, 2009 at a forward rate of USD \$1.00 = CAD \$1.268. The unrealized gain recognized into earnings as a result of revaluing the instruments to fair value on January 4, 2009 was \$0.2 million which was included in other recoveries in the statement of operations and comprehensive income and accounts receivable on the balance sheet. Fair value was determined using the market approach by reference to quoted prices in active markets for identical assets. The realized gain recognized on these contracts during was \$0.1 million.

#### *Interest Expense*

Interest expense decreased by \$0.9 million from \$2.9 million in fiscal 2008 to \$2.0 million in fiscal 2009. Included in interest expense is amortization of deferred financing fees of \$0.3 million in fiscal 2009, compared to \$0.4 million in fiscal 2008.

Interest expense directly related to debt, excluding the amortization of deferred financing fees and the reduction in interest expense relating to the amortization of the value of cancelled warrants, decreased by \$0.8 million, from \$2.5 million for 2008, to \$1.7 million for fiscal 2009 due to lower average debt balances outstanding and lower interest rates in fiscal 2009 as compared to 2008 due to the general decrease in applicable interest rates and reduced rates at the time of the August 2008 refinancing. The weighted average interest rates with respect to the debt were 6.7% and 5.4%, for the periods ended January 4, 2009 and January 3, 2010, respectively.

#### *Income Tax Expense*

The net tax recovery for fiscal 2009 of \$0.3 million is due to a \$0.5 million recovery of certain minimum taxes previously paid as a result of changes in tax legislation, offset by minimum taxes in Mexico, compared with a net income tax expense of \$0.1 million in 2008, related to minimum taxes in certain jurisdictions

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal

of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. Guidance under Accounting Standards Codification ( ASC ) 740, Income Taxes , ( ASC 740 ) states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. At the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainty in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets. Commencing in 2004, it was determined by management that it was more likely than not that the deferred tax assets associated with the Mexican jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets since 2004. The U.S. and Canadian jurisdictions had a full valuation allowance recorded against the deferred tax assets in those jurisdictions.

At January 3, 2010, the Company had total net operating loss carry forwards of \$113.1 million, of which \$10.3 million will expire in 2010, \$1.3 million will expire in 2012, \$4.2 million will expire in 2014, \$1.8 million will expire in 2015, \$1.1 million will expire in 2018, \$0.1 million will expire in 2019 and 2020, 19.2 million will expire in 2021, \$16.2 million will expire in 2022, \$27.3 million will expire in 2023, and the remainder will expire between 2025 and 2029.

#### Discontinued Operations

In June 2009, the Company ceased manufacturing operations at its Boston, Massachusetts facility. The Company entered into an agreement with the landlord to terminate the existing lease and conducted a sale of plant equipment. As of July 5, 2009, the Boston facility was classified as a discontinued operation and its results of operations have been separately reported for all periods presented.

Loss from discontinued operations before disposal was \$3.6 million in fiscal 2009, compared with \$7.5 million in 2008, which included a \$4.9 million impairment charge on leasehold improvements and \$0.2 million in severance costs.

The \$2.4 million loss on disposal recorded in fiscal 2009 consists largely of the settlement under the lease termination agreement, severance costs and other contracted facility exit costs, somewhat offset by a gain on disposal of plant equipment. The Company did not record further disposal costs in fiscal 2010.

#### Liquidity and Capital Resources

Our principal sources of liquidity are cash provided from operations and borrowings under the Wachovia EDC Facilities. We have also previously relied on our access to the capital markets. Our principal uses of cash have been to meet debt service requirements, pay down debt, invest in capital expenditures and to finance working capital requirements. In the future, cash may also be used for strategic purposes.

The following table outlines the summary level cash flow changes for:

	Period ended January 2, 2011	Period ended January 3, 2010	Period ended January 4, 2009
<b>Cash provided by (used in):</b>			
Operating activities	\$ 14.0	\$ (6.3)	\$ 7.1
Financing activities	(13.5)	5.5	(3.6)
Investing activities	(1.2)	(0.2)	(1.1)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(0.7)</b>	<b>(1.0)</b>	<b>2.4</b>
Cash, beginning of year	1.6	2.6	0.2
<b>Cash, end of the year</b>	<b>\$ 0.9</b>	<b>\$ 1.6</b>	<b>\$ 2.6</b>

*Fiscal 2010 Liquidity:*

Net cash provided by operating activities for fiscal 2010 was \$14.0 million. The source of cash resulted from income from operations, decreases in accounts receivable, increases in accounts payable and accrued liabilities, offset by an increase in inventory. Accounts receivable days sales outstanding were 50 days for the fourth quarter of 2010 compared to 67 days for the same period in fiscal 2009 largely due to payments received on a timely basis in 2010 compared to payments received immediately after year end in fiscal 2009. Some payments were also received early to offset the impact of holding inventory for certain customers. Inventory turnover on an annualized basis was 5.5 times for 2010 and 4.9 times for fiscal 2009. The increase in turnover was due to the volume mix as some of the larger customers were turning at a much higher rate as the demand increased compared to the prior year, resulting in an overall increase in turnover. Accounts payable days outstanding were 68 days for the fourth quarter of 2010 compared to 84 days for the same period in fiscal 2009 as we made an effort to pay vendors quicker in 2010. During fiscal 2009 the Company paid \$0.8 million in connection with restructuring charges. There were no restructuring charges paid in 2010.

Net cash used in financing activities during fiscal 2010 was \$13.5 million, consisting of net repayments of \$14.5 million to the revolving credit facility, repayments of term debt of \$0.4 million, repayment of capital leases of \$0.9 million and \$0.1 million in financing fees incurred in refinancing the Company's credit facilities. These were partially offset by proceeds of \$0.4 million generated on a sale leaseback on capital equipment, and \$2.0 million from the issuance of common stock upon the exercise of executive stock options.

Net cash used in investing activities for fiscal 2010 of \$1.2 million consisted of purchases of machinery and equipment.

*Fiscal 2009 Liquidity:*

Net cash used in operating activities for fiscal 2009 was \$6.3 million. The use of cash resulted from losses in the Boston discontinued operation, increases in accounts receivable, inventories and prepaid expenses, a decrease in accrued liabilities, offset by an increase in accounts payable. Accounts receivable days sales outstanding were 67 days for the fourth quarter of fiscal 2009 compared to 46 days for the same period in 2008 largely due to payments received immediately after year end that were expected within the year. Inventory turnover on an annualized basis was 4.9 times for fiscal 2009 and 5.8 times for 2008. Inventory is currently being impacted by a constrained supply chain as vendors are struggling to meet increased demand across the industry. In addition, a newer customer converted production from the consignment model to turnkey resulting in the Company taking ownership of approximately \$3 million in inventory with offsetting accounts payable. Accounts payable days outstanding were 84 days for the fourth quarter of fiscal 2009 compared to 64 days for the same period in 2008. During fiscal 2009 the Company paid \$0.8 million in connection with restructuring charges, compared to \$0.5 million in 2008.

Net cash provided by financing activities during fiscal 2009 was \$5.5 million, consisting of net borrowings of \$9.7 million from the revolving credit facility, repayments of term debt of \$2.7 million, repayment of capital leases of \$1.3 million and \$0.2 million in financing fees incurred in refinancing the Company's credit facilities.

Net cash used in investing activities for fiscal 2009 of \$1.0 million consisted of purchases of equipment, partially offset by \$0.8 million provided from proceeds from the disposition of property, plant and equipment in Boston.

All accruals related to the disposal of the Boston facility were settled by the end of fiscal 2010.

*Capital Resources*

On April 2, 2009, the Company and its lenders amended the lending agreements to revise the EBITDA and leverage covenants, eliminate the fixed charge coverage ratio for the five quarters beginning January 5, 2009 and increase the interest rate by 200 to 300 basis points. On August 4, 2009, a further amendment was obtained,

effectively extending the terms of the April agreement to July 2010. On May 18, 2010, the Company and its lenders signed an amendment to extend the repayment schedule and the term of the debt agreement to August 2013, to reset the EBITDA and leverage covenants, to eliminate the fixed charge coverage ratio covenant, and to reduce interest rates. The revolving line of credit bears interest at prime to prime plus 1%, the term loan to EDC bears interest at LIBOR plus 2.5% to 3.5 %, and the term loan to Wells Fargo bore interest at LIBOR plus 3% to 4%, depending on the achievement of financial performance levels as specified in the debt agreement.

We believe that cash generated from operations, available cash and amounts available under our Wachovia EDC Facilities and additional financing sources such as leasing companies and other lenders will be adequate to meet our debt service requirements, capital expenditures and working capital needs at our current level of operations and organic growth in the future, although no assurance can be given in this regard, particularly with respect to amounts available from lenders. We have agreed to a borrowing base formula under which the amount we are permitted to borrow under the Wachovia EDC Facilities is based on our accounts receivable and inventory. Further, there can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to enable us to service our indebtedness. Our future operating performance and ability to service indebtedness will be subject to future economic conditions and to financial, business and other factors, certain of which are beyond our control.

During 2010, there were \$1.0 million of additions of property, plant and equipment acquired via capital leases.

As at January 2, 2011, contractual repayments due within each of the next five years and thereafter are as follows:

(in US\$ millions)	2011	2012	2013	2014	2015	Thereafter	Total
Long term debt	\$ 3.7	\$ 3.7	\$ 3.4	\$	\$	\$	\$ 10.8
Capital lease obligations	1.0	0.4	0.4	0.3			2.1
Operating lease obligations	1.0	0.2	0.1				1.3
Purchase obligations	1.2						1.2
<b>Total</b>	<b>\$ 6.9</b>	<b>\$ 4.3</b>	<b>\$ 3.9</b>	<b>\$ 0.3</b>	<b>\$</b>	<b>\$</b>	<b>\$ 15.4</b>

In the normal course of business, we may be subject to litigation and claims from customers, suppliers and former employees. We believe that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that ultimate resolution of such contingencies would not have an adverse effect on our financial position, results of operations or cash flows.

#### Accounting changes and recent accounting pronouncements

Please refer to Note 2 of the accompanying consolidated financial statements.

#### Critical Accounting Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 to the consolidated financial statements describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. The following critical accounting policies are affected significantly by judgments, assumptions and estimates used in the preparation of financial statements. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

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*Allowance for Doubtful Accounts*

We evaluate the collectability of accounts receivable and record an allowance for doubtful accounts, which reduces the accounts receivable to the amount we reasonably believe will be collected. A specific allowance is recorded against customer accounts receivable that are considered to be impaired based on our knowledge of the financial condition of our customers. In determining the amount of the allowance, we consider factors, including the length of time the accounts receivable have been outstanding, customer and industry concentrations, the current business environment and historical experience.

*Inventory Valuation*

Inventories are valued, on a first-in, first-out basis, at the lower of cost and replacement cost for raw materials and at the lower of cost and net realizable value for work in progress and finished goods. Inventories include an application of relevant overhead. We write down estimated obsolete or excess inventory for the difference between the cost of inventory and estimated net realizable value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers, and the ability to sell inventory to customers or return to suppliers. If these assumptions change, additional write-downs may be required.

*Long-lived Assets*

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with subtopic 10 of ASC 360, *Property, Plant and Equipment*. Under ASC 360-10 assets must be classified as either held-for-use or held-for-sale. An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows when quoted market prices are not available. For assets held-for-sale, an impairment loss is recognized when the carrying amount exceeds fair value less costs to sell.

*Income Tax Valuation Allowance*

In assessing the realization of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Guidance under ASC 740 states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. Based upon consideration of these factors, management believes the recorded valuation allowance related to all of its deferred tax assets arising in Canada and a portion of its deferred tax assets arising in the United States is appropriate.

**Item 7A: Quantitative and Qualitative Disclosures about Market Risk**  
**Interest Rate Risk**

Our credit facilities bear interest at floating rates. The weighted average interest rate incurred on debt for the period ended January 2, 2011 was 4.7%. At January 2, 2011 the interest rate on our U.S. revolving credit facility is 3.25% based on the U.S. prime rate and our term debt bore interest at 2.8% based on LIBOR. If base rates increased by 10%, our interest expense would have increased by approximately \$0.1 million annually.

**Foreign Currency Exchange Risk**

Most of our sales and component purchases are denominated in U.S. dollars. Our Canadian and Mexican payroll, Euro based component purchases and other various expenses are denominated in local currencies. As a

result, we have limited exposure to foreign currency exchange risk for modest changes in exchange rates. However, for more significant changes in exchange rates, the Company is subject to much greater variations. Every \$0.01 change in the US dollar results in a change in expenses of approximately \$0.3 million. The strengthening of the Canadian dollar results in an increase in costs to the organization and may lead to a reduction in reported earnings.

**Item 8: Financial Statements and Supplementary Data**

The information called for by this item is indexed on page F-1 of this Report and is contained on pages F-2 through F-44.

**Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A: Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.*

The Company's management, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Company's Chief Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and the Company's Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Management's Report on Internal Control over Financial Reporting*

The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Principal Financial Officer, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Exchange Act Rule 13a-15(f). The Company's management conducted an

assessment of the Company's internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework* (COSO). Based on this assessment, the Company's management has concluded that, as of January 2, 2011, the Company's internal control over financial reporting is effective and no material weaknesses were identified.

This annual report on Form 10-K does not include an attestation report by the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

*Changes in Internal Controls and Procedures.*

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the most recent evaluation of these controls by the Company's Chief Executive Officer and Principal Financial Officer.

**Item 9B: Other Information**

None

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**PART III**
**Item 10: Directors, Executive Officers and Corporate governance**

The information required by this Item is included under the captions "The Proposal: Election of Directors," "Directors and Executive Officers," "Additional Information" "Section 16(a) Beneficial Ownership Reporting Compliance," and "Compensation Discussion and Analysis" in the proxy statement for use in connection with the Company's 2010 Annual Meeting of Stockholders (the "Proxy Statement") and is incorporated herein by reference.

The Company has adopted a Code of Conduct applicable to all employees, including the principal executive officer, principal financial officer, and principal accounting officer. The Code of Conduct is available on the Company's website at <http://www.smtc.com/investor/corpgov/corpgov.htm> and in print to any stockholder who requests it. The Company intends to post on its website any amendments to, or waivers from, its Code of Conduct.

**Item 11: Executive Compensation**

The information required by this Item is included under the captions "Executive Compensation and Related Information" and "Compensation Discussion and Analysis" in the Proxy Statement and is incorporated herein by reference.

**Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information required by this Item concerning security ownership of certain beneficial owners and management is included under the caption "Securities Ownership of Certain Beneficial Owners and Management" in the Proxy Statement and is incorporated herein by reference.

The Company maintains the SMTC Corporation 2010 Incentive Plan (the "2010 Plan"), which was adopted by the Board of Directors and the stockholders of the Company in July of 2010. The Company also maintains the the SMTC Corporation/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan (the "2000 Plan"), which was adopted by the Board of Directors and the stockholders of the Company in July of 2000. The Board of Directors and the stockholders of the Company approved an amendment to the 2000 Plan in April 2004 and May 2004, respectively and a second amendment to the 2000 Plan in March 2007 and May 2007, respectively (the "Amended 2000 Plan").

The following table gives information about awards under the 2010 Plan and Amended 2000 Plan as of January 2, 2011:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by shareholders:	662,752	\$ 2.00	350,000(1)(2)
Equity compensation plans not approved by shareholders:		\$	
<b>Total</b>	<b>662,752</b>	<b>\$ 2.00</b>	<b>350,000</b>

**Notes:**



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- (1) Pursuant to the terms of the 2010 Plan, the maximum number of shares of Stock that may be delivered upon satisfaction of Awards under the Plan shall be 350,000 shares of Stock; plus an annual increase to be added

on the date of each annual meeting of the stockholders of the Company, beginning with the Effective Date and ending with the 2019 annual meeting of stockholders, equal to the least of (i) 350,000 shares of Stock, (ii) one percent (1%) of the number of shares of Stock outstanding on a fully diluted basis as of the close of business on the immediately preceding day (calculated by adding to the number of shares of Stock outstanding, all outstanding securities convertible into Stock on such date on an as converted basis), and (iii) an amount determined by the Administrator on or prior to the date of such annual meeting of stockholders.

(2) No further stock awards are available for granting under the Amended 2010 Plan.

**Item 13: Certain Relationships and Related Transactions and Director Independence**

The information required by this Item is included under the captions Director Independence and Related Party Transactions in the Proxy Statement and is incorporated herein by reference.

**Item 14: Principal Accountant Fees and Services**

The information required by this Item concerning principal accountant fees and services is included in the Proxy Statement under the caption Independent Auditors and is incorporated herein by reference.

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**PART IV**
**Item 15: Exhibits, Financial Statement Schedules, and Reports on Form 10-K****(a) (1) Financial Statements.**

The financial statements filed as part of this Report are listed and indexed at page F-1.

**(a) (2) Financial Statement Schedule.**

The following financial statement schedule is filed as part of this report. All other financial statement schedules have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Company's consolidated financial statements set forth in this annual report on Form 10-K and the notes thereto.

**SMTC CORPORATION****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS****(Expressed in thousands of U.S. dollars)**

<b>Reserves for Accounts Receivable</b>	<b>January 2, 2011</b>	<b>Years ended January 3, 2010</b>	<b>January 4, 2009</b>
Balance, beginning of year	(558)	(505)	(713)
Recovery (charge) to expense	89	(53)	177
Written off	157		31
Balance, end of year	(312)	(558)	(505)

**(a) (3) Exhibits.**

Listed below are all exhibits filed as part of this Report. Certain exhibits are incorporated herein by reference to (i) the Company's Registration Statement on Form S-1 originally filed on March 24, 2000 (File No. 333-33208), and (ii) documents previously filed by the Company with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended.

<b>Exhibit #</b>	<b>Description</b>
2.1.1	Reorganization and Merger Agreement dated as of July 26, 1999. (4)
2.1.2	Amendment to Reorganization and Merger Agreement, dated as of July 27, 2000. (9)
2.2	Stock Purchase Agreement dated as of May 23, 2000 (Pensar Corporation). (3)
2.3	Stock Purchase Agreement dated as of November 22, 2000 (Qualtron Teoranta and Qualtron, Inc.). (8)
3.1.1	Amended and Restated Certificate of Incorporation (as amended by Certificate of Amendment on May 21, 2004 and Certificate of Correction on June 18, 2004). (12)
3.1.2	Amendment to Amended and Restated Certificate of Incorporation dated September 30, 2004. (25)
3.1.3	Third Amended and Restated Certificate of Incorporation dated August 29, 2008 (29).
3.1.4	Fourth Amended and Restated Certificate of Incorporation dated July 10, 2009 (31).

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<b>Exhibit #</b>	<b>Description</b>
3.2	Amended and Restated By-Laws. (28)
3.3	Certificate of Designation. (7)
4.1.1	Stockholders Agreement dated as of July 27, 2000. (6)
4.1.2	Amended and Restated Stockholders Agreement dated as of November 22, 2000. (9)
4.2	Form of certificate representing shares of common stock. (3)
4.3	Exchangeable Share Provisions attaching to the exchangeable shares of SMTC Manufacturing Corporation of Canada. (7)
4.4	Exchangeable Share Support Agreement dated as of July 27, 2000 among SMTC, SMTC Manufacturing Corporation of Canada and SMTC Nova Scotia Company. (7)
4.5	Voting & Exchange Trust Agreement dated as of July 27, 2000 among SMTC, SMTC Manufacturing Corporation of Canada, CIBC Mellon Trust Company and SMTC Nova Scotia Company. (7)
10.1.1	Canadian Loan Agreement dated as of June 1, 2004 by and between Congress Financial Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (12)
10.1.2	First Amending Agreement dated as of March 10, 2005 by and between Congress Financial Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (superseded in its entirety by Exhibit 10.1.3) (17)
10.1.3	First Amending Agreement dated as of March 31, 2005 by and between Congress Financial Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (18)
10.2.1	US Loan Agreement dated as of June 1, 2004 by and among Congress Financial Corporation (Central), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (12)
10.2.2	First Amending Agreement dated as of March 10, 2005 by and among Congress Financial Corporation (Central), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (superseded in its entirety by Exhibit 10.4.3) (17)
10.2.3	First Amending Agreement dated as of March 31, 2005 by and among Congress Financial Corporation (Central), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (18)
10.2.4	Second Amending Agreement dated as of August 17, 2005 by and among Congress Financial Corporation (Central), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (20)
10.2.5	Second Amending Agreement dated as of August 17, 2005 by and between Congress Financial Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (20)
10.2.6	Third Amending Agreement dated as of June 12, 2006 by and among Wachovia Capital Finance Corporation (as successor to Congress Financial Corporation (Central)), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (22)
10.2.7	Third Amending Agreement dated as of June 12, 2006 by and between Wachovia Capital Finance Corporation (Canada) (as successor to Congress Financial Corporation (Canada)) and SMTC Manufacturing Corporation of Canada. (22)

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Exhibit #	Description
10.2.8	Letter Agreement effective as of August 2, 2006 by and among Wachovia Capital Finance Corporation (Central) (as successor to Congress Financial Corporation (Central)), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (23)
10.2.9	Letter Agreement effective as of August 2, 2006 by and between Wachovia Capital Finance Corporation (Canada) (as successor to Congress Financial Corporation (Canada)) and SMTC Manufacturing Corporation of Canada. (23)
10.2.10	Fourth Amending Agreement dated as of September 20, 2006 by and among Wachovia Capital Finance Corporation (Central) (as successor to Congress Financial Corporation (Central)), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (24)
10.2.11	Fourth Amending Agreement dated as of September 20, 2006 by and between Wachovia Capital Finance Corporation (Canada) (as successor to Congress Financial Corporation (Canada)) and SMTC Manufacturing Corporation of Canada. (24)
10.3	Form of Subscription Agreement for Special Warrants (Non-U.S. Purchaser). (11)
10.4	Form of Subscription Agreement for Special Warrants (U.S. Purchaser). (11)
10.5	Special Warrant Indenture and Escrow Agreement dated as of March 3, 2004 between SMTC Manufacturing Corporation of Canada and CIBC Mellon Trust Company. (11)
10.6	Share Purchase Warrant Indenture dated as of March 3, 2004 between SMTC Manufacturing Corporation of Canada and CIBC Mellon Trust Company. (11)
10.8	Real Property Lease dated as of September 15, 1998 between Warden-McPherson Developments Ltd. And The Surface Mount Technology Centre Inc. (5)
10.9	Lease Agreement dated as of August 11, 2000 between SMTC Manufacturing Corporation of Massachusetts and Lincoln-Franklin LLC. (7)
10.10	First Amendment to Lease and Extension Agreement effective as of October 1, 2004 between Teachers Insurance and Annuity Association of America and SMTC Manufacturing Corporation of Massachusetts. (19)
10.11	Employment Agreement dated as of February 7, 2005 between John Caldwell and SMTC Manufacturing Corporation of Canada. (25)*
10.12	Warrant Agreement dated as of June 1, 2004 between the Company and Mellon Investor Services LLC. (12)
10.13	Amended and Restated SMTC (HTM) 1998 Equity Incentive Plan. (1)
10.14	Amended SMTC Corporation/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan. (12)
10.15	Guarantee by SMTC Manufacturing Corporation of California dated June 1, 2004. (12)
10.16	Guarantee by SMTC Manufacturing Corporation of Massachusetts dated June 1, 2004. (12)
10.17	Guarantee by SMTC Mex Holdings, Inc. dated June 1, 2004. (12)
10.18	Guarantee by SMTC Manufacturing Corporation of Wisconsin dated June 1, 2004. (12)
10.19	Guarantee by SMTC Corporation, HTM Holdings, Inc., SMTC Manufacturing Corporation of Texas and SMTC Manufacturing Corporation of North Carolina dated June 1, 2004. (12)

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Exhibit #	Description
10.20	Guarantee by SMTC Corporation, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts, HTM Holdings, Inc., SMTC Manufacturing Corporation of Texas, SMTC Manufacturing Corporation of North Carolina, SMTC Manufacturing Corporation of Wisconsin, SMTC Mex Holdings, Inc., SMTC de Chihuahua, S.A. de C.V. and Radio Componentes de Mexico, S.A. de C.V. dated June 1, 2004. (12)
10.21	General Security Agreement by SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts, SMTC Manufacturing Corporation of Wisconsin and SMTC Mex Holdings, Inc. dated June 1, 2004. (12)
10.22	General Security Agreement by SMTC Corporation, HTM Holdings, Inc., SMTC Manufacturing Corporation of Texas and SMTC Manufacturing Corporation of North Carolina dated June 1, 2004. (12)
10.23	General Security Agreement by SMTC Manufacturing Corporation of Canada dated June 1, 2004. (12)
10.24	Guarantee by 940862 Ontario Inc. and SMTC Nova Scotia Company dated June 1, 2004. (12)
10.25	General Security Agreement by 940862 Ontario Inc. and SMTC Nova Scotia Company dated June 1, 2004. (12)
10.26	Employment Letter dated as of June 24, 2004 between Jane Todd and SMTC Corporation. (13)*
10.27	Exchange Agent Agreement dated as of October 1, 2004 by and between SMTC Corporation and Mellon Investor Services LLC. (14)
10.28	Letter of Understanding dated as of November 16, 2004 by and between Congress Financial Corporation (Canada) and SMTC Corporation. (14)
10.29	Waiver and Consent dated December 13, 2004 by and among Congress Financial Corporation (Canada), Congress Financial Corporation (Central), SMTC Corporation, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Canada, SMTC Manufacturing Corporation of Massachusetts, SMTC Manufacturing Corporation of Wisconsin and SMTC Mex Holdings. (15)
10.30	Deferred Share Units Agreement dated as of February 7, 2005 between John Caldwell and SMTC Manufacturing Corporation of Canada. (16)*
10.31	Bonus Plan dated as of February 7, 2005 provided by SMTC Manufacturing Corporation of Canada to John Caldwell. (16)*
10.32	Summary of Board Compensation. (25)
10.33	Option Grant Certificate issued by SMTC Corporation to John Caldwell, dated October 6, 2004. (25)*
10.34	Employment Summary Sheet dated as of April 12, 2005 for Patrick Dunne. (25)*
10.35	Employment Summary Sheet dated as of April 12, 2005 for Steven G. Hoffrogge. (25)*
10.36	Employment Summary Sheet dated as of December 14, 2005 for Don Simpson. (21) *
10.37	Employment Agreement dated as of May 16, 2007 between John Caldwell and SMTC Manufacturing Corporation of Canada. (26)*
10.38	Deferred Share Unit Agreement dated as of May 16, 2007 between John Caldwell and SMTC Manufacturing Corporation of Canada. (26)*

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<b>Exhibit #</b>	<b>Description</b>
10.39	Amended and Restated U.S. Loan Agreement dated August 3, 2007 by and between Wachovia Capital Finance Corporation (as successor to Congress Financial Corporation (Canada)), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (26)
10.40	Amended and Restated Canadian Loan Agreement dated August 3, 2007 by and between Wachovia Capital Finance Corporation (as successor to Congress Financial Corporation (Canada)) and SMTC Manufacturing Corporation of Canada. (26)
10.41	Amended and Restated Guarantee by SMTC Manufacturing Corporation of Canada dated August 10, 2007. (27)
10.42	Amended and Restated Guarantee by SMTC Manufacturing Corporation of California dated August 10, 2007. (26)
10.43	Amended and Restated Guarantee by SMTC Manufacturing Corporation of Massachusetts dated August 10, 2007. (26)
10.44	Amended and Restated Guarantee by SMTC Mex Holdings, Inc. dated August 10, 2007. (26)
10.45	Amended and Restated General Security Agreement by SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. dated August 3, 2007. (26)
10.46	Amended and Restated Guarantee by SMTC Corporation, HTM Holdings, Inc. and SMTC Holdings, LLC dated August 10, 2007. (26)
10.47	Amended and Restated General Security Agreement by SMTC Corporation, HTM Holdings, Inc. and SMTC Group Holdings, LLC dated August 10, 2007. (26)
10.48	Amended and Restated General Security Agreement by SMTC Manufacturing Corporation of Canada dated August 10, 2007. (26)
10.49	Amended and Restated General Security Agreement by SMTC Nova Scotia Company dated August 10, 2007. (26)
10.50	Amended and Restated Guarantee by SMTC Nova Scotia Company dated August 10, 2007. (26)
10.51	Second Amended and Restated U.S. Loan Agreement, dated August 7, 2008, by and between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts, and SMTC Mex Holdings, Inc. (28)
10.52	Second Amended and Restated Canadian Loan Agreement, dated August 7, 2008, by and between Wachovia Capital Finance Corporation (Canada), and SMTC Manufacturing Corporation of Canada. (28)
10.53	Amending Agreement dated August 7, 2008. (28)
10.54	Letter of waiver and amendment dated April 2, 2009 between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (30)
10.55	Letter of waiver and amendment dated April 2, 2009 between Wachovia Capital Finance Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (30)

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Exhibit #	Description
10.56	Letter of amendment dated August 4, 2009 between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (32)
10.57	Letter of amendment dated August 4, 2009 between Wachovia Capital Finance Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (32)
10.58	Letter of amendment dated December 4, 2009 between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (32)
10.59	Letter of amendment dated December 4, 2009 between Wachovia Capital Finance Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (32)
10.60	Letter of amendment dated May 18, 2010 between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (33)
10.61	Letter of amendment dated May 18, 2010 between Wells Fargo Capital Finance Corporation Canada (Formerly known as Wachovia Capital Finance Corporation (Canada)) and SMTC Manufacturing Corporation of Canada. (33)
10.62	SMTC Corporation 2010 Incentive Plan (34)
10.63	SMTX Tax Benefits Preservation Plan (34)
10.64	Employment Agreement Amendment dated as at November 10, 2010 between John Caldwell and SMTC Manufacturing Corporation of Canada. (35)*
21.1	Subsidiaries of the Registrant.
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of John Caldwell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 11, 2011.
31.2	Certification of Jane Todd pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 11, 2011.
32.1	Certification of John Caldwell, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 11, 2011.
32.2	Certification of Jane Todd, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 11, 2011.

- (1) Filed as an Exhibit to the Company's Registration Statement on Form S-1 filed on March 24, 2000 (File No. 333-33208) and incorporated by reference herein.
- (3) Filed as an Exhibit to Amendment No. 2 to the Company's Registration Statement on Form S-1 filed on June 19, 2000 (File No. 333-33208) and incorporated by reference herein.
- (4) Filed as an Exhibit to Amendment No. 3 to the Company's Registration Statement on Form S-1 filed on July 10, 2000 (File No. 333-33208) and incorporated by reference herein.
- (5) Filed as an Exhibit to Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on July 18, 2000 (File No. 333-33208) and incorporated by reference herein.
- (6) Filed as an Exhibit to the Company's Registration Statement on Form S-8 filed on August 22, 2000 (File No. 333-44250) and incorporated by reference herein.
- (7) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2000 filed on November 15, 2000 (File No. 0-31051) and incorporated by reference herein.
- (8) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on December 7, 2000 (File No. 0-31051) and incorporated by reference herein.
- (9) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 filed on April 2, 2001 (File No. 0-31051) and incorporated by reference herein.



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- (11) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 30, 2004 (File No. 0-31051) and incorporated by reference herein.
  - (12) Filed as an Exhibit to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on June 25, 2004 (File No. 333-115400) and incorporated by reference herein.
  - (13) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended July 4, 2004 filed on August 18, 2004 (File No. 0-31051) and incorporated by reference herein.
  - (14) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended October 3, 2004 filed on November 17, 2004 (File No. 0-31051) and incorporated by reference herein.
  - (15) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on December 16, 2004 (File No. 0-31051) and incorporated by reference herein.
  - (16) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on February 11, 2005 (File No. 0-31051) and incorporated by reference herein.
  - (17) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on March 16, 2005 (File No. 0-31051) and incorporated by reference herein.
  - (18) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on April 6, 2005 (File No. 0-31051) and incorporated by reference herein.
  - (19) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended April 3, 2005 filed on May 18, 2005 (File No. 0-31051) and incorporated by reference herein.
  - (20) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended July 3, 2005 filed on August 17, 2005 (File No. 0-31051) and incorporated by reference herein.
  - (21) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on April 13, 2006 (File No. 0-31051) and incorporated by reference herein.
  - (22) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on June 16, 2006 (File No. 0-31051) and incorporated by reference herein.
  - (23) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on August 8, 2006 (File No. 0-31051) and incorporated by reference herein.
  - (24) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on September 26, 2006 (File No. 0-31051) and incorporated by reference herein.
  - (25) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 filed on April 15, 2005 (File No. 0-31051) and incorporated by reference herein.
  - (26) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended April 1, 2007 filed on May 16, 2007 (File No. 0-31051) and incorporated by reference herein.
  - (27) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2007 filed on November 14, 2007 (File No. 0-31051) and incorporated by reference herein.
  - (28) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 29, 2008 filed on August 13, 2008 (File No. 0-31051) and incorporated by reference herein.
  - (29) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 28, 2008 filed on November 12, 2008 (File No. 0-31051) and incorporated by reference herein.
  - (30) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended January 4, 2009 filed on April 6, 2009 (File No. 0-31051) and incorporated by reference herein.
  - (31) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on July 10, 2009 (File No. 0-31051) and incorporated by reference herein.
  - (32) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended January 3, 2010 filed on March 19, 2010 (File No. 0-31051) and incorporated by reference herein.
  - (33) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended April 4, 2010 filed on May 19, 2010 (File No. 0-31051) and incorporated by reference herein.
  - (34) Filed as an Appendix to the Company's Definitive Notice and Proxy Statement on Form DEF14A filed on June 18, 2010 (File No. 0-31051) and incorporated by reference herein.
  - (35) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended October 3, 2010 filed on November 12, 2010 (File No. 0-31051) and incorporated by reference herein.
- \* Management contract or compensatory plan

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SMTC CORPORATION

By: /s/ JOHN CALDWELL  
**John Caldwell**

**President and Chief Executive Officer**

Date: March 11, 2011

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

Signature	Title	Date
/s/ JOHN CALDWELL <b>John Caldwell</b>	President, Chief Executive Officer and Director (Principal Executive Officer)	March 11, 2011
/s/ JANE TODD <b>Jane Todd</b>	Chief Financial Officer (Principal Financial and Accounting Officer)	March 11, 2011
/s/ WAYNE McLEOD <b>Wayne McLeod</b>	Director and Chair of the Board	March 11, 2011
<b>Claude Germain</b>	Director	
/s/ JOHN MARINUCCI <b>John Marinucci</b>	Director	March 11, 2011
/s/ DAVID SANDBERG <b>David Sandberg</b>	Director	March 11, 2011
/s/ ANTON SIMUNOVIC <b>Anton Simunovic</b>	Director	March 11, 2011
/s/ ALEX WALKER <b>Alex Walker</b>	Director	March 11, 2011

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Document</b>
21.1	Subsidiaries of the Registrant.
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of John Caldwell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 11, 2011.
31.2	Certification of Jane Todd pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 11, 2011.
32.1	Certification of John Caldwell, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 11, 2011.
32.2	Certification of Jane Todd, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 11, 2011.

**SMTC CORPORATION**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of January 2, 2011 and January 3, 2010</u>	F-3
<u>Consolidated Statements of Operations and Comprehensive Income for the periods from January 4, 2010 to January 2, 2011, from January 5, 2009 to January 3, 2010 and from January 1, 2008 to January 4, 2009</u>	F-4
<u>Consolidated Statements of Changes in Shareholders' Equity for the periods from January 4, 2010 to January 2, 2011, from January 5, 2009 to January 3, 2010 and from January 1, 2008 to January 4, 2009</u>	F-5
<u>Consolidated Statements of Cash Flows for the periods from January 4, 2010 to January 2, 2011, from January 5, 2009 to January 3, 2010 and from January 1, 2008 to January 4, 2009</u>	F-6
<u>Notes to the Consolidated Financial Statements</u>	F-7

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**REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors

SMTC Corporation

We have audited the accompanying consolidated balance sheets of SMTC Corporation and subsidiaries (the Company) as of January 2, 2011 and January 3, 2010, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the periods from January 4, 2010 to January 2, 2011, January 5, 2009 to January 3, 2010 and January 1, 2008 to January 4, 2009. In connection with our audits, we also have audited the related financial statement schedule appearing in the annual report on Form 10-K for the fiscal year ended January 2, 2011. These consolidated financial statements and the related financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the related financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SMTC Corporation and subsidiaries as of January 2, 2011 and January 3, 2010 and the results of their operations and their cash flows for the periods from January 4, 2010 to January 2, 2011, January 5, 2009 to January 3, 2010 and January 1, 2008 to January 4, 2009 in conformity with United States generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 11, 2011

## SMTC CORPORATION

## Consolidated Balance Sheets

(Expressed in thousands of U.S. dollars)

	January 2, 2011	January 3, 2010
<b>Assets</b>		
Current assets:		
Cash	\$ 933	\$ 1,589
Accounts receivable net (note 3)	35,291	37,688
Inventories (note 3)	42,413	37,026
Prepaid expenses	2,096	2,122
	80,733	78,425
Property, plant and equipment net (note 3)	13,891	14,266
Deferred financing costs net (note 3)	480	627
Deferred income taxes (note 10)	3,323	290
	\$ 98,427	\$ 93,608
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 42,921	\$ 41,589
Accrued liabilities (note 3)	9,299	6,218
Income taxes payable	700	540
Current portion of long-term debt (note 4)	3,705	5,013
Current portion of capital lease obligations (note 4)	928	789
	57,553	54,149
Long-term debt (note 4)	7,086	20,666
Capital lease obligations (note 4)	959	543
Commitments and contingencies (note 14)		
Shareholders' equity:		
Capital stock (note 5)	5,903	7,093
Additional paid-in capital	256,723	253,304
Deficit	(229,797)	(242,147)
	32,829	18,250
	\$ 98,427	\$ 93,608

See accompanying notes to consolidated financial statements.

## SMTC CORPORATION

## Consolidated Statements of Operations and Comprehensive Income

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

	Period from January 4, 2010 to January 2, 2011	Period from January 5, 2009 to January 3, 2010	Period from January 1, 2008 to January 4, 2009
Revenue	\$ 262,580	\$ 179,509	\$ 206,879
Cost of sales	233,061	161,951	188,419
Gross profit	29,519	17,558	18,460
Selling, general and administrative expenses	17,961	12,767	12,892
Restructuring charges (note 7)		783	493
Loss on extinguishment of debt (note 8)			613
Other recoveries (note 9)			(185)
Operating earnings	11,558	4,008	4,647
Interest expense (note 3)	1,697	1,960	2,914
Earnings from continuing operations before income taxes	9,861	2,048	1,733
Income tax (recovery) expense (note 10)			
Current	544	(498)	113
Deferred	(3,033)	189	4
	(2,489)	(309)	117
Net earnings from continuing operations	12,350	2,357	1,616
Net loss from discontinued operations (note 11)		(5,952)	(7,511)
Net earnings (loss), also being comprehensive income (loss)	\$ 12,350	\$ (3,595)	\$ (5,895)
Basic earnings (loss) per share (note 12)			
continuing operations	\$ 0.82	\$ 0.16	\$ 0.11
discontinued operations	\$	\$ (0.41)	\$ (0.51)
Basic earnings (loss) per share	\$ 0.82	\$ (0.25)	\$ (0.40)
Diluted earnings (loss) per share			
continuing operations	\$ 0.79	\$ 0.16	\$ 0.11
discontinued operations	\$	\$ (0.41)	\$ (0.51)
Diluted earnings (loss) per share	\$ 0.79	\$ (0.25)	\$ (0.40)
Weighted average number of shares outstanding			
Basic	15,072,425	14,646,333	14,646,333
Diluted	15,619,243	14,646,333	14,798,731

See accompanying notes to consolidated financial statements.

## SMTC CORPORATION

## Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of U.S. dollars)

	Capital stock	Warrants	Additional paid-in capital	Deficit	Total Shareholders equity
Balance, December 31, 2007	\$ 7,854	\$ 10,372	\$ 248,883	\$ (240,274)	\$ 26,835
Conversion of shares from exchangeable to common stock	(398)		398		
Stock-based compensation			374		374
Net loss for the period				(5,895)	(5,895)
Balance, January 4, 2009	\$ 7,456	\$ 10,372	\$ 249,655	\$ (246,169)	\$ 21,314
Cumulative effect of change in accounting principle January 5, 2009 reclassification of warrants to opening deficit (note 5)		(7,617)		7,617	
Adjusted balance, January 5, 2009	\$ 7,456	\$ 2,755	\$ 249,655	\$ (238,552)	\$ 21,314
Conversion of shares from exchangeable to common stock	(363)		363		
Expiry of warrants		(2,755)	2,755		
Stock-based compensation			531		531
Net loss for the period				(3,595)	(3,595)
Balance, January 3, 2010	\$ 7,093	\$	\$ 253,304	\$ (242,147)	\$ 18,250
Exercise of stock options	13		1,967		1,980
Conversion of shares from exchangeable to common stock	(1,203)		1,203		
Stock-based compensation			249		249
Net income for the period				12,350	12,350
Balance, January 2, 2011	\$ 5,903	\$	\$ 256,723	\$ (229,797)	\$ 32,829

See accompanying notes to consolidated financial statements.



## SMTC CORPORATION

## Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

	Period from January 4, 2010 to January 2, 2011	Period from January 5, 2009 to January 3, 2010	Period from January 1, 2008 to January 4, 2009
Cash provided by (used in):			
Operations:			
Net income (loss)	\$ 12,350	\$ (3,595)	\$ (5,895)
Items not involving cash:			
Depreciation	2,549	2,877	3,302
Impairment of property, plant and equipment			4,921
Gain on disposition of property, plant and equipment		(224)	
Unrealized gain on derivative instrument			(185)
Deferred income taxes	(3,033)	189	4
Non-cash interest	247	310	352
Stock-based compensation	962	582	133
Loss on extinguishment of debt			613
Other			100
Change in non-cash operating working capital:			
Accounts receivable	2,397	(9,040)	10,195
Inventories	(5,387)	(203)	(5,944)
Prepaid expenses	26	(919)	(263)
Income taxes payable	160	36	(100)
Accounts payable	1,332	4,380	37
Accrued liabilities	2,404	(706)	(162)
	14,007	(6,313)	7,108
Financing:			
(Decrease) increase in revolving debt	(14,538)	9,736	13,800
Repayment of long-term debt	(350)	(2,738)	(16,103)
Principal payment of capital lease obligations	(881)	(1,356)	(908)
Proceeds from issuance of common stock	1,980		
Proceeds from sale and leaseback	435		
Debt issuance and deferred financing costs	(100)	(151)	(395)
	(13,454)	5,491	(3,606)
Investment:			
Purchase of property, plant and equipment	(1,209)	(1,042)	(1,329)
Proceeds from sale of property, plant and equipment		830	268
	(1,209)	(212)	(1,061)
Increase (decrease) in cash	(656)	(1,034)	2,441
Cash, beginning of year	1,589	2,623	182
Cash, end of the year	\$ 933	\$ 1,589	\$ 2,623
<b>Supplemental Information:</b>			
Cash interest paid	\$ 1,575	\$ 1,874	\$ 2,635

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Cash taxes (received) paid net	\$ 447	\$ 82	\$ 173
Property, plant and equipment acquired through capital lease	\$ 1,001	\$	\$ 1,516

See accompanying notes to consolidated financial statements.

F-6

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SMTC CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**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 ten 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. The Company operates under a manufacturing agreement with Alco, having established a new dedicated manufacturing facility in Chang An, China. Capitalizing on the strengths of both companies, this site provides the Company's current and prospective customers with highly efficient, low cost Asia-based manufacturing solutions. The facility provides a full suite of integrated manufacturing services including assembly, testing, box build, final product integration, and expanded supply chain capabilities through an international sourcing and procurement office.

Effective June 30, 2009, the Company closed its Boston, Massachusetts facility. Results of this operation are reported as discontinued operations in comparative reporting periods.

The Company's financial reporting year is a 52 or 53 week fiscal period, ending on the Sunday nearest December 31. Accordingly, the consolidated statements of operations and comprehensive income, the consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows are reported for the periods from January 4, 2010 to January 2, 2011 (period ending January 2, 2011), January 5, 2009 to January 3, 2010 (period ending January 3, 2010) and January 1, 2008 to January 4, 2009 (period ended January 4, 2009). Comparative information for periods prior to January 1, 2008 are reported on a calendar year basis and have not been restated for this change.

**2. Significant accounting policies**

*(i) Basis of presentation*

The Company's accounting principles are in accordance with accounting principles generally accepted in the United States (US GAAP). These consolidated financial statements are denominated in United States (US) dollars. Some comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.

*(ii) Principles of consolidation*

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Variable Interest Entities (VIEs) (which include, but are not limited to, special purpose entities, trusts, partnerships, certain joint ventures and other legal structures), as defined in subtopic 10 of ASC 810, Consolidation (ASC 810), are entities in which equity investors generally do not have the characteristics of a controlling financial interest or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the Company when it is determined that it will, as the primary beneficiary, absorb the majority of the VIEs expected losses and/or expected residual returns. The Company has no interests in VIEs in any of the years presented. Inter-company accounts and transactions are eliminated upon consolidation.

*(iii) Use of estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and



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SMTC CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

2. Significant accounting policies (Continued)

liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates include, but are not limited to, allowance for doubtful accounts, inventory valuation, deferred tax asset valuation allowance, restructuring and other accruals, determination of useful lives of property, plant and equipment, impairment of long-lived assets and legal contingencies. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Actual results may differ from those estimates.

(iv) Revenue recognition

Revenue is derived primarily from the sale of electronics equipment that has been built to customer specifications. Revenue from the sale of products is recognized when goods are shipped to customers since title has passed to the customer, persuasive evidence of an arrangement exists, performance has occurred, all customer-specified test criteria have been met and collectability is reasonably assured. The Company has no significant obligations after product shipment other than its standard manufacturing warranty. The Company records a provision for future warranty costs based on management's best estimate of probable claims under its product warranties. The provision is based on the terms of the warranty which vary by customer and product, and historical experience. The Company regularly evaluates this provision.

In addition, the Company has contractual arrangements with the majority of its customers that provide for customers purchasing unused inventory that the Company has purchased to fulfill that customer's forecasted manufacturing demand. Revenue from the sale of excess inventory to the customer is recognized when title passes to the customer. The Company also derives revenue from engineering and design services. Service revenue is recognized as services are performed.

For arrangements where the customer agrees to purchase products but the Company retains possession until the customer requests shipment (bill and hold arrangements), revenue is not recognized until delivery to the customer has occurred and all other revenue recognition criteria have been met.

Sales taxes collected from customers and remitted to governmental authorities are presented on a net basis.

(v) Allowance for doubtful accounts

The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the accounts receivable balance. Management determines the allowance based on factors including the length of time the receivables have been outstanding, customer and industry concentrations, the current business environment and historical experience.

(vi) Inventories

Inventories are valued, on a first-in, first-out basis, at the lower of cost and replacement cost for raw materials and at the lower of cost and net realizable value for work in progress and finished goods. Inventories include an application of relevant overhead. Fixed production overheads are allocated to inventory based on normal capacity of production facilities. The Company writes down estimated

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**2. Significant accounting policies (Continued)**

obsolete or excess inventory for the difference between the cost of inventory and estimated net realizable value based upon customer forecasts, shrinkage, the aging and future demand for the inventory, past experience with specific customers, and the ability to sell inventory back to customers or suppliers. If these assumptions change, additional write-downs may be required. The Company recognizes as current period charges abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) costs.

*(vii) Property, Plant and equipment*

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is generally calculated on a straight-line basis over the expected useful lives as follows:

Buildings	5 - 20 years
Machinery and equipment fabrication business	15 years
Machinery and equipment all other	7 - 10 years
Office furniture and equipment	7 years
Computer hardware and software	3 years
Leasehold improvements	Over shorter of the lease term and estimated useful life

Land is stated at cost.

*(viii) Deferred financing costs*

Long-term debt financing related costs are deferred and amortized over the term of the related debt and the related amortization is included within interest expense. Deferred financing costs relating to term debt are amortized using the effective interest method while deferred financing costs relating to revolving credit facilities are amortized on a straight-line basis over the term of the facility.

*(ix) Income taxes*

The Company accounts for income taxes using the asset and liability method. This approach recognizes the amount of taxes payable or refundable for the current year as well as deferred tax assets and liabilities for the future tax consequence of events recognized in the financial statements and tax returns. The effect of changes in tax rates is recognized in the year in which the rate change occurs.

In establishing the appropriate valuation allowances for deferred tax assets, the Company assesses its ability to realize its deferred tax assets based on available evidence, both positive and negative, to determine whether it is more likely than not that the deferred tax assets or a portion thereof will be realized.

The Company follows the guidance under ASC 740 with respect to accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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This guidance requires the Company to determine if it is more likely than not that the tax position will be sustained based on the technical merits of the position and for those tax positions that meet the

F-9

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SMTC CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

2. Significant accounting policies (Continued)

more likely than not threshold, the Company would recognize the largest amount of tax benefit that is greater than fifty percent likely of being realized when ultimately settled with the tax authorities.

(x) *Earnings (loss) per common share*

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the weighted average number of common shares plus the dilutive potential common shares outstanding during the year. Anti-dilutive potential common shares are excluded. The treasury stock method is used to compute the potential dilutive effect of stock options and warrants issued.

(xi) *Translation of foreign currencies*

The functional currency of all foreign subsidiaries is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the year-end rates of exchange. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates and revenue and expenses are translated at average exchange rates prevailing during the month of the transaction. Exchange gains or losses are reflected in the consolidated statements of operations and comprehensive income.

(xii) *Financial instruments*

The Company accounts for derivative financial instruments in accordance with applicable guidance. In accordance with these standards, all derivative instruments are recorded on the balance sheet at their respective fair values. Generally, if a derivative instrument is designated as a cash flow hedge, the change in the fair value of the derivative is recorded in other comprehensive income to the extent the derivative is effective, and recognized in the statement of operations when the hedged item affects earnings. If a derivative instrument is designated as a fair value hedge, the change in fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in the statement of operations and comprehensive income in the current period. Changes in fair value of derivatives that are not designated as hedges are recorded in the statement of operations and comprehensive income.

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short-term nature of these instruments. The fair values of long-term debt and capital lease obligations, including the current portion, bear rates currently available to the Company for debt with similar terms and maturities and, therefore, approximate carrying values.

(xiii) *Shipping and handling costs*

Shipping and handling costs are included as a component of cost of sales.

(xiv) *Stock-based compensation*

The Company applies ASC 718, Compensation Stock Compensation, (ASC 718) using a fair value based method for all outstanding awards. The fair value at grant date of stock options is estimated using the Black-Scholes option-pricing model. Compensation expense is recognized over the stock option vesting period on a straight line basis. ASC 718 also requires forfeitures to be estimated at the time of grant and revised, if



necessary, in subsequent periods if actual forfeitures differ from those estimates.

F-10

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SMTC CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

2. Significant accounting policies (Continued)

*(xv) Fair Value Measurements*

In accordance with ASC 820, Fair Value Measurements and Disclosures, (ASC 820), the Company determines fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 establishes a hierarchical structure to prioritize the inputs to valuation techniques used to measure fair value into three tiers:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 No observable pricing inputs in the market (e.g., discounted cash flows)

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

*(xvi) Impairment of long-lived assets*

The Company tests long-lived assets or asset groups held and used for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; the accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and a current expectation that the asset will more likely than not be sold or disposed significantly before the end of its estimated useful life. Recoverability is assessed based on the carrying amount of the asset and the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset. If the carrying value of the asset is not recoverable, the impairment loss is measured as the amount by which the carrying amount exceeds fair value. For assets classified as held for sale, an impairment loss is recognized when the carrying amount exceeds the fair value less costs to sell.

*(xvii) Restructuring costs*

The Company accounts for restructuring costs related to an exit or disposal activity when a liability is incurred and can be measured at fair value.

*(xviii) Asset retirement obligations*

The Company recognizes the fair value of liabilities for asset retirement obligations when the Company incurs the obligation. There was no asset retirement obligation recorded for the periods ended January 2, 2011 or January 3, 2010.

*(xix) Guarantees*

The Company accounts for guarantees, including the recognition of a liability at the inception of certain guarantees, based on the fair value of the guarantee. The Company did not enter into any guarantees in the periods ended January 2, 2011 or January 3, 2010.

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**2. Significant accounting policies (Continued)***(xx) Comprehensive income (loss):*

Comprehensive income includes all changes in equity (net assets) during a period from non-owner sources. During each of the periods ended January 2, 2011, January 3, 2010 and January 4, 2009, comprehensive income (loss) was equal to net earnings (loss).

*(xxi) Recent accounting pronouncements*

- a) In September 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). It updates the existing multiple-element revenue arrangements guidance currently included under ASC 605, Revenue Recognition. The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 is effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company does not expect that this ASU will have a significant impact on its consolidated financial statements.

*(xxii) Changes in Accounting Estimate*

In the course of acquiring machinery and equipment used in the surface mount process at the beginning of the first quarter of fiscal 2010, the Company conducted an asset by asset review of the estimated useful lives of machinery and equipment used in that process. Based on those findings, the estimated useful lives of certain items of that class of assets were increased from 7 years to approximately 10 years. This change in estimate was applied to all existing and new assets of this class on a prospective basis from January 3, 2010. This change in estimate for the period ended January 2, 2011 resulted in an increase to net income of \$284 and a \$0.02 increase to earnings per share.

**3. Consolidated financial statement details**

The following consolidated financial statement details are presented as of the period end dates indicated for the consolidated balance sheets and for each of the periods indicated for the consolidated statements of operations and comprehensive income.

*Consolidated balance sheets**Accounts receivable net:*

	January 2, 2011	January 3, 2010
Accounts receivable	\$ 35,066	\$ 37,709
Taxes receivable	537	537
Allowance for doubtful accounts	(312)	(558)

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Accounts receivable net

\$ 35,291

\$ 37,688

F-12

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

## 3. Consolidated financial statement details (Continued)

*Inventories:*

	January 2, 2011	January 3, 2010
Raw materials	\$ 30,218	\$ 22,618
Work in process	8,384	10,564
Finished goods	2,461	2,789
Parts	1,350	1,055
<b>Inventories</b>	<b>\$ 42,413</b>	<b>\$ 37,026</b>

*Property, plant and equipment net:*

	January 2, 2011	January 3, 2010
<b>Cost:</b>		
Land	\$ 1,648	\$ 1,648
Buildings	9,878	9,852
Machinery and equipment (a)	32,068	30,065
Office furniture and equipment	2,396	2,393
Computer hardware and software (b)	9,113	8,959
Leasehold improvements	3,123	3,099
	58,226	56,016
<b>Less accumulated depreciation:</b>		
Land		
Buildings	(5,283)	(4,776)
Machinery and equipment (a)	(24,957)	(23,186)
Office furniture and equipment	(2,326)	(2,305)
Computer hardware and software (b)	(8,825)	(8,592)
Leasehold improvements	(2,944)	(2,891)
	(44,335)	(41,750)
<b>Property, plant and equipment net</b>	<b>\$ 13,891</b>	<b>\$ 14,266</b>

- (a) Included within machinery and equipment were assets under capital leases with costs of \$8,577 and \$7,141, and associated accumulated depreciation of \$4,958 and \$3,998 as of January 2, 2011 and January 3, 2010, respectively. The related depreciation expense for the periods ended January 2, 2011, January 3, 2010 and January 4, 2009 were \$960, \$1,017 and \$956, respectively.

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- (b) Included within computer hardware and software were assets under capital leases with costs of \$268 at both January 2, 2011 and January 3, 2010, and associated accumulated depreciation of \$225 and \$137, as of January 2, 2011 and January 3, 2010, respectively. The related depreciation expense for the periods ended January 2, 2011, January 3, 2010 and January 4, 2009 was \$88, \$88 and \$49, respectively.

F-13

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

## 3. Consolidated financial statement details (Continued)

*Deferred financing costs net:*

	January 2, 2011	January 3, 2010
Deferred financing costs	\$ 2,777	\$ 2,677
Accumulated amortization	(2,297)	(2,050)
	\$ 480	\$ 627

*Accrued liabilities:*

	January 2, 2011	January 3, 2010
Customer related	\$ 1,469	\$ 1,277
Payroll	6,424	2,079
Professional services	794	488
Restructuring and discontinued operations		884
Vendor related	35	498
Miscellaneous taxes	131	228
Other	446	764
Accrued liabilities	\$ 9,299	\$ 6,218

*Consolidated statements of operations and comprehensive income**Interest expense:*

	Period ended January 2, 2011	Period ended January 3, 2010	Period ended January 4, 2009
Long-term debt	\$ 1,660	\$ 1,765	\$ 2,742
Obligations under capital leases	55	207	201
Other	(18)	(12)	(29)
Interest expense	\$ 1,697	\$ 1,960	\$ 2,914



## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**4. Long-term debt and capital leases***Long-term debt*

The following table shows the components of long-term debt as at:

	January 2, 2011	January 3, 2010
Revolving	\$ 1,528	\$ 16,066
Term	9,263	9,613
	10,791	25,679
Less: Current portion of long-term debt	(3,705)	(5,013)
Long-term debt	\$ 7,086	\$ 20,666

The Company has a loan agreement with Wells Fargo Capital Finance Corporation Canada ( Wells Fargo ) (formerly Wachovia Capital Finance Corporation (Canada)) and Export Development Canada ( EDC ), to be referred to collectively as the Wells Fargo EDC Facilities , dated August 2008.

On April 2, 2009, the Company and its lenders amended the lending agreements to revise the EBITDA and leverage covenants, eliminate the fixed charge coverage ratio for the five quarters beginning January 5, 2009 and increase the interest rate by 200 to 300 basis points. On August 4, 2009, a further amendment was obtained, effectively extending the terms of the April agreement to July 2010. On May 18, 2010, the Company and its lenders signed an amendment to extend the repayment schedule and the term of the debt agreement to August 2013, to reset the EBITDA and leverage covenants, to eliminate the fixed charge coverage ratio covenant, and to reduce interest rates. The revolving line of credit bears interest at prime to prime plus 1%, the term loan to EDC bears interest at LIBOR plus 2.5% to 3.5 %, and the term loan to Wells Fargo bore interest at LIBOR plus 3% to 4%, depending on the achievement of financial performance levels as specified in the debt agreement.

The Company incurred costs of \$100 related to the amendment of the Wells Fargo EDC Facilities in 2010, and \$151 in 2009. These costs were recorded as a non-current deferred charge and are being amortized as additional interest expense over the remaining term of the credit facility.

Under the May 2010 amendment, repayments of the term loan to EDC for fiscal 2010 were postponed. Payments are scheduled to recommence on April 1, 2011 with quarterly installments of \$926, and the remaining amounts outstanding due at maturity. The term loan to Wells Fargo was repayable in quarterly installments of \$75, with the remaining amount due at maturity, which was repaid on January 1, 2011.

The Wells Fargo EDC Facilities are jointly and severally guaranteed by the Company and secured by the assets and capital stock of each of the Company s subsidiaries and its future subsidiaries.

The Company elects to use a lock-box arrangement, whereby remittances from customers are swept daily to reduce the borrowings under the revolving credit facilities.

At January 2, 2011 and January 3, 2010, there were Canadian dollar denominated cash balances of \$78 and \$6,997 respectively, which were classified as offsets to debt balances as they were used to reduce the outstanding revolving credit facilities.

The Company is in compliance with the financial covenants included in the amended Wells Fargo EDC Facilities as at January 2, 2011. Management believes that the Company will be in compliance with these covenants for the foreseeable future. Accordingly, the outstanding balances under the lending agreements continue to be classified as long-term. Continued compliance with its covenants is dependent on the



## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**4. Long-term debt and capital leases (Continued)**

Company achieving certain forecasts. While management is confident in its plans, there is no assurance that the Company will achieve its forecasts. In the event of non-compliance, the Company's lenders have the right to demand repayment of the amounts outstanding under the lending agreements or pursue other remedies or, if the Company can reach an agreement with its lenders, to amend or waive the financial covenants.

*Obligations under capital leases*

Minimum lease payments for capital leases due within each of the next five years consist of the following

2011	\$ 1,013
2012	440
2013	353
2014	276
<b>Total minimum lease payments</b>	<b>2,082</b>
Amount representing interest of 7.6% to 11.3%	(195)
<b>Present value of lease payments</b>	<b>1,887</b>
Current portion of capital leases	928
<b>Long term capital lease obligations</b>	<b>\$ 959</b>

*Debt principal repayments*

At January 2, 2011, principal repayments due within each of the next five years on long-term debt are as follows:

2011	\$ 3,705
2012	3,705
2013	3,381
<b>Total</b>	<b>\$ 10,791</b>

**5. Capital stock***Common shares**Authorized share capital:*

The authorized share capital of the Company at January 2, 2011 and January 3, 2010 consisted of:

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- (i) 26,000,000 shares of common stock, par value \$0.01 per share: Holders are entitled to one vote per share and the right to share in dividends pro rata subject to any preferential dividend rights of any then outstanding preferred stock.
  
- (ii) 5,000,000 shares of special voting stock, par value \$0.01 per share: From time to time the Company may issue special voting stock in one or more series and will fix the terms of that series at the time it is created.

F-16

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

## 5. Capital stock (Continued)

*Issued and outstanding:*

The outstanding number of common shares included in shareholders' equity consisted of the following as at the following dates:

	January 2, 2011		January 3, 2010		January 4, 2009	
	Number of shares	\$	Number of shares	\$	Number of shares	\$
<b>Common Stock</b>						
<b>Exchangeable shares:</b>						
Balance at beginning of the period	711,048	\$ 6,728	749,448	\$ 7,091	791,533	\$ 7,489
Shares issued pursuant to:						
Conversion to common stock	(127,200)	(1,204)	(38,400)	(363)	(42,085)	(398)
Balance at end of the period	583,848	\$ 5,524	711,048	\$ 6,728	749,448	\$ 7,091
<b>Common shares</b>						
Balance at beginning of the period	13,935,284	\$ 365	13,896,884	\$ 365	13,854,799	\$ 365
Shares issued pursuant to:						
Exercise of stock options	1,267,248	13				
Conversion of exchangeable shares	127,200	1	38,400		42,085	
Balance at end of the period	15,329,732	\$ 379	13,935,284	\$ 365	13,896,884	\$ 365
<b>Special voting stock</b>						
Balance at beginning of the period	1	\$	1	\$	1	\$
Balance at end of the period	1	\$	1	\$	1	\$
<b>Total Common stock</b>		\$ 5,903		\$ 7,093		\$ 7,456
<b>Warrants</b>						
<b>Common share warrants</b>						
Balance at beginning of the period		\$	11,166,947	\$ 2,755	11,166,947	\$ 2,755
Expired			(11,166,947)	(2,755)		
Balance at end of the period		\$		\$	11,166,947	\$ 2,755
<b>Exchangeable share warrants</b>						
Balance at beginning of the period (a)		\$		\$	16,675,000	\$ 7,617
Balance at end of the period		\$		\$	16,675,000	\$ 7,617

<b>Total Warrants</b>	\$	\$	\$ 10,372
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(a) Restated as at January 5, 2009 as per ASC 815 (see Note 2)

F-17

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SMTC CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**5. Capital stock (Continued)**

*Exchangeable shares:*

During the periods ended January 2, 2011, January 3, 2010 and January 4, 2009, exchangeable shares of 127,200, 38,400 and 42,085 with a carrying value of \$1,204, \$363 and \$398, respectively, were exchanged for common stock, with a carrying value of \$1, nil and nil, respectively, with the difference recorded as additional paid-in capital.

*Common Share Warrants:*

On June 1, 2004, the Company's pre-existing lenders exchanged \$10,000 of outstanding debt and warrants for 2,233,389 shares of common stock and 11,166,947 warrants (the Conversion Warrants). Each warrant was exercisable for one-tenth of one share of common stock of the Company at an exercise price of \$6.90 per share of common stock. The Conversion Warrants expired on March 4, 2009. Upon expiry of the unexercised warrants, the amount attributed to the Conversion Warrants was recorded as additional paid-in capital.

*Exchangeable Share Warrants:*

On March 3, 2004, the Company completed a private placement, fully underwritten by a syndicate of Canadian investment dealers, of 33,350,000 Special Warrants (each Special Warrant and collectively, the Special Warrants) of SMTC Manufacturing Corporation of Canada (SMTC Canada), an indirect subsidiary of the Company. Each Special Warrant was issued at a price of CDN \$1.20 per Special Warrant, resulting in aggregate proceeds of CDN \$40,020.

Each Special Warrant was exercisable for one unit, consisting of one-fifth of an exchangeable share of SMTC Canada, and one-half of a warrant to purchase one-fifth of an exchangeable share of SMTC Canada. Each whole warrant (a Purchase Warrant) was exercisable for one-fifth of an exchangeable share of SMTC Canada at an exercise price of CDN \$9.25 per share. The Purchase Warrants expired on March 3, 2009.

Upon the adoption of guidance under ASC 815 on determining whether an instrument (or embedded feature) is indexed to an entity's own stock on January 5, 2009, the Purchase Warrants were retrospectively reclassified as liabilities, without restatement of prior periods, as disclosed in Note 2 of these financial statements. As the fair value of these instruments at that date was determined to be nil, the amount attributed to these warrants was recorded as a reduction of opening deficit on January 5, 2009.

**6. Stock based compensation**

*Stock options*

*1998 SMTC Plan:*

In July 1999, the Company replaced a previous option plan with an equivalent stock option plan (the 1998 SMTC Plan). As at January 2, 2011, all remaining outstanding options granted under the 1998 SMTC Plan have expired.

*2000 Equity Incentive Plan:*

In July 2000, the Company approved a new stock option plan, the SMTC/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan (the 2000 Equity Incentive Plan). The plan permitted





## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

## 6. Stock based compensation (Continued)

the issuance of up to 1,727,052 shares plus an additional number of shares determined by the Board of Directors but not to exceed 1% of the total number of shares outstanding per year. Options granted before the fourth quarter of 2007 generally vested over a four-year period and expired 10 years from their respective date of grant, while options granted thereafter vest over a three-year period and expire 5 years from their respective date of grant.

*2010 Incentive Plan:*

In July 2010, the Company approved a new stock option plan, the 2010 SMTC Incentive Plan (the 2010 Incentive Plan). The plan permitted the issuance of up to 350,000 shares plus an additional number of shares determined by the Board of Directors but not to exceed 1% of the total number of fully diluted shares outstanding per year. Options generally vest over a three-year period and expire 5 years from their respective date of grant.

The Company generally issues new shares when options are exercised. A summary of stock option activity for the periods ended January 4, 2009, January 3, 2010 and January 2, 2011 is as follows:

	Outstanding options	Weighted average exercise price	Aggregate intrinsic value	Weighted average remaining contractual term (years)
Outstanding balance at December 31, 2007	1,373,554	\$ 2.32		
Options granted under the 2000 Equity Incentive Plan	370,000	\$ 0.70		
Options forfeited	(661)	\$ 5.36		
Outstanding balance at January 4, 2009	1,742,893	\$ 1.97		
Options granted under the 2000 Equity Incentive Plan	335,000	\$ 1.00		
Options forfeited	(140,453)	\$ 3.10		
Outstanding balance at January 3, 2010	1,937,440	\$ 1.72		
Options forfeited or expired	(7,440)	\$ 5.93		
Options exercised	(1,267,248)	\$ 1.55	\$ 2,537	
Outstanding balance at January 2, 2011	662,752	\$ 2.00	\$ 1,246	3.1
Exercisable balance at January 2, 2011	327,756	\$ 3.13	\$ 476	2.6

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

## 6. Stock based compensation (Continued)

The estimated fair value of options is determined using the Black-Scholes option pricing model and is amortized over the vesting period on a straight line basis. The Company has elected to use the simplified method for estimating the expected life which is equal to the midpoint between the vesting period and the contractual term. The simplified method is used as the Company does not have sufficient historical exercise data and the terms of share option grants have changed. The computation of expected volatility is based on the Company's historical volatility from its traded common stock over the expected term of the option grants. The interest rate for periods within the expected term of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The following weighted average assumptions were used in calculating the estimated fair value of options used to compute stock-based compensation expenses:

	Period ended January 3, 2010	Period ended January 4, 2009
<b>Black-Scholes weighted-average assumptions</b>		
Expected dividend yield	0.0%	0.0%
Expected volatility	89.5%	95.4%
Risk-free interest rate	1.86%	2.51%
Expected option life in years	4.0	4.0
<b>Weighted-average stock option fair value per option granted</b>	\$ 0.64	\$ 0.51

There were no options granted during the period ended January 2, 2011.

During the periods ended January 2, 2011, January 3, 2010 and January 4, 2009, the Company recorded stock-based compensation expense and a corresponding increase in additional paid in capital of \$249, \$531 and \$374, respectively.

During the periods ended January 2, 2011, January 3, 2010 and January 4, 2009, 353,334, 410,005 and 333,333 options vested, respectively. As at January 2, 2011, compensation expense of \$187 related to non-vested stock options has not been recognized. This cost is expected to be recognized over a weighted average period of 1.6 years.

The following table presents information about stock options outstanding as of January 2, 2011:

Plan	Outstanding options	Weighted average exercise price	Exercisable options	Weighted average exercise price
<b>2000 Equity Incentive Plan</b>				
	162,874	\$ 0.70	51,210	\$ 0.70
	291,397	\$ 1.00	68,065	\$ 1.00
	20,000	\$ 1.17	20,000	\$ 1.17
	98,481	\$ 1.64	98,481	\$ 1.64
	40,000	\$ 3.11	40,000	\$ 3.11
	3,000	\$ 3.75	3,000	\$ 3.75
	30,000	\$ 4.00	30,000	\$ 4.00
	5,000	\$ 15.00	5,000	\$ 15.00
	5,000	\$ 25.00	5,000	\$ 25.00
	7,000	\$ 40.00	7,000	\$ 40.00

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662,752	\$	2.00	327,756	\$	3.13
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F-20

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**6. Stock based compensation (Continued)***Deferred Share Units*

Deferred Share Units were granted to directors and certain officers of the Company as remuneration in lieu of cash. During the periods ended January 2, 2011 and January 3, 2010, no units were granted. During the period ended January 4, 2009, 36,809 deferred share units were granted. During the period ended January 2, 2011, 202,425 deferred share units previously granted to the chief executive officer of the Company were cancelled. In the periods ended January 2, 2011, and January 3, 2010, cash payments of \$192 and \$27, respectively, were made for 86,553 and 46,688 deferred share units, respectively. No payments were made during the period ended January 4, 2009.

At January 2, 2011, January 3, 2010 and January 4, 2009, 46,688, 335,666 and 382,354 deferred share units were outstanding, respectively.

Deferred Share Unit compensation expense for the period ended January 2, 2011 and January 3, 2010 was \$712 and \$51, respectively. Deferred Share Unit compensation recovery for the period ended January 4, 2009 was \$241.

There is no unrecognized compensation related to deferred share units since these awards vest immediately when granted.

**7. Restructuring charges**

During 2002, the Company announced restructuring programs aimed at reducing its cost structure and plant capacity (the 2002 Plan ) and recorded restructuring and other charges consisting of: a write-down of goodwill and other intangible assets; the costs of exiting equipment and facility leases; severance costs; asset impairment charges; inventory exposures and other facility exit costs. During the third quarter of 2006 the Company began a restructuring program at the management level to better manage operating costs by reducing certain management roles (the 2006 Plan ). In 2008, the Company implemented restructuring activities as a result of the movement of production to China (the 2008 Plan ). In 2009, the Company reduced staff levels in response to expected lower revenues resulting from the global economic recession (the 2009 Plan ). There were no restructuring activities in the period ended January 2, 2011. The following table summarizes components of restructuring charges and recoveries for the periods noted:

	Period ended January 3, 2010	Period ended January 4, 2009
Severance	\$ 783	\$ 718
Proceeds from liquidation		(225)
Restructuring charges	\$ 783	\$ 493

*Fiscal 2006 charges and recoveries:*

During 2006, the Company recorded severance charges of \$470 relating to an employee in the United States and 2 employees in Canada. Also during 2006, the Company changed the estimate of future lease payments under the 2002 Plan as result of new circumstances and recorded an adjustment which reduced the accrual by \$1,820 and recognized a gain on sale of assets previously written down of \$1,228.

*Fiscal 2008 charges and recoveries:*

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During the first quarter of 2008 the Company recorded a restructuring recovery of \$225 consisting of a dividend from liquidation proceeds of the Company's Donegal, Ireland facility, which related to restructuring activities under the 2002 Plan.

F-21

**SMTC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)**

**7. Restructuring charges (Continued)**

In the second quarter of 2008, the Company recorded a restructuring charge of \$668, consisting of a \$518 severance charge at our Mexican facility and a \$150 severance charge at the corporate level. The Company reduced approximately 250 full time and 100 temporary staff, mainly in Mexico, as a result of the planned movement of production to the Company's China facility.

In the fourth quarter of 2008, the Company recorded additional restructuring charges of \$50, consisting of a severance charge at the Mexico facility.

***Fiscal 2009 charges and recoveries:***

In the first quarter of 2009, the Company recorded restructuring charges of \$815, consisting of severance charges of \$445 in the Mexican segment, \$337 in the Canadian segment, and \$33 in the U.S. segment. The Company reduced staff levels by approximately 160 in response to expected lower revenues resulting from the global economic recession. In the second quarter of 2009, the Company recorded a restructuring recovery of \$32 consisting of a recovery of severances.

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

## 7. Restructuring charges (Continued)

The following table details original charges, additional charges and adjustments, and the related amounts included in accrued liabilities relating to the 2002 Plan:

	Inventory writedowns included in Cost of sales	Leases and other contractual obligations	Severance	Asset impairment	Sale of assets (a)	Other facility exit costs	Total
<b>2002 Plan</b>							
2002 Charges	\$ 6,536	\$ 18,656	\$ 2,844	\$ 7,689	\$	\$ 1,568	\$ 37,293
Non-cash charges	(6,536)			(7,726)			(14,262)
2002 and 2003 cash (payments) receipts		(8,113)	(4,703)		293	(630)	(13,153)
2003 Reversals		(4,123)				(701)	(4,824)
2003 Charges		326	2,418	37	(293)	96	2,584
Balance as at December 31, 2003	\$	\$ 6,746	\$ 559	\$	\$	\$ 333	\$ 7,638
Charges			400				400
Reversals		(256)					(256)
Payments		(4,100)	(103)			(300)	(4,503)
Balance as at December 31, 2004	\$	\$ 2,390	\$ 856	\$	\$	\$ 33	\$ 3,279
Charges			156		(12)	93	\$ 237
Reversals		(237)	(456)				(693)
Receipts (payments)		(299)	(556)		12	(96)	(939)
Balance as at December 31, 2005	\$	\$ 1,854	\$	\$	\$	\$ 30	\$ 1,884
Reversals		(1,820)					\$ (1,820)
Payments		(34)				(30)	(64)
Balance as at December 31, 2006 and 2007	\$	\$	\$	\$	\$	\$	\$
Reversals					(225)		(225)
Receipts					225		225
Balance as at January 4, 2009, January 3, 2010 and January 2, 2011	\$	\$	\$	\$	\$	\$	\$

(a) The receipt from sale of assets relates to cash received from the proceeds on sale of a previously written down asset.





## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

## 7. Restructuring charges (Continued)

The following table details original charges and the related amounts included in accrued liabilities relating to the 2006 Plan:

	Severance
<b>2006 Plan</b>	
Charges	\$ 470
Payments	(117)
Balance as at December 31, 2006	\$ 353
Payments	(283)
Balance as at December 31, 2007	\$ 70
Payments	(70)
Balance as at January 4, 2009, January 3, 2010 and January 2, 2011	\$

The following table details original charges, payments and adjustments and the related amounts included in accrued liabilities relating to the 2008 Plan:

	Severance
<b>2008 Plan</b>	
Charges	\$ 718
Payments	(718)
Balance as at January 4, 2009, January 3, 2010 and January 2, 2011	\$

The following table details original charges, payments and adjustments and the related amounts included in accrued liabilities relating to the 2009 Plan:

	Severance
<b>2009 Plan</b>	
Charges	\$ 815
Recoveries	(32)
Payments	(783)
Balance as at January 3, 2010 and January 2, 2011	\$

**8. Loss on extinguishment of debt**

Upon refinancing of the Company's term debt with its previous lenders during the third quarter of 2008, the Company recorded a non-cash charge to expense the remaining unamortized deferred financing costs related to the extinguished term debt of \$613.

**9. Derivative Financial Instruments**

During the period ended January 4, 2009 the Company entered into forward foreign exchange contracts to reduce its exposure to foreign exchange currency rate changes related to forecasted Canadian dollar denominated payroll, rent and utility cash flows in the first quarter of fiscal 2009. These contracts were effective as hedges from an economic perspective, but were not designated as hedges for accounting purposes under ASC 815. Accordingly, changes in the fair value of these contracts were recognized in the consolidated statement of operations and comprehensive income. The Company does not enter into forward foreign exchange contracts for trading or speculative purposes.

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**9. Derivative Financial Instruments (Continued)**

As of January 4, 2009, forward foreign exchange contracts with an aggregate exercise value of \$3,598 were outstanding, and were settled between January 9, 2009 and April 3, 2009 at a forward rate of USD \$1.00 = CAD \$1.268. The unrealized gain recognized in earnings as a result of revaluing the instruments to fair value on January 4, 2009 was \$185 which was included in other recoveries in the statement of operations and comprehensive income and accounts receivable on the balance sheet. Fair value was determined using the market approach with reference to quoted prices in active markets for identical assets. The realized gain recognized on these contracts was \$63.

There were no derivative instruments outstanding at January 2, 2011 or January 3, 2010.

**10. Income taxes**

The Company recorded the following income tax expense (recovery) from continuing operations for the periods noted:

	Period ended January 2, 2011	Period ended January 3, 2010	Period ended January 4, 2009
Current:			
Federal/State	\$ 50	\$ (633)	\$ 31
Foreign	494	135	82
	544	(498)	113
Deferred:			
Federal	(2,786)		
Foreign	(247)	189	4
	(3,033)	189	4
<b>Income tax expense (recovery)</b>	<b>\$ (2,489)</b>	<b>\$ (309)</b>	<b>\$ 117</b>

The overall income tax expense (recovery) as recorded in the consolidated statements of operations varied from the tax expense (recovery) calculated using U.S. federal and state income tax rates as follows for the periods noted:

	Period ended January 2, 2011	Period ended January 3, 2010	Period ended January 4, 2009
Federal income tax	\$ 3,451	\$ 717	\$ 607
State income tax expense, net of federal tax benefit	335	41	65
Change in enacted income tax rates	(19)	1,911	(411)
Income of international subsidiaries taxed at different rates	(847)	(901)	(1,089)
Change in valuation allowance	(6,702)	(1,795)	(472)
Additional (release of) income tax exposures, net of alternative minimum taxes	28	(69)	65

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Permanent and other differences	1,265	(213)	1,352
Income tax expense (recovery)	\$ (2,489)	\$ (309)	\$ 117

F-25

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

## 10. Income taxes (Continued)

Earnings (loss) before income taxes and discontinued operations consisted of the following for the periods noted:

	Period ended January 2, 2011	Period ended January 3, 2010	Period ended January 4, 2009
U.S.	\$ 7,342	\$ 1,065	\$ (1,467)
Non U.S.	2,519	983	3,200
	\$ 9,861	\$ 2,048	\$ 1,733

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's deferred income tax liabilities and assets are comprised of the following at:

	January 2, 2011	January 3, 2010
Deferred income tax assets:		
Net operating loss carryforwards	\$ 37,602	\$ 41,094
Capital loss carryforwards	2,106	2,203
AMT credit carryforwards	548	717
Property, plant and equipment and other assets	5,348	5,266
Reserves, allowances and accruals	1,450	1,442
	47,054	50,722
Valuation allowance	(43,731)	(50,432)
Net deferred income tax assets	\$ 3,323	\$ 290

At January 2, 2011, the Company had total net operating loss ( NOL ) carry forwards of \$101,311, of which \$1,260 will expire in 2012, \$10,278 will expire in 2014, \$4,154 will expire in 2015, \$1,078 will expire in 2018, \$60 will expire in 2019, \$30 will expire in 2020, \$13,728 will expire in 2021, \$16,207 will expire in 2022, \$27,270 will expire in 2023, and the remainder will expire between 2025 and 2029.

At January 2, 2011 and January 3, 2010, the Company had gross unrecognized tax benefits of \$330 and \$312, respectively, which if recognized, would favorably impact the Company's effective tax rate in future periods. The change during the period relates to foreign exchange revaluation of existing uncertain tax positions. The Company does not expect any of these unrecognized tax benefits to reverse in the next twelve months.

Tax years 2003 to 2010 remain open for review by the tax authorities in Canada. Tax years 2004 and 2006 to 2010 remain open in the United States.

The Company accounts for interest and penalties related to unrecognized tax benefits in income tax expense based on the likelihood of the event and its ability to reasonably estimate such amounts. The Company has approximately \$225 and \$203 accrued for interest and penalties as of January 2, 2011 and January 3, 2010, respectively. The increase is primarily the recording of incremental interest on existing uncertain positions.



## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**10. Income taxes (Continued)**

The following is a tabular reconciliation of the Company's beginning and ending amount of unrecognized tax benefits:

Balance as at January 3, 2010	\$ 312
Foreign exchange	18
Balance as at January 2, 2011	\$ 330

Deferred income taxes have not been provided on \$11,826 of undistributed earnings of foreign subsidiaries. These earnings have been indefinitely reinvested and the Company currently does not plan to initiate any action that would precipitate payment of income taxes thereon. The amount of unrealized deferred tax liabilities related to these earnings is \$4,612.

Whether or not the recapitalization transactions undertaken in 2004 result in an ownership change for purposes of Section 382 of the Internal Revenue Code ( Section 382 ), which imposes a limitation on a corporation's use of NOL carry forwards following an ownership change, depends upon whether the exchangeable shares of SMTC Canada are treated as shares of the Company under U.S. tax principles. The Company has concluded that the recapitalization transactions did not result in an ownership change and as such the use of the NOL carry forwards has not been limited.

No incremental tax benefit has been recorded in respect of the loss from discontinued operations.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. Guidance under Accounting Standards Codification ( ASC ) 740, Income Taxes , ( ASC 740 ) states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. At the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainty in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets. Commencing in 2004, it was determined by management that it was more likely than not that the deferred tax assets associated with the Mexican jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets since 2004. In 2010, it was determined by management that it was more likely than not that certain deferred tax assets associated with the U.S. jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets. The Canadian jurisdiction continues to have a full valuation allowance recorded against the deferred tax assets.

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**11. Discontinued operations**

In June 2009, the Company ceased manufacturing operations at its Boston, Massachusetts facility, which was formerly included in the United States reporting segment. The decision was based primarily on the historical losses sustained in these operations. The Company entered into an agreement with the landlord to terminate the existing lease and conducted a sale of plant equipment. As at July 5, 2009, the Boston facility was classified as a discontinued operation and its results of operations are separately reported for all periods presented. Summarized financial information for discontinued operations is presented below:

	Period ended January 3, 2010	Period ended January 4, 2009
<b>Discontinued Operations Before Disposal:</b>		
Revenue	\$ 6,957	\$ 35,755
Loss from discontinued operations before disposal, net of taxes	\$ (3,573)	\$ (7,511)
<b>Disposal:</b>		
Loss on disposal, net of taxes	(2,379)	
Loss from discontinued operations, net of taxes	\$ (5,952)	\$ (7,511)

There were no revenues or losses from discontinued operations in the period ended January 2, 2011.

The loss on disposal recorded in the period ended January 3, 2010 consisted largely of the settlement under the lease termination agreement, severance costs and other contracted facility exit costs, offset by a gain on disposal of plant equipment.

The following is a summary of the loss on disposal recorded in the period ended January 3, 2010:

Severance	\$ 742
Lease obligations	1,518
Other facility exit costs	343
Gain on disposal of plant and equipment	(224)
<b>Total</b>	<b>\$ 2,379</b>

The following table details the change in the discontinued operations accrual for the period ended January 2, 2011:

	Severance	Lease Obligations	Other Facility Exit Costs	Total
Accruals related to discontinued operations	\$ 742	\$ 2,296	\$ 343	\$ 3,381
Cash payments	(517)	(1,709)	(271)	(2,497)
Accrual balance as at January 3, 2010	\$ 225	\$ 587	\$ 72	\$ 884
Cash payments	(225)	(587)	(72)	(884)



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Accrual balance as at January 2, 2011	\$	\$	\$	\$
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F-28

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**12. Earnings (loss) per common share**

The following table details the weighted average number of common shares outstanding for the purposes of computing basic and diluted earnings (loss) per common share for:

(Number of common shares)	Period ended January 2, 2011	Period ended January 3, 2010	Period ended January 4, 2009
Basic weighted average shares outstanding	15,072,425	14,646,333	14,646,333
Dilutive stock options (a)	546,818		152,398
<b>Diluted weighted average shares outstanding</b>	<b>15,619,243</b>	<b>14,646,333</b>	<b>14,798,731</b>

(a) Dilutive stock options were determined by using the treasury stock method. For the periods ended January 2, 2011, January 3, 2010 and January 4, 2009, the average share prices used were \$2.91, \$0.70 and \$1.54 per share, respectively.

During the periods ended January 2, 2011 and January 3, 2010, the calculations of diluted weighted average shares outstanding did not include 231,173 and 1,937,440 options, respectively, as the effect would have been anti-dilutive.

During the period ended January 4, 2009, the calculation of diluted weighted average shares outstanding did not include 1,232,893 options, nor did they include 16,675,000 warrants, each warrant exercisable for one-fifth of an exchangeable share of SMTC Canada and 11,166,947 warrants, each warrant exercisable for one-tenth of one share of common stock of the Company, as the effect would have been anti-dilutive.

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**13. Segmented information***General description*

The Company derives its revenue from one dominant industry segment, the electronics manufacturing services industry. The Company is operated and managed geographically and has facilities in the United States, Canada, Mexico and Asia. Operations in Asia became a material segment during the fiscal period ended January 4, 2009 with the establishment of the new facility in China. As at July 5, 2009, the Boston facility was classified as a discontinued operation and its results of operations have been excluded from the U.S. segment for all periods reported. The Company monitors the performance of its geographic operating segments based on EBITA (earnings before interest, taxes and amortization) before restructuring charges, loss on extinguishment of debt and other recoveries. Intersegment adjustments reflect intersegment sales that are generally recorded at prices that approximate arm's-length transactions. In assessing the performance of the operating segments management attributes revenue to the operating segment which ships the product to the customer. Information about the operating segments is as follows:

	Period ended January 2, 2011	Period ended January 3, 2010	Period ended January 4, 2009
<b>Revenues</b>			
Mexico	\$ 127,318	\$ 71,697	\$ 90,576
Canada	56,492	49,854	72,647
US	21,784	13,881	17,542
Asia	62,417	47,401	37,857
Total	\$ 268,011	\$ 182,833	\$ 218,622
<b>Intersegment revenue</b>			
Mexico	\$ (2,182)	\$ (2,398)	\$ (7,498)
Canada	(3,182)	(910)	(4,219)
US	(67)	(16)	(26)
Total	\$ (5,431)	\$ (3,324)	\$ (11,743)
<b>Net external revenue</b>			
Mexico	\$ 125,136	\$ 69,299	\$ 83,078
Canada	53,310	48,944	68,428
US	21,717	13,865	17,516
Asia	62,417	47,392	37,857
Total	\$ 262,580	\$ 179,509	\$ 206,879
<b>EBITA</b>			
Mexico	\$ 9,506	\$ 6,119	\$ 2,707
Canada	(230)	(2,096)	538
US	1,375	(482)	1,307
Asia	907	1,250	1,016
Total	\$ 11,558	\$ 4,791	\$ 5,568



## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

## 13. Segmented information (Continued)

A reconciliation of EBITA to earnings from continuous operations before income taxes is as follows:

EBITA	\$ 11,558	\$ 4,791	\$ 5,568
Interest	1,697	1,960	2,914
Restructuring charges		783	493
Loss on extinguishment of debt			613
Other recoveries			(185)
Earnings from continuing operations before income taxes	\$ 9,861	\$ 2,048	\$ 1,733

*Capital expenditures:*

The following table contains capital expenditures for:

	Period ended January 2, 2011	Period ended January 3, 2010	Period ended January 4, 2009
Mexico	\$ 215	\$ 653	\$ 905
Canada	166	334	623
US	1,045	26	1,249
Asia	784	29	68
Total	\$ 2,210	\$ 1,042	\$ 2,845

*Assets:*

	January 2, 2011	January 3, 2010
<b>Long-lived assets (a)</b>		
Mexico	\$ 9,793	\$ 11,267
Canada	1,614	2,049
US	1,766	909
Asia	718	41
Total	\$ 13,891	\$ 14,266
<b>Total assets</b>		
Mexico	\$ 61,199	\$ 59,813
Canada	21,951	22,067

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US	3,562	2,038
Asia	11,715	9,690
Total	\$ 98,427	\$ 93,608

(a) Long-lived assets information is based on the principal location of the asset.

F-31

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

## 13. Segmented information (Continued)

*Geographic revenues:*

The following table contains geographic revenues based on the product shipment destination:

	Period ended January 2, 2011	Period ended January 3, 2010	Period ended January 4, 2009
US	\$ 157,746	\$ 71,725	\$ 68,321
Canada	69,770	74,590	89,298
Europe	21,182	627	13,111
Asia	13,869	32,548	28,507
Mexico	13	19	7,642
Total	\$ 262,580	\$ 179,509	\$ 206,879

*Significant customers and concentration of credit risk*

Sales of the Company's products are concentrated among specific customers in the same industry. The Company generally does not require collateral. The Company is subject to concentrations of credit risk in trade receivables and mitigates this risk through ongoing credit evaluation of customers and the carriage of credit insurance. The Company considers concentrations of credit risk in establishing the allowance for doubtful accounts and believes the recorded allowances are adequate.

The Company expects to continue to depend upon a relatively small number of customers for a significant percentage of its revenue. In addition to having a limited number of customers, the Company manufactures a limited number of products for each customer. If the Company loses any of its largest customers or any product line manufactured for one of its largest customers, it could experience a significant reduction in revenue. Also, the insolvency of one or more of its largest customers or the inability of one or more of its largest customers to pay for its orders could decrease future revenue. As many costs and operating expenses are relatively fixed, a reduction in net revenue can decrease profit margins and adversely affect business, financial condition and results of operations.

During the period ended January 2, 2011, four customers individually comprised 16%, 15%, 13% and 13% of revenue from continuing operations across all geographic segments. At January 2, 2011 these customers represented 8%, 4%, 10% and 5% of the Company's trade accounts receivable.

During the period ended January 3, 2010, five customers individually comprised 22%, 16%, 16%, 14% and 10% of revenue from continuing operations across all geographic segments. At January 3, 2010, these customers represented 35%, 24%, 3%, 9% and 5% of the Company's trade accounts receivable.

During the period ended January 4, 2009, three customers individually comprised 23%, 21% and 20% of revenue from continuing operations across all geographic segments. At January 4, 2009, these customers represented 17%, 4% and 4% of the Company's trade accounts receivable.

## SMTC CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

**14. Commitments and contingencies***Operating leases*

The Company leases office equipment, software and office space under various non-cancellable operating leases. Minimum future payments under non-cancellable operating lease agreements are as follows:

2011	\$ 1,042
2012	210
2013 and thereafter	67
Total	\$ 1,319

Operating lease expense for the periods ended January 2, 2011, January 3, 2010 and January 4, 2009 and January 3, 2010 was \$1,140, \$1,124 and \$1,070, respectively.

Certain of the Company's facility leases include renewal options and normal escalation clauses. Renewal options are included in the lease term if reasonably assured. Escalation clauses are accounted for on a straight-line basis over the lease term.

*Purchase Obligations*

Purchase obligations not recorded on the balance sheet as at January 2, 2011 consist of insurance installments of \$160 to be paid during calendar year 2011, and machinery and equipment of \$998. As at January 3, 2010, purchase obligations not recorded on the balance sheet consist of insurance installments of \$168 that were paid during calendar year 2010.

*Contingencies*

In the normal course of business, the Company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position, results of operations and cash flows of the Company.