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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 30, 2003  
OR

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

COMMISSION FILE NUMBER 0-31051

## SMTC CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

**DELAWARE**  
(STATE OR OTHER JURISDICTION  
OF INCORPORATION OR ORGANIZATION)

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

**635 HOOD ROAD**  
**MARKHAM, ONTARIO, CANADA L3R 4N6**  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

**(905) 479-1810**  
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

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

As of May 6, 2003, SMTC Corporation had 23,196,543 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 May 6, 2003, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 5,493,236 exchangeable shares outstanding, each of which is exchangeable into one share of common stock of SMTC Corporation.

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# SMTC CORPORATION

Consolidated Balance Sheets  
(Expressed in thousands of U.S. dollars)

## PART I FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

	March 30, 2003	December 31, 2002
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash	\$ 137	\$ 370
Accounts receivable, net of an allowance for doubtful accounts of \$2,416 (December 31, 2002 - \$2,097)	54,303	57,398
Inventories (note 3)	38,423	38,362
Prepaid expenses	2,053	2,611
Income taxes recoverable	176	841
	<u>95,092</u>	<u>99,582</u>
Capital assets	41,178	43,677
Other assets	12,376	13,378
Deferred income taxes	34,221	34,325
	<u>\$ 182,867</u>	<u>\$ 190,962</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 53,325	\$ 56,165
Accrued liabilities	30,330	33,814
Current portion of long-term debt (note 4)	18,750	17,500
Current portion of capital lease obligations	227	257
	<u>102,632</u>	<u>107,736</u>
Long-term debt (note 4)	62,119	65,089
Capital lease obligations	123	176
Shareholders' equity:		
Capital stock	66,802	66,802
Warrants	1,255	1,255
Loans receivable	(5)	(5)
Additional paid-in-capital	163,360	163,360
Deficit	(213,419)	(213,451)
	<u>17,993</u>	<u>17,961</u>
Guarantees (note 11)		
	<u>\$ 182,867</u>	<u>\$ 190,962</u>

See accompanying notes to consolidated financial statements.

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## SMTC CORPORATION

Consolidated Statements of Operations

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

(Unaudited)

	Three months ended	
	March 30, 2003	March 31, 2002
Revenue	\$86,000	\$138,909
Cost of sales	77,880	132,161
Gross profit	8,120	6,748
Selling, general and administrative expenses	5,328	7,090
Amortization	972	455
Restructuring charges (note 8)	239	—
Operating income (loss)	1,581	(797)
Interest	1,515	2,315
Earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy	66	(3,112)
Income tax expense (recovery)	34	(640)
Earnings (loss) from continuing operations	32	(2,472)
Loss from discontinued operations (note 9)	—	(10,197)
Cumulative effect of a change in accounting policy (note 10)	—	(55,560)
Net earnings (loss)	\$ 32	\$(68,229)

See accompanying notes to consolidated financial statements.

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## SMTC CORPORATION

Consolidated Statements of Operations (continued)

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

(Unaudited)

	Three months ended	
	March 30, 2003	March 31, 2002
Earnings (loss) per share:		
Basic earnings (loss) per share from continuing operations	\$ 0.00	\$ (0.09)
Loss from discontinued operations per share	—	(0.36)
Loss from the cumulative effect of a change in accounting policy per share	—	(1.93)
Basic earnings (loss) per share	\$ 0.00	\$ (2.38)
Diluted earnings (loss) per share	\$ 0.00	\$ (2.38)
Weighted average number of common shares used in the calculations of earnings (loss) per share (note 5):		
Basic	28,689,779	28,689,779
Diluted	29,023,049	28,689,779

See accompanying notes to consolidated financial statements.

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## SMTC CORPORATION

Consolidated Statement of Changes in Shareholders' Equity  
(Expressed in thousands of U.S. dollars)

Three months ended March 30, 2003  
(Unaudited)

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	<u>Capital stock</u>	<u>Warrants</u>	<u>Additional paid-in capital</u>	<u>Loans receivable</u>	<u>Deficit</u>	<u>Shareholders' equity</u>
Balance, December 31, 2002	\$66,802	\$ 1,255	\$163,360	\$ (5)	\$(213,451)	\$ 17,961
Net earnings for the period	—	—	—	—	32	32
Balance, March 30, 2003	\$66,802	\$ 1,255	\$163,360	\$ (5)	\$(213,419)	\$ 17,993

See accompanying notes to consolidated financial statements.

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# SMTC CORPORATION

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Three months ended	
	March 30, 2003	March 31, 2002
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ 32	\$(68,229)
Items not involving cash:		
Amortization	972	455
Depreciation	2,552	3,053
Deferred income tax expense (benefit)	104	(644)
Impairment of assets	—	1,129
Write-down of goodwill (note 10)	—	55,560
Change in non-cash operating working capital:		
Accounts receivable	3,095	4,031
Inventories	(61)	(9,905)
Prepaid expenses	558	98
Income taxes recoverable	665	997
Accounts payable	(2,840)	5,264
Accrued liabilities	(3,484)	9,556
	1,593	1,365
Financing:		
Increase in long-term debt	2,030	—
Decrease in long-term debt	(3,750)	(10,345)
Principal payments on capital lease obligations	(83)	(52)
Debt issuance costs	—	(281)
	(1,803)	(10,678)
Investments:		
Purchase of capital assets	(53)	(1,044)
Other	30	—
	(23)	(1,044)
Increase (decrease) in cash	(233)	10,357
Cash, beginning of period	370	12,103
Cash, end of period	\$ 137	\$ 1,746

See accompanying notes to consolidated financial statements.

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## SMTC CORPORATION

Consolidated Statements of Cash Flows (continued)  
(expressed in thousands of U.S.dollars)

(unaudited)

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	Three months ended	
	March 30, 2003	March 31, 2002
Supplemental disclosures:		
Cash paid during the period:		
Income taxes	\$ 144	\$ 601
Interest	—	2,166

See accompanying notes to consolidated financial statements.



# SMTC CORPORATION

Notes to Consolidated Financial Statements

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

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## 1. Basis of presentation:

The Company's accounting principles are in accordance with accounting principles generally accepted in the United States.

The accompanying unaudited consolidated balance sheet as at March 30, 2003, the unaudited consolidated statements of operations for the three month periods ended March 30, 2003 and March 31, 2002, the unaudited consolidated statement of changes in shareholders' equity for the three month period ended March 30, 2003, and the unaudited consolidated statements of cash flows for the three month periods ended March 30, 2003 and March 31, 2002 have been prepared on substantially the same basis as the annual consolidated financial statements, except as described below. Management believes the consolidated financial statements reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the Company's financial position, operating results and cash flows for the periods presented. The results of operations for the three month period ended March 30, 2003 are not necessarily indicative of results to be expected for the entire year. These unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2002.

The unaudited interim consolidated financial statements are based upon accounting principles consistent with those described in the December 31, 2002 audited consolidated financial statements except as follows:

In August 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations, which requires that the fair value of an asset retirement obligation be recorded as a liability, at fair value, in the period in which the Company incurs the obligation. The Statement is effective for fiscal 2003 and there was no material effect as a result of the adoption of this Statement on January 1, 2003.

In July 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("Statement 146"), which nullifies Emerging Issues Task Force ("EITF") Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity ("EITF 94-3"). Statement 146 provides for the recognition of a liability for an exit or disposal activity only when a liability is incurred and can be measured at fair value. Under EITF 94-3, a commitment to an exit or disposal plan was sufficient to record the majority of the costs. Statement 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company adopted this Statement on January 1, 2003 and accordingly, the restructuring charges recorded in the quarter ended March 30, 2003 were made in accordance with the new standard.

# SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

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**1. Basis of presentation (continued):**

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others ("FIN 45"), which requires certain disclosures of obligations under guarantees. The disclosure requirements of FIN 45 were effective for the Company's year ended December 31, 2002. Effective for 2003, FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees entered into or modified after December 31, 2002, based on the fair value of the guarantee. The Company adopted the disclosure requirements in its 2002 consolidated financial statements. The Company has not entered into or modified any guarantees after December 31, 2002. See note 11 for disclosure related to guarantees.

**2. Stock-based compensation:**

The Company accounts for stock options issued to employees using the intrinsic value method of Accounting Principles Board Opinion No. 25. Compensation expense is recorded on the date stock options are granted only if the current fair value of the underlying stock exceeds the exercise price. The Company has provided the pro forma disclosures required by Financial Accounting Standards Board ("FASB") Statement No. 123, Accounting for Stock-Based Compensation ("Statement 123") as amended by Statement 148.

## SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

### 2. Stock-based compensation (continued):

The table below sets out the pro forma amounts of net earnings (loss) per share that would have resulted if the Company had accounted for its employee stock plans under the fair value recognition provisions of Statement 123.

	Three months ended	
	March 30, 2003	March 31, 2002
Net earnings (loss), as reported	\$ 32	\$ (68,229)
Stock-based compensation expense	(349)	(252)
Pro forma loss	(317)	(68,481)
Basic earnings (loss) per share, as reported	\$ 0.00	\$ (2.38)
Stock-based compensation expense	(0.01)	(0.01)
Pro forma basic loss per share	(0.01)	(2.39)
Diluted earnings (loss) per share, as reported	\$ 0.00	\$ (2.38)
Stock-based compensation expense	(0.01)	(0.01)
Pro forma diluted loss per share	(0.01)	(2.39)

No compensation expense has been recorded in the statement of operations for the quarters ended March 30, 2003 and March 31, 2002.

The estimated fair value of options is calculated at the date of grant, is amortized over the vesting period, on a straight-line basis, and was determined using the Black-Scholes option pricing model with assumptions made as to the risk-free interest rate, dividend yield, expected life and volatility. There were no options granted during the three month periods ended March 30, 2003 and March 31, 2002:

## SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

### 3. Inventories:

	March 30, 2003	December 31, 2002
Raw materials	\$ 17,958	\$ 15,665
Work in process	8,511	9,712
Finished goods	11,082	12,093
Other	872	892
	<u>\$ 38,423</u>	<u>\$ 38,362</u>

### 4. Long-term debt:

During the fourth quarter of 2002, the Company was in violation of certain covenants contained in the credit agreement. The violation was waived and effective December 31, 2002, the Company and its lending group signed an amendment to the credit agreement covering the period up to June 30, 2004 that provides for \$27,500 in term loans and \$90,000 in revolving credit loans, swing-line loans and letters of credit and amends certain financial and other covenants based on the Company's business plan. During the amendment period, the facility bears interest at the U.S. base rate plus 2.5%.

The Company was in compliance with the amended financial covenants at March 30, 2003. Continued compliance with the amended financial covenants through June 30, 2004 is dependent on the Company achieving the forecasts inherent in its business plan. The Company believes the forecasts are based on reasonable assumptions and are achievable; however, the forecasts are dependent on a number of factors, some of which are outside the control of the Company. These include, but are not limited to, general economic conditions and specifically the strength of the electronics industry and the related demand for the products and services by the Company's customers. In the event of non-compliance, the Company's lenders have the ability to demand repayment of the outstanding amounts under the amended credit facility.

## SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

### 5. Earnings (loss) per share:

The following table sets forth the calculation of basic and diluted earnings (loss) per share:

	Three months ended	
	March 30, 2003	March 31, 2002
<b>Numerator:</b>		
Net earnings (loss) from continuing operations	\$ 32	\$ (2,472)
Net earnings (loss)	32	(68,229)
<b>Denominator:</b>		
Weighted average shares—basic	28,689,779	28,689,779
<b>Effect of dilutive securities:</b>		
Employee stock options	7,378	—
Warrants	325,892	—
Weighted-average shares – diluted	29,023,049	28,689,779
<b>Earnings (loss) per share:</b>		
Basic and diluted, from continuing operations	\$ 0.00	\$ (0.09)
Basic and diluted	\$ 0.00	\$ (2.38)

Options and warrants to purchase common stock were outstanding during the three month period ended March 31, 2002 but were not included in the computation of diluted loss per share because their effect would be anti-dilutive on the loss per share for the period.

### 6. Income taxes:

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. Based upon consideration of these factors, management believes the recorded valuation allowance related to the loss carryforwards is appropriate. However, in the event that actual results differ from estimates or management adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact its financial position and results of operations.

# SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

## 7. Segmented information:

The Company derives its revenue from one dominant industry segment, the electronics manufacturing services industry. The Company is operated and managed geographically and has six facilities in the United States, Canada and Mexico. The Company monitors the performance of its geographic operating segments based on EBITA (earnings before interest, taxes and amortization) before restructuring charges, discontinued operations and the effect of changes in accounting policies. Discontinued operations in the first quarter of 2002 relates to the Cork, Ireland facility (note 9), which was previously included in the results of the European segment. Intersegment adjustments reflect intersegment sales that are generally recorded at prices that approximate arm's-length transactions. Information about the operating segments is as follows:

	Three months ended March 30, 2003			Three months ended March 31, 2002		
	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue
United States	\$ 62,219	\$ (2,179)	\$ 60,040	\$123,312	\$ (5,399)	\$ 117,913
Canada	30,117	(4,925)	25,192	19,059	(2,054)	17,005
Europe	1,561	(849)	712	1,381	(235)	1,146
Mexico	29,603	(29,547)	56	52,310	(49,465)	2,845
	<u>\$123,500</u>	<u>\$ (37,500)</u>	<u>\$ 86,000</u>	<u>\$196,062</u>	<u>\$ (57,153)</u>	<u>\$ 138,909</u>

EBITA (before discontinued operations, restructuring charges and the cumulative effect of a change in accounting policy):

United States	\$ 53	\$ (1,565)
Canada	482	(472)
Europe	26	(207)
Mexico	2,231	1,902
	<u>2,792</u>	<u>(342)</u>
Interest	1,515	2,315
Amortization	972	455
Restructuring charges (note 8)	239	—
	<u>Earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy</u>	<u>\$ 66</u>
		<u>\$ (3,112)</u>
Capital expenditures:		
United States	\$ 36	\$ 721
Canada	—	74
Europe	—	24
Mexico	17	225
	<u>\$ 53</u>	<u>\$ 1,044</u>

## SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

### 7. Segmented information (continued):

The following enterprise-wide information is provided. Geographic revenue information reflects the destination of the product shipped. Long-lived assets information is based on the principal location of the asset.

	Three months ended	
	March 30, 2003	March 31, 2002
<b>Geographic revenue:</b>		
United States	\$ 69,329	\$ 113,811
Canada	9,096	9,312
Europe	3,390	8,307
Asia	1,834	5,341
Mexico	2,351	2,138
	<u>\$ 86,000</u>	<u>\$ 138,909</u>
	March 30, 2003	December 31, 2002
<b>Long-lived assets:</b>		
United States	\$ 19,648	\$ 21,080
Canada	4,031	4,618
Mexico	17,499	17,979
	<u>\$ 41,178</u>	<u>\$ 43,677</u>

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 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.

## SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

### 8. Restructuring and other charges:

2001 plan:

During fiscal year 2001, in response to excess capacity caused by the slowing technology end market, the Company commenced a restructuring program aimed at reducing its cost structure. The following table details the related amounts included in accrued liabilities as at March 30, 2003 relating to the 2001 plan:

	Accrual at December 31, 2002	Cash payments	Accrual at March 30, 2003
Lease and other contract obligations	\$ 1,423	(96)	\$ 1,327
Other facility exit costs	424	(15)	409
	<u>1,847</u>	<u>\$ (111)</u>	<u>\$ 1,736</u>

2002 plan:

In response to the continuing industry economic downturn, the Company took further steps to realign its cost structure and plant capacity and in the third and fourth quarter of 2002 recorded restructuring charges of \$37,444 related to the cost of exiting equipment and facility leases, severance costs, asset impairment charges, inventory exposures and other facility exit costs and other charges of \$2,135 primarily related to the costs associated with the disengagement of a customer and the continued downturn.

The Company recorded further charges of \$239 related to the 2002 plan during the first quarter of 2003 related to severance costs associated with the closure of the Austin facility and the resizing of other facilities. The severance costs related to 58 plant and operational employees, primarily at the Austin and Mexico facilities.



## SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

### 8. Restructuring and other charges (continued):

The following table details the related amounts included in accrued liabilities as at March 30, 2003 related to the 2002 plan:

	Accrual at December 31, 2002	2003 charges	Cash payments	Accrual at March 30, 2003
Lease and other contract obligations	\$ 16,830	\$ —	\$ (869)	\$ 15,961
Severance	989	239	(335)	893
Other facility exit costs	1,567	—	(58)	1,509
	<u>\$ 19,386</u>	<u>\$ 239</u>	<u>\$(1,262)</u>	<u>\$ 18,363</u>

### 9. Discontinued Operations:

In February 2002, the main customer of the Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, the Company announced that it was closing the Cork, Ireland facility and that it was taking steps to place the subsidiary that operated that facility in voluntary administration. During the first quarter of 2002, the Company recorded a charge of \$9,717 related to the closure of the facility.

The following information relates to the discontinued operations:

	Three months ended	
	March 30, 2003	March 31, 2002
Revenue	\$ —	\$ 5,035
Loss from discontinued operations	\$ —	\$ 10,197

In 2002, the loss from discontinued operations includes the costs of closing the facility of \$9,717. Included in this amount are the write-off of the net assets of \$6,717 (comprised of capital assets of \$1,129 and net working capital of \$5,588) and other costs associated with exiting the facility of \$3,000. Included in the other costs is severance of \$1,350 related to the termination of all employees.

## SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

### 9. Discontinued Operations (continued):

The following table details the related amounts included in accrued liabilities as at March 30, 2003

	Accrual at December 31, 2002	Cash payments	Accrual at March 30, 2003
Severance	\$ 268	(80)	\$ 188

### 10. Goodwill and Intangible Assets:

In July 2001, the FASB issued Statement No. 141, Business Combinations (“Statement 141”), and Statement No. 142, Goodwill and Other Intangible Assets (“Statement 142”). Statement 141 requires that the purchase method of accounting be used for all business combinations. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement 144. Upon adoption of Statements 141 and 142 in their entirety on January 1, 2002, the Company determined that there were no intangible assets relating to previous acquisitions that need to be reclassified and accounted for apart from goodwill under the provisions of those Statements.

In connection with the transitional goodwill impairment evaluation, Statement 142 required the Company to perform an assessment of whether there was an indication that goodwill was impaired as of January 1, 2002. To accomplish this, the Company was required to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill to those reporting units as of January 1, 2002. The Company identified its reporting units to be consistent with its business units, as defined in note 14, with the exception of the Boston, Massachusetts facility. This facility is not economically similar to the other U.S. facilities and as a result, is a separate reporting unit. In connection with the implementation of the new accounting standards, the Company completed the transitional goodwill impairment test, resulting in a goodwill impairment charge of \$55,560, which comprises the goodwill in the Canadian, U.S. and Boston reporting units of \$15,482, \$26,698 and \$13,380,

## SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)

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

Three months ended March 30, 2003 and March 31, 2002

(Unaudited)

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### **10. Goodwill and Intangible Assets (continued):**

respectively. The fair value of each reporting unit was determined using a discounted cash flow method. The transitional impairment loss was recognized as the cumulative effect of a change in accounting principle in the Company's statements of operations as at January 1, 2002.

### **11. Guarantees:**

Contingent liabilities in the form of letters of credit and letters of guarantee are provided to certain third parties. These guarantees cover payments for certain purchases. The total amount of future payments to be made under these guarantees is \$450.

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The consolidated financial statements and our selected consolidated financial data have been prepared in accordance with United States GAAP.

Consolidated Statement of Operations Data:

(in millions, except per share amounts)

(Unaudited)

	Three months ended	
	March 30, 2003	March 31, 2002
Revenue	\$ 86.0	\$ 138.9
Cost of sales	77.9	132.2
Gross profit	8.1	6.7
Selling, general and administrative expenses	5.3	7.1
Amortization	1.0	0.4
Restructuring charges (a)	0.2	—
Operating income (loss)	1.6	(0.8)
Interest	1.5	2.3
Earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy	0.1	(3.1)
Income tax expense (recovery)	0.1	(0.6)
Earnings (loss) from continuing operations	0.0	(2.5)
Loss from discontinued operations (b)	—	(10.2)
Cumulative effect in a change in accounting policy (c)	—	(55.6)
Net earnings (loss)	\$ 0.0	\$ (68.3)
Net earnings (loss) per common share:		
Basic from continuing operations	\$ 0.00	\$ (0.09)
Loss from discontinued operations	—	(0.36)
Cumulative effect of a change in accounting policy	—	(1.93)
Basic	\$ 0.00	\$ (2.38)
Diluted	\$ 0.00	\$ (2.38)
Weighted average number of shares outstanding:		
Basic	28.7	28.7
Diluted	29.0	28.7

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### Consolidated Statement of Operations Data (continued): (in millions, except per share amounts)

- (a) In response to the continuing industry economic downturn during 2002, the Company took further steps to realign its cost structure and plant capacity and in the third and fourth quarter of 2002 recorded restructuring charges of \$37.4 million related to the costs associated with exiting or re-sizing facilities, and other charges of \$2.1 million related to inventory charges resulting from the disengagement of Dell, coupled with the effects of the continued downturn in the technology sector. The Company recorded further charges related to the 2002 plan during the first quarter of 2003 related to severance costs. Refer to note 8 to our consolidated financial statements.
- (b) In February, 2002 the main customer of the Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, the Company announced that it was closing the Cork, Ireland facility and that it was taking steps to place the subsidiary that operated that facility in voluntary administration. Refer to note 9 to our consolidated financial statements.
- (c) During 2002, the Company completed its transitional goodwill impairment test resulting in a goodwill impairment charge of \$55.6 million. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 10 years. Effective January 1, 2002, the Company discontinued amortization of all existing goodwill as a result of a new accounting standard issued in 2001. Refer to note 10 to our consolidated financial statements.

### Consolidated Balance Sheet Data:

(in millions)

	<u>March 30, 2003</u> <u>(Unaudited)</u>	<u>December 31, 2002</u>
Cash	\$ 0.1	\$ 0.4
Working capital (deficiency)	(7.5)	(8.2)
Total assets	182.9	191.0
Total debt, including current maturities	80.9	82.6
Shareholders' equity	18.0	18.0

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

### Overview

We provide advanced electronics manufacturing services, or EMS, to electronics industry original equipment manufacturers, or OEMs, primarily in the networking, industrial and communications market segments. We currently service our customers through six manufacturing and technology centers strategically located in key technology corridors in the United States, Canada and the cost-effective location of Mexico. Our full range of value-added supply chain services include product design, procurement, prototyping, advanced cable and harness interconnect, high-precision enclosures, printed circuit board assembly, test, final system build, comprehensive supply chain management, packaging, global distribution and after sales support.

During fiscal year 2001, in response to excess capacity caused by the slowing technology end market, we commenced a restructuring program aimed at reducing our cost structure. Actions taken by management to improve capacity utilization included closing our Denver, Colorado assembly facility and our Haverhill, Massachusetts interconnect facility, re-sizing our Mexico and Ireland facilities and addressing our excess equipment. Accordingly, we recorded restructuring charges of \$67.2 million pre-tax (consisting of a write-down of goodwill and other intangible assets and the costs associated with exiting or re-sizing facilities) and other charges of \$27.2 million pre-tax (consisting of accounts receivable, inventory and asset impairment charges).

In response to the continuing industry economic downturn in 2002, the Company took further steps to realign its cost structure and plant capacity. In February, 2002 the main customer of our Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, we announced that we were closing our Cork, Ireland facility and that we were taking steps to place the subsidiary that operated that facility in voluntary administration. During the first quarter of 2002, we recorded a charge of \$9.7 million related to the closure of the Cork facility, which is included in the loss for discontinued operations. Prior to taking steps to place the subsidiary that operated the Cork facility in voluntary liquidation, we and our lending group executed an amendment to our credit facility to waive the default that would have been caused by this action and amend the agreement to permit such facility closure. We have also determined to close our interconnect facility in Donegal, Ireland, primarily due to decreased revenues generated by that facility as a result of customer losses and reduced volume with existing customers. We expect to cease manufacturing at our Donegal site during the second quarter of 2003. Additionally, we have concluded that operations at our Austin, Texas location have become too expensive to justify continued operation. We ceased manufacturing at our Austin site during the first quarter of 2003. The Company recorded during the third and fourth quarters of 2002 restructuring charges of \$37.4 million related to the cost of exiting equipment leases and facility leases, severance costs, asset impairment charges and inventory exposures and other charges of \$2.1 million related to inventory charges resulting from the disengagement of Dell, coupled with the effects of the continued downturn in the technology sector. The Company recorded further charges of \$0.2 million related to the 2002 plan in during the first quarter of 2003 related to severance costs.

During 2002, the Company completed its transitional goodwill impairment test resulting in a goodwill impairment charge of \$55.6 million.

As a result of restructuring actions and market conditions we incurred a significant operating loss during 2001, which resulted in our non-compliance with certain financial covenants contained in our credit agreement as at September 30, 2001. In February 2002, we and our lending group executed an amendment to our credit facility to waive the September 30, 2001 defaults and to revise the covenant tests to be consistent with both then-current revenues and the forecast for 2002.

The Company and its lending group agreed in April 2002 to further amend the credit agreement to increase the Company's permitted loan balances to correspond to its higher working capital needs.

The Company and its lending group further amended the credit agreement effective as of December 31, 2002, which was prior to the date on which the Company was to revert back to the covenants under the original credit agreement, to revise certain covenants and waive certain defaults under the credit agreement. The revised terms of the credit agreement establish amended financial and other covenants covering the period up to June 30, 2004, based on the Company's December 2002 business plan. (See "Liquidity and Capital Resources")

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The Company was in compliance with the amended financial covenants at March 30, 2003. Continued compliance with the amended financial covenants through June 30, 2004 is dependent on the Company achieving the forecasts inherent in its current business plan. The forecasts are dependent on a number of factors, many of which are outside the control of the Company. These include, but are not limited to, general economic conditions and specifically the strength of the electronics industry and the related demand for the products and services by the Company's customers. In the event of non-compliance, the Company's lenders have the ability to demand repayment of the outstanding amounts under the amended credit facility.

### **Corporate History**

SMTC Corporation is the result of the July 1999 combination of the former SMTC Corporation, or Surface Mount, and HTM Holdings, Inc., or HTM. Surface Mount was established in Toronto, Ontario in 1985. HTM was established in Denver, Colorado in 1990. SMTC was established in Delaware in 1998. After the combination, we purchased Zenith Electronics' facility in Chihuahua, Mexico, which expanded our cost-effective manufacturing capabilities in an important geographic region. In September 1999, we established a manufacturing presence in the Northeastern United States and expanded our value-added services to include high precision enclosure capabilities by acquiring Boston, Massachusetts based W.F. Wood. In July 2000, we acquired Pensar Corporation, an EMS company specializing in design engineering and headquartered in Appleton, Wisconsin. In November 2000, we acquired Qualtron Teoranta, a provider of specialized cable and harness interconnect assemblies, based in Donegal, Ireland and with a subsidiary in Haverhill, Massachusetts.

On July 27, 2000, we consummated an initial public offering of 6,625,000 shares of our common stock and 4,375,000 exchangeable shares of our subsidiary SMTC Manufacturing Corporation of Canada, or SMTC Canada. Each exchangeable share of SMTC Canada is exchangeable at the option of the holder at any time into one share of our common stock, subject to compliance with applicable securities laws. On August 18, 2000, we sold an additional 1,650,000 shares of common stock upon exercise of the underwriters' over-allotment option.

### **Results of Operations**

We currently provide turnkey manufacturing services to the majority of our customers. Turnkey manufacturing services typically result in higher revenue and higher gross profits but lower gross profit margins when compared to consignment services.

Our contractual arrangements with our key customers generally provide a framework for our overall relationship with our customer. Revenue is recognized upon shipment to the customer as performance has occurred, all customer specified acceptance criteria have been tested and met, and the earnings process is considered complete. Actual production volumes are based on purchase orders for the delivery of products. These orders typically do not commit to firm production schedules for more than 30 to 90 days in advance. In order to minimize inventory risk, we generally order materials and components only to the extent necessary to satisfy existing customer forecasts or purchase orders. Fluctuations in material costs are typically passed through to customers. We may agree, upon request from our customers, to temporarily delay shipments, which cause a corresponding delay in our revenue recognition.

Our fiscal year end is December 31. The consolidated financial statements of SMTC, are prepared in accordance with United States GAAP.

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

(Unaudited)

	Three months ended	
	March 30, 2003	March 31, 2002
Revenue	100.0%	100.0%
Cost of sales	90.6	95.1
Gross profit	9.4	4.9
Selling, general and administrative expenses	6.2	5.1
Amortization	1.2	0.4
Restructuring charges	0.2	—
Operating income (loss)	1.8	(0.6)
Interest	1.7	1.6
Earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy	0.1	(2.2)
Income tax expense (recovery)	0.1	(0.4)
Earnings (loss) from continuing operations	0.0	(1.8)
Loss from discontinued operations	—	(7.3)
Cumulative effect of a change in accounting policy	—	(40.0)
Net earnings (loss)	0.0%	(49.1)%

### **Quarter ended March 30, 2003 compared to the quarter ended March 31, 2002**

#### *Revenue*

Revenue decreased \$52.9 million, or 38.1%, from \$138.9 million in the first quarter of 2002 to \$86.0 million in the first quarter of 2003 due to the Company's decision to terminate its supply agreement with Dell during 2002 and to a reduction in revenue earned from IBM, Alcatel and other customers due to the continued economic slowdown. During the second quarter of 2002, the Company informed Dell of its intention to terminate its supply agreement and to end production over the third quarter of 2002. The Company's decision was taken after a review of the Company's return on capital requirements indicated that the customer's programs were not generating sufficient returns and, at the same time, were utilizing a disproportionate amount of working capital. With the exit of Dell now complete, the Company expects lower revenues in 2003, which is expected to be offset by reduced expenses and reduced working capital requirements.

During the first quarter of 2003, we recorded approximately \$2.4 million of sales of raw materials inventory to customers, which carried no margin, compared to \$10.0 million of such sales for the same period in 2002.

Revenue from IBM of \$17.5 million and Alcatel of \$12.9 million for the first quarter of 2003 was 20.3% and 15.0%, respectively, of total revenue for the period. Revenue from IBM of \$36.4 million and Alcatel of \$19.8 million for the first quarter of 2002 was 26.2% and 14.2%, respectively, of total revenue for the period. No other customers represented more than 10% of revenue in either period.

In the first quarter of 2003, 50.3% of our revenue was generated from operations in the United States, 24.0% from Mexico, 24.4% from Canada and 1.3% from Europe. In the first quarter of 2002, 62.9% of our revenue was generated from operations in the United States, 26.7% from Mexico, 9.7% from Canada, and 0.7% from Europe. We expect to continue to increase the portion of revenue attributable to our Chihuahua facility, with the transfer of certain production from other facilities. We also expect to terminate manufacturing in



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Europe during the second quarter of 2003. Additionally, we expect to begin having products manufactured for us in China by the end of the second quarter of 2003.

### *Gross Profit*

Gross profit increased \$1.4 million from \$6.7 million, or 4.9% of revenue, for the first quarter of 2002 to \$8.1 million, or 9.4% of revenue, for the first quarter of 2003. The improvement in gross profit is due largely to the change in customer mix coupled with a reduction in fixed manufacturing expenses achieved through the restructuring efforts initiated during fiscal years 2001 and 2002. The improvement in gross margin is due to the change in customer mix coupled with lower labor costs as a percentage of revenue, due to the continued focus on expense management.

The Company writes down estimated obsolete or excess inventory for the difference between the cost of inventory and estimated market 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 \$1.8 million from \$7.1 million, or 5.1% of revenue, for the first quarter of 2002 to \$5.3 million, or 6.2% of revenue, for the first quarter of 2003. The reduction in selling, general and administrative expenses is due to our continued focus on reducing selling, general and administrative expenses at each site. The increase in selling, general and administrative expenses as a percentage of revenue is a result of the lower sales base.

### *Amortization*

Amortization of intangible assets of \$1.0 million for the first quarter of 2003 represents the amortization of deferred finance costs related to the establishment of our senior credit facility in July 2000 and subsequent amendments. The costs associated with our amended and restated senior credit facility are being amortized over the remaining term of the debt.

Amortization of intangible assets of \$0.4 million for the first quarter of 2002 included the amortization of \$0.3 million of deferred finance costs related to the establishment of our senior credit facility in July 2000 and subsequent amendments, and \$0.1 million of deferred equipment lease costs.

### *Restructuring Charges*

During fiscal year 2001, in response to excess capacity caused by the slowing technology end market, the Company commenced a restructuring program aimed at reducing its cost structure. In response to the continuing industry economic downturn, the Company took further steps to realign its cost structure and plant capacity and in the third and fourth quarter of 2002 recorded restructuring charges of \$37.4 million related to the cost of exiting equipment and facility leases, severance costs, asset impairment charges, inventory exposures and other facility exit costs and other charges of \$2.1 million primarily related to the costs associated with the disengagement of a customer and the continued downturn.

The Company recorded further charges of \$0.2 million related to the 2002 plan during the first quarter of 2003 related to severance costs associated with the closure of the Austin facility and the resizing of various other facilities. The severance costs related to 58 plant and operational employees, primarily at the Austin and Mexico facilities.

The Company expects the majority of the remaining restructuring accruals as at March 30, 2003 of \$1.7 million relating to the 2001 restructuring program and \$18.4 million relating to the 2002 restructuring program to be paid by the end of fiscal year 2004.

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### *Interest Expense*

Interest expense decreased \$0.8 million from \$2.3 million for the first quarter of 2002 to \$1.5 million, for the first quarter of 2003. Lower average debt outstanding during the first quarter of 2003 was partially offset by higher interest rates. The weighted average interest rates with respect to the debt for the first quarter of 2003 and 2002 were 7.6% and 7.2%, respectively.

### *Income Tax Expense*

For the first quarter of 2003, an income tax expense of \$0.1 million was recorded on pre-tax earnings of \$0.1 million. 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. Based upon consideration of these factors, management believes the recorded valuation allowance related to the loss carryforwards is appropriate. However, in the event that actual results differ from estimates or management adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact its financial position and results of operations. At March 30, 2003, the Company had a deferred tax asset of \$34.2 million. The Company's future results of operations could be materially affected if it determines to increase the valuation allowance related to the deferred tax asset. For the first quarter of 2002 an income tax recovery of \$0.6 million was recorded on a pre-tax loss before discontinued operations and the cumulative effect of a change in accounting policy of \$3.1 million resulting in an effective tax recovery rate of 19.4%, as losses in certain jurisdictions were not tax effected due to the uncertainty of our ability to utilize such losses.

### *Discontinued Operations*

In February, 2002 the main customer of our Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, we announced that we were closing our Cork, Ireland facility and that we were taking steps to place the subsidiary that operated that facility in voluntary administration. During the first quarter of 2002, we recorded a charge of \$9.7 million related to the closure of the facility. The Company placed the subsidiary in voluntary administration by the end of the first quarter.

The following information relates to the discontinued operations:

	Quarter ended	
	March 30, 2003	March 31, 2002
(in millions)		
Revenue	\$ —	\$ 5.0
Loss from discontinued operations	\$ —	\$ 10.2

In 2002, the loss from discontinued operations includes the cost of closing the Cork facility of \$9.7 million. Within this amount are the write-off of the net assets of \$6.7 million (comprised of capital assets of \$1.1 million and net working capital of \$5.6 million) and other costs associated with exiting the facility of \$3.0 million. Included in the other costs is severance of \$1.3 million related to the termination of all employees at that site. Costs of \$2.7 million were paid out during 2002 and costs of \$0.1 million were paid out during the quarter ended March 30, 2003.

### **Liquidity and Capital Resources**

Our principal sources of liquidity are cash provided from operations and borrowings under our senior credit facility. In the past, we have also relied on our access to the capital markets. Our principal uses of cash have been to meet debt service requirements and to finance capital expenditures and working capital

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requirements. We anticipate our principal uses of cash in the future will continue to be to meet debt service requirements and to finance capital expenditures and working capital requirements.

During the second quarter of 2002, the Company informed Dell of its intention to terminate its supply agreement with Dell and to end production over the third quarter of 2002. The Company's decision was taken after a review of the Company's return on capital requirements indicated that the customer's programs were not generating sufficient returns and, at the same time, were utilizing a disproportionate amount of working capital. The Company expects lower revenues in 2003, which is expected to be offset by reduced expense levels and reduced working capital usage.

### Three months ended March 30, 2003 Liquidity:

Net cash provided by operating activities for the first quarter of 2003 was \$1.6 million. Cash was generated largely from net earnings and the collection of accounts receivable, partially offset by a decline in accounts payable and accrued liabilities. Our net cash cycle improved from 52 days for the first quarter of 2002 to 39 days for the first quarter of 2003. Days inventory improved to 44 days exiting the first quarter of 2003 from 62 days exiting the first quarter of 2002.

Net cash used in financing activities for the first quarter of 2003 was \$1.8 million due to the net repayment of long-term debt of \$1.7 million, consisting of the repayment of the term component of the credit facility of \$3.7 million, offset by an increase to the revolving component of the credit facility of \$2.0 million and the repayment of capital leases of \$0.1 million.

Net cash used in investing activities for the first quarter of 2003 was \$0.0 million.

### Three months ended March 31, 2002 Liquidity:

Net cash provided by operating activities for the first quarter of 2002 was \$1.4 million. Lower levels of activity and our continued focus on improving our balance sheet metrics led to reduced working capital usage.

Net cash used by financing activities for the quarter ended March 31, 2002 was \$10.7 million due to the repayment of long-term debt of \$10.3 million, the repayment of capital leases of \$0.1 million and the costs associated with the amendment to our credit agreement of \$0.3 million.

Net cash used in investing activities for the quarter ended March 31, 2002 was \$1.0 million due to the purchase of capital assets.

### *Capital Resources*

As a result of restructuring actions and market conditions we incurred a significant operating loss during 2001, which resulted in our non-compliance with certain financial covenants contained in our credit agreement as at September 30, 2001. In February 2002, we and our lending group executed an amendment to our credit facility to waive the September 30, 2001 defaults and to revise the covenant tests to be consistent with both then-current revenues and the forecast for 2002.

In connection with the February 2002 amendment, the Company agreed to issue to the lenders warrants to purchase common stock of the Company for 1.5% of the total outstanding shares on February 11, 2002 and 0.5% of the total outstanding shares on December 31, 2002. All of these warrants were cancelled in exchange for warrants issued in connection with the December 31, 2002 amendment, as described below.

The Company paid amendment fees of \$1.5 million comprised of \$0.7 million, representing 0.5% of the lender's commitments under the revolving credit facilities and term loans outstanding at February 11, 2002, and other amendment related fees of \$0.8 million.

In March 2002, we and our lenders executed an amendment to our credit facility to waive the default that would have been caused by placing the subsidiary that operated the Cork, Ireland facility in voluntary liquidation. We paid \$0.1 million in amendment fees in connection with such amendment.

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The Company and its lending group agreed in April 2002 to further amend the credit agreement to increase the Company's permitted loan balances to correspond to its higher working capital needs. In connection with such amendment, we paid approximately \$0.1 million in amendment fees.

The Company and its lending group further amended the credit agreement effective December 31, 2002, which was prior to the date on which the Company was to revert back to the covenants under the original credit agreement, to revise certain covenants and waive certain defaults under the credit agreement. The revised terms of the credit agreement establish amended financial and other covenants covering the period up to June 30, 2004, based on the Company's current business plan. The amended facility provides for \$27.5 million in term loans and \$90.0 million in revolving credit loans, swing-line loans and letters of credit.

Continued compliance with the financial covenants is dependent on the Company achieving the forecasts inherent in its December 2002 business plan. The forecasts are dependent on a number of factors, many of which are outside the control of the Company. These include, but are not limited to, general economic conditions and specifically the strength of the electronics industry and the related demand for products and services by the Company's customers. If the Company does not comply with its financial covenants and such default 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, the lenders could proceed against any collateral granted to them to secure the indebtedness. Substantially all of the Company's assets have been pledged to the lenders as collateral for the Company's obligations under the senior credit facility.

During the amendment period, the facility bears interest at the U.S. base rate as defined in the credit agreement plus 2.5%. As March 30, 2003 we had borrowed \$80.9 million under this facility.

In connection with the December 31, 2002 amendment, the lenders returned to the Company for cancellation the existing warrants they held, and the Company agreed to issue to the lenders warrants to purchase common stock of the Company at an exercise price equal to the fair market value (defined as average of the last reported sales price of the common stock of the company for twenty consecutive trading days commencing 22 trading days before the date in question) at the date of the grant for (a) 4.0% of the total outstanding shares on December 31, 2002, (b) 1.0% of the total outstanding shares on December 31, 2002, (c) 0.75% of the total outstanding shares on the date that is 45 days after the end of the Company's first fiscal quarter of 2003, (d) 0.75% of the total outstanding shares on the date that is 45 days after the end of the Company's second fiscal quarter of 2003, (e) 0.75% of the total outstanding shares on the date that is 45 days after the end of the Company's third fiscal quarter of 2003, (f) 0.75% of the total outstanding shares on the date that is 90 days after the end of the Company's fourth fiscal quarter of 2003, (g) 1.0% of the total outstanding shares on the date that is 45 days after the end of the Company's first fiscal quarter of 2004 and (h) 1.0% of the total outstanding shares on the date that is 45 days after the end of the Company's second fiscal quarter of 2004; provided, however that if the Company meets certain EBITDA targets on the dates identified in (c) through (h) above, it will not issue warrants corresponding to such date. The Company met its EBITDA targets as at March 30, 2003. As such, the warrants referred to in (c) above were not issued. If all amounts outstanding under the credit agreement are repaid in full on or before December 31, 2003, all warrants referred to in (b) through (e) above and received by the lenders shall be returned to the Company and cancelled. The warrants will not be tradable separate from the related debt until the later of December 31, 2003 or nine months after the issuance of the warrants being transferred.

In connection with the December 31, 2002 amendment, we paid approximately \$1.7 million in amendment fees. The amendment fees and the fair value of the warrants to be issued in connection with the December 31, 2002 amendment have been accounted for as deferred financing fees included in other assets in the financial statements.

If the Company is able to achieve its December 2002 business plan, management believes that cash generated from operations, available cash and amounts available under our senior credit facility will be adequate to meet our debt service requirements, capital expenditures and working capital needs at our current level of operations and organic growth through the next twelve months, although no assurance can be given in this regard, particularly with respect to amounts available under our credit facility, as discussed above. If the Company is unable to achieve its December 2002 business plan and does not comply with its financial covenants, we would not have sufficient resources to meet our debt service requirements, capital expenditures and working capitals needs unless such default is cured or waived. Further, there can be no assurance that our

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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 or refinance indebtedness will be subject to future economic conditions and to financial, business and other factors, certain of which are beyond our control.

### **Recently Issued Accounting Standards**

In August 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations, which requires that the fair value of an asset retirement obligation be recorded as a liability, at fair value, in the period in which the Company incurs the obligation. The Statement is effective for fiscal 2003 and there was no material effect as a result of the adoption of this Statement on January 1, 2003.

In July 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (“Statement 146”), which nullifies Emerging Issues Task Force (“EITF”) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (“EITF 94-3”). Statement 146 recognizes the liability for an exit or disposal activity only when a liability is incurred and can be measured at fair value. Under EITF 94-3 a commitment to an exit or disposal plan was sufficient to record the majority of the costs. Statement 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company adopted this Statement on January 1, 2003 and accordingly, the restructuring charges recorded in the quarter ended March 30, 2003 were made in accordance with the new standard.

In November 2002, the FASB issued Interpretation No. 45, Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others (“FIN 45”), which requires certain disclosures of obligations under guarantees. The disclosure requirements of FIN 45 were effective for the Company’s year ended December 31, 2002. Effective for 2003, FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees entered into or modified after December 31, 2002, based on the fair value of the guarantee. The Company adopted the disclosure requirements in its 2002 consolidated financial statements. The Company has not entered into or modified any guarantees after December 31, 2002. See note 11 for disclosure related to guarantees.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002 describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. The following critical accounting policies are impacted 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.

#### *Allowance for Doubtful Accounts*

The Company evaluates the collectibility of accounts receivable and records an allowance for doubtful accounts, which reduces the accounts receivable to the amount management reasonably believes will be collected. A specific allowance is recorded against customer receivables that are considered to be impaired based on the Company’s knowledge of the financial condition of its customers. In determining the amount of the allowance, the Company considers factors including the length of time the receivables have been outstanding, customer and industry concentrations, current business environment and historical experience. Unanticipated changes in the liquidity or financial position of our customers may require additional provisions for doubtful accounts.

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### *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. Our industry is characterized by rapid technological change, short-term customer commitments and rapid changes in demand. The Company writes down estimated obsolete or excess inventory for the difference between the cost of inventory and estimated market value based on 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 actual market conditions or our customers' product demands are less favorable than those projected, additional provisions may be required.

### *Restructuring and Other Charges*

In response to excess capacity caused by the slowing technology end market, the Company recorded restructuring and other charges aimed at reducing its cost structure. In connection with exit activities, the Company recorded charges for inventory write-downs, employee termination costs, lease and other contractual obligations, long-lived asset impairment and other exit-related costs. These charges were incurred pursuant to formal plans developed by management. The recognition of restructuring and other charges required the Company to make certain judgments and estimates regarding the nature, timing and amount of costs associated with the planned exit activities. The estimates of future liabilities may change, requiring the recording of additional charges or the reduction of liabilities already recorded. At the end of each reporting period, the Company evaluates the remaining accrued balances to ensure that no excess accruals are retained and the utilization of the provision are for their intended purposes in accordance with the developed exit plans.

### *Long-lived Assets*

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset groupings) to future net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Effective January 1, 2002, the Company adopted the new accounting standard issued in 2001, which is summarized in note 2(q(ii)), changes in accounting policies, to the December 31, 2002 consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission on March 27, 2003. The adoption of this new accounting standard did not affect the Company's financial statements as at the date of adoption.

### *Income Tax Valuation Allowance*

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. Based upon consideration of these factors, management believes the recorded valuation allowance related to the loss carryforwards is appropriate. However, in the event that actual results differ from estimates or management adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact its financial position and results of operations. At March 30, 2003, the Company had a deferred tax asset of \$34.2 million. The Company's future results of operations could be materially affected if it determines to increase the valuation allowance related to the deferred tax asset.

## **FORWARD-LOOKING STATEMENTS**

A number of the matters and subject areas discussed in this Form 10-Q 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; these expectations may differ materially from SMTC's actual future experience involving any one or more of such matters and subject areas. SMTC cautions readers that all statements other than statements of historical facts included in this quarterly Form 10-Q regarding SMTC's financial position and

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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 likely 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 agreement; (4) the loss or retirement of key members of management; (5) increases in SMTC's cost of borrowings or lack of availability of 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 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**

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

As a result of recent unfavorable economic conditions and reduced capital spending, our sales have declined from 2001 to 2002 and the first quarter of 2003. In particular, sales to OEMs in the telecommunications and networking industries worldwide were impacted during 2002. If economic conditions worsen or fail to improve, we may experience a material adverse impact on our business, operating results and financial condition.

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

Our two largest customers during the first quarter of 2003 were IBM and Alcatel, which represented approximately 20.3% and 15.0%, respectively, of our total revenue for that period. Our top ten largest customers (including IBM and Alcatel) collectively represented approximately 85.1% of our total revenue during the first quarter of 2003. During the second quarter of 2002, the Company informed Dell of its intention to terminate its supply agreement with Dell and to end production over the third quarter of 2002. The Company's decision was taken after a review of the Company's return on capital requirements indicated that the customer's programs were not generating sufficient returns and, at the same time, were utilizing a disproportionate amount of working capital. Nevertheless, 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 could experience a significant reduction in our revenue. Also, 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 could decrease revenue. As many of our costs and operating expenses are relatively fixed, a reduction in net revenue can decrease our profit margins and adversely affect our business, financial condition and results of operations.

##### **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 domestic and foreign EMS providers including Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., Sanmina-SCI, Inc., Solectron Corporation, Benchmark and Plexus. In addition, we may in the future encounter competition from other large electronics manufacturers that are selling, or may begin to sell, electronics manufacturing services. Many of our competitors have international operations, and some may have

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substantially greater manufacturing, financial, research and development and marketing resources and lower cost structures than we do. 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 affect us in the future. Historically, our calendar fourth quarter revenue has been highest and our calendar first quarter revenue has been lowest. 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;
- effectiveness in managing our manufacturing processes and inventory levels;
- changes in competitive and economic conditions generally or in our customers' markets;
- changes in the cost or availability of components or skilled labor; and
- the timing of, and the price we pay for, acquisitions and related integration costs.

In addition, most of our customers typically do not commit to firm production schedules more than 30 to 90 days in advance. Accordingly, we cannot forecast the level of customer orders with certainty. This makes it difficult to schedule production and 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 sometimes delivery schedules have been deferred as a result of changes in a customer's business needs. Any material delay, cancellation or reduction of orders from our largest customers could cause our revenue to decline significantly. 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.

Any of these factors or a combination of these factors could have a material adverse effect 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.**

Substantially all 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.



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Furthermore, this industry is subject to economic cycles and has in the past experienced downturns. A continued recession or a downturn in the electronics industry would likely have a material adverse effect on our business, financial condition and results of operations.

### **Shortage or price fluctuation in 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 a material adverse effect on our business, financial condition and results of operations. We are required to forecast our future inventory needs based upon the anticipated demands of our customers. Inaccuracies in making these forecasts or estimates could result in a shortage or an excess of materials. In addition, delays, cancellations or reductions of orders by our customers could result in an excess 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 productions 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 have been forced to allocate available quantities among their customers and we have not been able to obtain all of the materials desired. Our inability to obtain these needed 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. Accordingly, some component price increases could increase costs and 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 a material adverse effect on our business, financial condition and results of operations.

### **We have experienced significant growth and significant retrenchment in a short period of time.**

Since 1995, we have completed seven acquisitions. Acquisitions may involve numerous risks, including difficulty in integrating operations, technologies, systems, and products and services of acquired companies; diversion of management’s attention and disruption of operations; increased expenses and working capital requirements; entering markets in which we have limited or no prior experience and where competitors in such markets have stronger market positions; and the potential loss of key employees and customers of acquired companies. In addition, acquisitions may involve financial risks, such as the potential liabilities of the acquired businesses, the dilutive effect of the issuance of additional equity securities, the incurrence of additional debt, the financial impact of transaction expenses and the amortization of goodwill and other intangible assets involved in any transactions that are accounted for using the purchase method of accounting, and possible adverse tax and accounting effects.

In 2001 we implemented a restructuring plan that called for significant retrenchment. We closed our Denver and Haverhill facilities and resized operations in Mexico and Ireland in an effort to reduce our cost structure. In February, 2002 the main customer of our Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, we announced that we were closing our Cork, Ireland facility and that we were taking steps to place the subsidiary that operates that facility in voluntary administration. During the third quarter of 2002, the Company took further steps to realign its cost structure and plant capacity. We have also determined to close our interconnect facility in Donegal, Ireland and our site in Austin, Texas. Manufacturing ceased in Austin, Texas during the first quarter of 2003, and we expect to cease operations at Donegal, Ireland during the second quarter of 2003. Retrenchment has caused, and is expected to continue to cause, strain on our infrastructure, including our managerial, technical and other resources. We may experience inefficiencies as we integrate operations from closed facilities to currently operating facilities and may experience delays in meeting the needs of transferred customers. In addition, we are reducing the geographic dispersion of our operations, which may make it harder for us to compete and may cause us to lose

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customers. The loss of customers could have a material adverse effect on our business, financial condition and results of operations.

We have a limited history of owning and operating our acquired businesses on a consolidated basis. There can be no assurance that we will be able to meet performance expectations or successfully integrate our acquired businesses on a timely basis without disrupting the quality and reliability of service to our customers or diverting management resources. Our rapid growth and subsequent retrenchment has placed and will continue to place a significant strain on management, on our financial resources, and on our information, operating and financial systems. If we are unable to manage effectively, it may have a material adverse effect 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 products and 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.

### **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. In addition, our ability to successfully implement our business plan depends in part on our ability to retain key management and existing employees. There can be no assurance that we will be able to retain our executive officers and key personnel or attract qualified management in the future. In connection with our restructuring, we significantly reduced our workforce. If we receive a significant volume of new orders, we may have difficulty recruiting skilled workers back into our workforce to respond to such orders and accordingly may experience delays that could adversely effect our ability to meet customers' delivery schedules.

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

Revenue generated outside of the United States and Canada was approximately 8.8% in the first quarter of 2003. International 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;
- 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;
- trade restrictions; and

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- dependence on key customers.

### **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, along with any other person who arranges for the disposal of our wastes, 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 a material 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 a material adverse effect on our business, financial condition 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.**

At March 30, 2003, we had \$80.9 million of indebtedness under our senior credit facility. This debt 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 by financial and other restrictive covenants in our credit arrangements in our borrowing of additional funds; and
- We may fail to comply with the covenants under which we borrowed our indebtedness which 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, the lenders could proceed against any collateral granted to them to secure that indebtedness. Substantially all of the Company's assets have been pledged to the lenders as collateral for the Company's obligations under the senior credit facility. During the fourth quarter of 2002, we were in violation of certain covenants contained in our credit agreement. Such violation was waived and the credit agreement was amended to provide financial covenants through June 2004 consistent with our December 2002 business plan. However, there can be no assurance that we will maintain compliance with the covenants under our credit 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

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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 our senior credit facility or successor facilities.

### **The terms of our credit agreement impose significant restrictions on our ability to operate.**

The terms of our current credit agreement restrict, among other things, our ability to incur additional indebtedness, complete acquisitions, pay dividends or make certain other restricted payments, consummate certain asset sales, make capital expenditures, incur cash restructuring costs, enter into certain transactions with affiliates, merge, consolidate or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets. We are also required to maintain specified financial ratios and satisfy certain monthly and quarterly financial condition tests, which further restrict our ability to operate as we choose. During the fourth quarter of 2002, we were in violation of certain covenants contained in our credit agreement. Such violation was waived and the credit agreement was amended to provide financial covenants through June 2004 consistent with our December 2002 business plan. As a result of our non-compliance, customers may lose confidence in us and reduce or eliminate their orders with us which may have a material adverse effect on our business, financial condition and results of operations.

Substantially all of our assets and those of our subsidiaries are pledged as security under our senior credit facility.

### **Institutional investors and certain members of management have significant influence over our business, and could delay, deter or prevent a change of control or other business combination.**

Certain of our institutional investors have representatives on our board of directors, including investment funds affiliated with Bain Capital, LLC and investment funds affiliated with Celerity Partners. Further, certain members of our management, who are also stockholders of SMTC, serve on our board. By virtue of such stock ownership and board representation, certain of our institutional investors and certain members of management have a significant influence over all matters submitted to our stockholders, including the election of our directors, and exercise significant control over our business policies and affairs. Such concentration of voting power could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders.

### **Provisions in our charter documents and state law may make it harder for others to obtain control of us even though some stockholders might consider such a development favorable.**

Provisions in our charter, by-laws and certain provisions under Delaware law may have the effect of delaying or preventing a change of control or changes in our management that stockholders consider favorable or beneficial. If a change of control or change in management is delayed or prevented, the market price of our shares could suffer.

## **Item 3: Quantitative and Qualitative Disclosure about Market Risk**

### **Interest Rate Risk**

Our senior credit facility bears interest at a floating rate. The weighted average interest rate on our senior credit facility for the quarter ended March 30, 2003 was 7.6%. Our debt of \$80.9 million bore interest at 6.8% on March 30, 2003 based on the U.S. base rate. If the U.S. base rate increased by 10% our interest rate would have risen to 7.1% and our interest expense would have increased by approximately \$0.1 million for the first quarter of 2003.

### **Foreign Currency Exchange Risk.**

Most of our sales and purchases are denominated in U.S. dollars, and as a result we have relatively little exposure to foreign currency exchange risk with respect to sales made.

**Item 4. Controls and Procedures**

- (a) Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer have conducted an evaluation of the Company's disclosure controls and procedures as of a date within 90 days of filing this quarterly report. Based on their evaluation, the Company's Chief Executive Officer and Chief 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 recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms.
- (b) 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 Chief Financial Officer.

**PART II OTHER INFORMATION**

**Item 5. Other Information**

Accompanying this Quarterly Report on Form 10-Q are the certificates of the Chief Executive Officer and Chief Financial Officer required by Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, copies of which are furnished as exhibits to this report.

Michael Griffiths declined to stand for re-election as a member of SMTC's Board of Directors at the Company's 2003 Annual Meeting of Stockholders. Accordingly, his term as a director serving the Company's Board and as a member of the Audit Committee expired on May 6, 2003, the date of the Annual Meeting.

The Company ceased manufacturing at the Austin, Texas facility during the first quarter of 2003 and transferred the production to more cost effective regions. The Company ceased manufacturing at the Donegal, Ireland site during April of 2003 and has entered into alternative arrangements to produce cables and harnesses for its customers.

**Item 6. Exhibits And Reports On Form 8-K**

(a) List of Exhibits:

10.1 Lease Agreement dated as of January 1, 2003 between the Estate of Edwin A. Helwig, Barbara G. Helwig and SMTC Corporation.

99.1 Certification of Paul Walker, 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 May 14, 2003.

99.2 Certification of Frank Burke, 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 May 14, 2003.

(b) Reports on Form 8-K: None.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, SMTC Corporation has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

**SMTC CORPORATION**

By: /s/ Paul Walker

\_\_\_\_\_  
Name: Paul Walker  
Title: President and CEO

By: /s/ Frank Burke

\_\_\_\_\_  
Name: Frank Burke  
Title: Chief Financial Officer

Date: May 14, 2003

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul Walker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SMTC Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Paul Walker  
Paul Walker  
Chief Executive Officer



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**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Frank Burke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SMTC Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Frank Burke

Frank Burke  
Chief Financial Officer

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Document</b>
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99.2	Certification of Frank Burke, 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 May 14, 2003.

**2302 TRADE ZONE BOULEVARD  
SAN JOSE, CALIFORNIA  
MULTI-TENANT  
INDUSTRIAL/R&D LEASE AGREEMENT  
BETWEEN  
The Estate of Edwin A. Helwig  
Barbara G. Helwig  
("LANDLORD")  
AND  
SMTC Corporation  
("TENANT")  
INDUSTRIAL/R&D LEASE AGREEMENT**

**THIS INDUSTRIAL/R&D LEASE AGREEMENT** (the "Lease") is made and entered into as of the 1st day of January 2003, by and between The Estate of Edwin A. Helwig and Barbara G. Helwig ("Landlord") and SMTC Corporation ("Tenant").

**I. Basic Lease Information**

- A. "Building" shall mean the building located at 2302 Trade Zone Boulevard, San Jose, California, commonly known as 2302 Trade Zone Blvd.
- B. "Rentable Square Footage of the Building" is deemed to be 64,800 square feet.
- C. "Premises" shall mean the area shown on Exhibit A to this Lease. The "Rentable Square Footage of the Premises" is deemed to be 34,000 square feet. All corridors and restroom facilities shall be considered part of the Premises. Landlord and Tenant stipulate and agree that the Rentable Square Footage of the Building and the Rentable Square Footage of the Premises are correct and shall not be remeasured.

D. "Base Rent": Month- To- Month as Follows:

January – March 2003	\$32,300
April – June 2003	\$30,600
July – September 2003	\$28,900
October – December 2003	\$27,200

- E. "Tenant's Pro Rata Share"= 52.4%  
"Tenant's Monthly Expense and Tax Payment": \$5,276.84, which is Tenant's Pro Rata Share of the monthly estimated Expenses and monthly estimated Taxes (as more fully described in, and subject to adjustment as described in, Article IV below).
- F. "Term": Month- To- Month. The Term shall commence on January 1, 2003 (the "Commencement Date") and, unless terminated early in accordance with this Lease, end on December 31, 2003 (the "Termination Date").
- G. Tenant allowance(s): None
- H. "Security Deposit": \$71,280
- I. "Guarantor(s)": None
- J. "Broker": Colliers International
- K. "Permitted Use": Contract Assembly, out source manufacturing and storage.
- L. "Notice Addresses":

Tenant:

On and after the Commencement Date, notices shall be sent to Tenant at the Premises.

Landlord:

The Estate of Edwin A. Helwig  
Barbara G. Helwig  
c/o EMI Property Management  
2150 Trade Zone Boulevard, Suite 106  
San Jose, CA 95131

Rent (defined in Section IV.A) is payable to the order of EMI Property Management at the following address: 2150 Trade Zone Boulevard, Suite 106, San Jose, CA 95131.

- M. "Business Day(s)" are Monday through Friday of each week, exclusive of New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day

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("Holidays"). Landlord may designate additional Holidays, provided that the additional Holidays are commonly recognized by other office buildings in the area where Building is located.

- N. Intentionally Omitted.
- O. "Law(s)" means all applicable statutes, codes, ordinances, order, rules and regulations of any municipal or governmental entity.
- P. "Normal Business Hours" for the Building are 8:00 A.M. to 5:00 P.M. on Business Days. This paragraph will only be applicable when at such time another tenant is procured to lease the unoccupied space vacated by SMTC and pass through expenses need to be allocated among tenants until power can be separately metered.
- Q. "Property" means the Building and the parcel(s) of land on which it is located and, at Landlord's discretion, the landscaping, the parking facilities and all other improvements owned by Landlord and serving the Building and the Tenants thereof and the parcel(s) of land on which they are located. The location is specified as 2302 Trade Zone Boulevard, San Jose CA 95131.
- R. Intentionally omitted.
- S. "Exterior Common Areas" means those areas of the Project and/or the Property which are not located within the Building or any other building and which are provided and maintained for the use and benefit of Landlord and Tenants of the Building and/or the Project, generally and the employees, invitees and licensees of Landlord and such Tenant, including, without limitation, any parking areas, walkways, plaza, roads, driveways, sidewalks, surface parking and landscapes, if any.

## II. Lease Grant.

Landlord leases the Premises to Tenant and Tenant leases the Premises from Landlord, together with the right in common with others to use any portions of the Property that are designated by Landlord for the common use of Tenants and others, such as sidewalks, unreserved parking areas, common corridors, restrooms, vending areas and lobby areas (the "Common Areas").

## III. Possession.

- A. Intentionally Omitted.
- B. Subject to Landlord's obligations under Section IX.B, the Premises are accepted by Tenant in "as is" condition and configuration. Landlord estimates that commencement of the construction of the demising wall will be January 2, 2003. At such time contractor will separate the switches so that Tenant will have controls only to those lights and mechanical that are part of Tenants occupied space. All other lights and mechanical not used by the tenant will either be divided, separated or turned off. Tenant must remove all equipment, furniture and other personal property from the unoccupied portion of the building no later than January 1, 2003. By taking possession of the Premises, Tenant agrees that the Premises are in good order and satisfactory condition, and that there are not representations or warranties by Landlord regarding the condition of the Premises, the Building or the Project. If Landlord is delayed delivering possession of the Premises or any other space due to the holdover or unlawful possession of such space by any party, Landlord shall use reasonable efforts to obtain possession of the space. The Commencement Date shall be postponed until the date Landlord delivers possession of the Premises to Tenant free from occupancy by any party, and the Termination Date, at the option of Landlord, may be postponed by an equal number of days.
- C. The parties agree that, following the full and final execution and delivery of this Lease and delivery of all prepaid rental, security deposits and guaranties required hereunder, Tenant may take possession of the Premises for purposes for performing the Initial Alteration, as described in Exhibit C. Such possession prior to the Commencement Date shall be subject

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to all of the terms and conditions of the Lease. Tenant shall be liable for any parking or special or after hour services provided to Tenant during such period.

#### IV. Rent.

- A. Payments. As consideration for this Lease, Tenant shall pay Landlord, without any setoff or deduction, the total amount of Base Rent and Additional Rent due for the first month of the term. "Additional Rent" means all sums (exclusive of Base Rent) that Tenant is required to pay Landlord. Additional Rent and Base Rent are sometimes collectively referred to as "Rent". Tenant shall pay and be liable for all rental, sales and use taxes (but excluding income taxes), if any, imposed upon or measured by Rent under applicable Law. Base Rent and recurring monthly charges of Additional Rent shall be due and payable in advance on the first day of each calendar month without notice or demand, provided that the installment of Base Rent and Tenant's Monthly Expense and Tax Payment (defined in Section I.E above) for the first full calendar month of the Term shall be payable upon execution of this Lease by Tenant. All other items of Rent shall be due and payable by Tenant on or before 10 days after billing by Landlord. All payments of Rent shall be by good and sufficient check or by other means (such as automatic debit or electronic transfer) acceptable to Landlord. If Tenant fails to pay any item or installment of Rent when due, Tenant shall pay Landlord an administration fee equal to 6% of the past due Rent, provided that Tenant shall be entitled to a grace period of 5 days for the first 2 late payments of Rent in a given calendar year. If the Term commences on a day other than the first day of a calendar month or terminates on a day other than the last day of a calendar month, the monthly Base Rent and Tenant's Pro Rata Share of Expenses (defined in Section IV.C) and Taxes (defined in Section IV.D) for the month shall be prorated based on the number of days in such calendar month. Landlord's acceptance of less than the correct amount of Rent shall be considered a payment on account of the earliest Rent due. No endorsement or statement on a check or letter accompanying a check or payment shall be considered an accord and satisfaction, and either party may accept the check or payment without prejudice to that party's right to recover the balance or pursue other available remedies. Tenant's covenant to pay Rent is independent of every other covenant in this Lease.
- B. Payment of Tenant's Pro Rata Share of Expenses and Taxes. Tenant shall pay Tenant's Pro Rata Share of the total amount of Expenses (defined in Section IV.C) and Taxes (defined in Section IV.D) for each calendar year during the Term, Landlord shall provide Tenant with a good faith estimate of the total amount of Expenses and Taxes for each calendar year during the Term. On or before the first day of each month, Tenant shall pay to Landlord a monthly installment equal to one-twelfth of Tenant's Pro Rata Share of Landlord's estimate of the total amount of Expenses and Taxes, which initial monthly sum is defined in Section I.E above as the "Tenant's Monthly Expense and Tax Payment". If Landlord determines that its good faith estimate was incorrect by a material amount, Landlord may provide Tenant with a revised estimate. After its receipt of the revised estimate, Tenant's Monthly Expense and Tax Payment shall be based on the revised estimate. If Landlord does not provide Tenant with an estimate of the total amount of Expenses and Taxes by January 1 of a calendar year, Tenant shall continue to pay monthly installments based on the previous year's estimate until Landlord provides Tenant with new estimate. Upon delivery of the new estimate, an adjustment shall be made for any month which Tenant paid monthly installments based on the previous year's estimate. Tenant shall pay the Landlord the amount of any underpayment within 30 days after receipt of the new estimate. Any overpayment shall be refunded to Tenant within 30 days or credited against the next due future installment(s) of Additional Rent.

As soon as is practical following the end of each calendar year or the earlier if the Lease is mutually terminated before the term, Landlord shall furnish Tenant with a statement of the actual amount of Expenses and Taxes for the prior calendar year and Tenant's Pro Rata

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Share of the actual amount of Expenses and Taxes for the prior calendar year. If the estimated amount of Expenses and Taxes for the prior calendar year is more than the actual amount of Expenses and Taxes for the prior calendar year, Landlord shall apply any overpayment by Tenant against Additional Rent due or next becoming due, provided if the Term expires before the determination of the overpayment, Landlord shall refund any overpayment to Tenant after first deducting the amount of Rent due. If the estimated amount of Expenses and Taxes for the prior calendar year is less than the actual amount of Expenses and Taxes for such prior year, Tenant shall pay Landlord, within 30 days after its receipt of the statement of Expenses and Taxes, any underpayment for the prior calendar year.

- C. Expenses Defined. “Expenses” means the sum of (i) all direct and indirect costs and expenses incurred in each calendar year in connection with operating, maintaining, repairing, and managing the Building and the Property (including any costs and expenses in connection with operating, maintaining, repairing, and managing the Exterior Common Areas located on the property to the extent such costs and expenses are not deemed to be costs and expenses of the Project as a whole), and (ii) the Building’s, the Property’s and the Landlord’s allocable percentage of (a) all direct and indirect costs of operating, maintaining, repairing and managing the Project (including any costs and expenses in connection with operating, maintaining, repairing and managing the Exterior Common Areas located on the Project to the extent such costs and expenses are not specifically allocated to and payable by individual buildings within the Project), (b) all costs, fees or other amounts payable to any association established for the benefit of the Project and/or other properties, and (c) all fees payable to the company or association, if applicable, managing the parking areas within the Project, including but not limited to:
1. Labor costs, including, wages, salaries, social security and employment taxes, medical and other types of insurance, uniforms, training, and retirement and pension plans.
  2. Management fees, the cost of equipping and maintaining a management office, accounting and bookkeeping services, legal fees not attributable to leasing or collection activity, and other administrative costs. Landlord, by itself or through an affiliate, shall have the right to directly perform or provide any services under this Lease (including management services), provided that the cost of any such services shall not exceed the cost that would have been incurred had Landlord entered into an arms-length contract for such services with an unaffiliated entity of comparable skill and experience.
  3. The cost of services, including amounts paid to service providers and the rental and purchase cost of parts, supplies, tools and equipment.
  4. Premiums and deductibles paid by Landlord for insurance, including workers compensation, fire and extended coverage, earthquake, general liability, rental loss, boiler and other insurance customarily carried from time to time by owners of comparable Industrial/R&D buildings.
  5. Electrical Costs (defined below) and charges for water, gas, steam and sewer, but excluding those charges for which Landlord is reimbursed by Tenants. “Electrical Costs” means (a) charges paid by Landlord for electricity; (b) costs incurred in connection with an energy management program for the Building, the property or the Project; and (c) if and to the extent permitted by Law, a fee for the services provided by Landlord in connection with the selection of utility companies and the negotiation and administration of contracts for electricity, provided that such fee shall not exceed 50% of any savings obtained by Landlord. Electrical Costs shall be adjusted as follows: (i) amounts received by Landlord as reimbursement for above standard electrical consumption shall be deducted from Electrical Costs; (ii) the cost of electricity insured to provide overtime HVAC to specific Tenants (as reasonably estimated by Landlord) shall be deducted from Electrical Costs; and (iii) Tenant shall be billed directly by the respective utilities for the cost of building standard electricity and water to the Premises as a separate charge in

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addition to Base rent, the cost of electricity to individual Tenant spaces in the building shall be deducted from Electrical Costs. Landlord agrees to reimburse tenant for such portion of the utility bills that are charged to tenant to power the Landlord's share of the common areas. The amortized cost of capital improvements (as distinguished from replacement parts or components installed in the ordinary course of business) made to the Building, Property or Project which are: (a) performed primarily to reduce operating expense costs or otherwise improve the operating efficiency of the Building, Property or Project; or (b) required to comply with any Laws that are enacted, or first interpreted to apply to the Building, Property or Project, after the date of this Lease. The cost of capital improvements shall be amortized by Landlord over the lesser of the Payback Period (defined below) or 5 years. The amortized cost of capital improvements may, at Landlord's option include actual or imputed interest at the rate that Landlord would reasonably be required to pay to finance the cost of the capital improvement. "Payback Period" means the reasonably estimated period of time that it takes for the cost savings resulting from a capital improvement to equal the total cost of the capital improvement.

6. Any fees, costs and expenses relating to operating, managing, owning, repairing and maintaining the parking facilities or other amenities (if any) in the Project.

If Landlord incurs Expenses for the Building, the Property or the Project together with one or more other buildings or properties, whether pursuant to a reciprocal easement agreement, common area agreement or otherwise, the shared costs of expenses shall be equitably prorated and apportioned between the Building, the Property and the Project and the other buildings or properties. Expenses shall not include; the cost of capital improvement (except as set forth above); depreciation; interest (except as provided above for the amortization of capital improvements); principal payments of mortgage and other non-operating debts of Landlord; the cost of repairs or other work to the extent Landlord is reimbursed by insurance of condemnation proceeds; costs in connection with leasing space in the Building, including brokerage commissions; lease concessions, including rental abatements and construction allowances, granted to specific Tenants; costs incurred in connection with the sale, financing or refinancing of the Building; fines interest and penalties incurred due to the late payment of Taxes (defined in Section IV.D) or Expenses; organizational expenses associated with the creation and operation of the entity which constitutes Landlord; or any penalties or damages that Landlord pays to Tenant under this Lease or to other Tenants in the Building under their respective leases. If the Building is not at least 95% occupied during any calendar year or if Landlord is not supplying services to at least 95% of the total Rentable Square Footage of the Building at any time during a calendar year, Expenses shall, at Landlord's option be determined as if the Building had been 95% occupied and Landlord has been supplying services to 95% of the Rentable Square Footage of the Building during that calendar year. The extrapolation of Expenses under this Section shall be performed by appropriately adjusting the cost of those components of Expenses that are impacted by changes in the occupancy of the Building. It is mutually agreed that Tenant will be solely responsible for its share of the power used at the Premises and Landlord will reimburse Tenant for expenses incurred for Landlord's share of the common areas.

- D. Taxes Defined. "Taxes" shall mean: (1) all real estate taxes and other assessments on the Building and/or Property, and the Building's and Property's share of such taxes relating to the Project, including, but not limited to, assessments for special improvement districts and building improvement districts, taxes and assessments levied in substitution or supplementation in whole or in part of any such taxes and assessments and the Building's and Property's share of any real estate taxes and assessments and the Building's and under any reciprocal easement agreement, common area agreement or similar agreement as to the



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Building, Property and/or Project; (2) all personal property taxes for property that is owned by Landlord and used in connection with the operation, maintenance and repair of the Building, Property or the Project; and (3) all costs and fees incurred in connection with seeking reductions in any tax liabilities described in (1) and (2), including, without limitation, any costs incurred by Landlord for compliance, review and appeal of tax liabilities. Without limitation, Taxes shall not include any income, capital levy, franchise, capital stock, gift, estate or inheritance tax. If an assessment is payable in installments, Taxes for the year shall include the amount of the installment and any interest due and payable during that year. For all other real estate taxes, Taxes for that year shall, at Landlord's election, include either the amount accrued, assessed or otherwise imposed for the year or the amount due and payable for that year, provided that Landlord's election shall be applied consistently throughout the Term. If a change in Taxes is obtained for any year of the Term, then Taxes for that year will be retroactively adjusted and Landlord shall provide Tenant with a credit, if any, based on the adjustment.

- E. Audit Rights. Tenant may, within 90 days after receiving Landlord's statement of Expenses, give Landlord written notice ("Review Notice") that Tenant intends to review Landlord's records of the Expenses for that calendar year. Within a reasonable time after receipt of the Review Notice, Landlord shall make all pertinent records available for inspection that are reasonably necessary for Tenant to conduct its review. If any records are maintained at a location other than the office of the Building, Tenant may either inspect the records at such other location or pay for the reasonable cost of copying and shipping the records. If Tenant retains an agent to review Landlord's records, the agent must be with a licensed CPA firm. Tenant shall be solely responsible for all costs, expenses and fees incurred for the audit. Within 60 days after the records are made available to Tenant, Tenant shall have the right to give Landlord written notice (an "Objection Notice") stating in reasonable detail any objection to Landlord's statement of Expenses for that year. If Tenant fails to give Landlord an Objection Notice within the 60 day period or fails to provide Landlord with a Review Notice within the 90 day period described above, Tenant shall be deemed to have approved Landlord's statement of Expenses and shall be barred from raising any claims regarding the Expenses for that year. If Tenant provided Landlord with a timely Objection Notice, Landlord and Tenant shall work together in good faith to resolve any issues raised in Tenant's Objection Notice. If Landlord and Tenant determine that Expenses for the calendar year are less than reported, Landlord shall provide Tenant with a credit against the next installment of Rent in the amount of overpayment by Tenant. Likewise, if Landlord and Tenant determine that Expenses for the calendar year are greater than reported, Tenant shall pay Landlord the amount of any underpayment within 30 days. The records obtained by Tenant shall be treated as confidential. In no event shall Tenant ever be permitted to examine Landlord's records or to dispute any statement of Expenses unless Tenant has paid and continues to pay all Rent when due.

**V. Compliance with Laws; Use.**

The Premises shall be used only for the Permitted Use and for no other use whatsoever. Tenant shall not use or permit the use of the Premises for any purpose which is illegal, dangerous to persons or property or which, in Landlord's reasonable opinion, unreasonably disturbs any other Tenants of the Building or the Project or interferes with the operation of the Building or the Project. Tenant shall comply with all laws, including the Americans with Disabilities Act, regarding the operation of Tenant's business and the use, condition, configuration and occupancy of the Premises. Tenant, within 10 days after receipt, shall provide Landlord with copies of any notices it receives regarding a violation or alleged violation of any Laws. Tenant shall comply with the rules and regulations of the Building attached as Exhibit B and such other reasonable rules and regulations adopted by Landlord from time to time. Tenant shall also cause its agents, contractors, subcontractors, employees, customers, and subtenants to comply with all rules and regulations. Landlord shall not knowingly discriminate against Tenant in Landlord's enforcement of the rules and regulations.

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## VI. Security Deposit

The Security Deposit of \$71,280.00 which was delivered during the original 5 year lease term to Landlord upon the execution of this Lease by Tenant and shall be held by Landlord without liability for interest (unless required by Law) as security for the performance of Tenant's obligations. The Security Deposit is not an advance payment of Rent or a measure of Tenant's liability for damages. Landlord may, from time to time, without prejudice to any other remedy, use all or a portion of the Security Deposit to satisfy past due Rent or to cure any uncured default by Tenant. If Landlord uses the Security Deposit, Tenant shall on demand restore the Security Deposit to its original amount. Landlord shall return any unapplied portion of the Security Deposit to Tenant within 45 days after the later to occur of: (1) the determination of Tenant's Pro Rata Share of Expenses and Taxes for the final year of the Term; (2) the date Tenant surrenders possession of the Premises to Landlord in accordance with this Lease; or (3) the Termination Date. If Landlord transfers its interest in the Premises, Landlord may assign the Security Deposit to the transferee and, following the assignment, Landlord shall have no further liability for the return of the Security Deposit. Landlord shall not be required to keep the Security Deposit separate from its other accounts. Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code, or any similar or successor Laws now or hereinafter in effect.

## VII. Services to be Furnished by Landlord

- A. Landlord agrees to furnish Tenant with the following services: (1) Water service for use in the lavatories on each floor on which the Premises are located; (2) Intentionally omitted (3) Maintenance and repair of the Property as described in Section IX.B; (4) Janitor service on Business Days. If Tenant's use, floor covering or other improvements require special services in excess of the standard services for the Building, Tenant shall pay the additional cost attributable to the special services; (5) Intentionally omitted (6) such other services as Landlord reasonably determines are necessary or appropriate for the Building, the Property or the Project.
- B. Landlord's failure to furnish, or any interruption or termination of, services due to the application of Laws, the failure of any equipment, the performance of repairs, improvements or alterations, or the occurrence of any event or cause beyond the reasonable control of Landlord (a "Service Failure") shall not render Landlord liable to Tenant, constitute a constructive eviction of Tenant, give rise to an abatement of Rent, nor relieve Tenant from the obligation to fulfill any covenant or agreement. However, if the Premises, or a material portion of the Premises, is made untenantable for a period in excess of 3 consecutive Business Days as a result of the Service Failure, then Tenant, as its sole remedy, shall be entitled to receive an abatement of Rent payable hereunder during the period beginning on the 4<sup>th</sup> consecutive Business Day of the Service Failure and ending on the day the service has been restored. If the entire Premises has not been rendered untenantable by the Service Failure, the amount of abatement that Tenant is entitled to receive shall be prorated based upon the percentage of the Premises rendered untenantable and not used by Tenant. In no event, however, shall Landlord be liable to Tenant for any loss or damage, including the theft of Tenant's Property (defined in Article XV), arising out of or in connection with the failure of any security services, personnel or equipment.

## VIII. Leasehold Improvements.

With the exception of the list provided by the Tenant, all improvements to the Premises (collectively, "Leasehold Improvement") shall be owned by Landlord and shall remain upon the Premises without compensation to Tenant. However, Landlord, by written notice to Tenant within 30 days prior to the Termination Date, may require Tenant to remove, at Tenant's expense; (1) Cable (defined in Section IX.A) installed by or for the exclusive benefit of Tenant and located in the premises or other portions of the Building; and (2) any Leasehold Improvements that are performed by or for the benefit of Tenant, and in Landlord's reasonable judgment, are of a nature that would require removal and repair costs

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that are materially in excess of the removal and repair costs associated with standard office improvements (collectively referred to as "Required Removables"). Without limitation, it is agreed that Required Removables include internal stairways, raised floors, personal baths and showers, vaults, rolling file systems and structural alterations and modifications of any type. The Required Removables designated by Landlord shall be removed by Tenant before the Termination Date, provided that upon prior written notice to Landlord, Tenant may remain in the premises for up to 5 days after the Termination Date for the sole purpose of removing the Required Removables and perform the required repairs. Tenant, within 30 days after receipt of an invoice, shall reimburse Landlord for the reasonable costs incurred by Landlord. Notwithstanding the foregoing, Tenant, at the time it requests approval for a proposed Alteration (Defined in Section IX.C), may request in writing that Landlord advise Tenant whether the Alteration or any portion of the Alteration will be designated as a Required Removable. Within 10 days after receipt of Tenant's request, Landlord shall advise Tenant in writing as to which portions of the Alteration, if any will be considered to be Required Removables.

#### **IX. Repairs and Alterations**

- A. Tenant's Repair Obligations. Tenant shall, at its sole cost and expense, promptly perform all maintenance and repairs to the Premises that are not Landlord's express responsibility under this Lease, and shall keep the Premises in good condition and repair, reasonable wear and tear excepted. Tenant's repair obligations include, without limitation, repairs to: (1) floor covering; (2) interior partitions; (3) doors; (4) the interior side of demising walls; (5) electronic, phone and data cabling and related equipment (collectively, "Cable") that is installed by or for the exclusive benefit of Tenant and located in the Premises or other portions of the Building; (6) supplemental air conditioning units, private showers and kitchens, including hot water heaters, plumbing, and similar facilities serving Tenant exclusively. All work shall be performed in accordance with the rules and procedures described in Section IX.C below. If Tenant fails to make any repairs to the Premises for more than 15 days after notice from Landlord (although notice shall not be required if there is an emergency), Landlord may make the repairs, and Tenant shall pay the reasonable cost of the repairs to Landlord within 30 days after receipt of an invoice, together with an administrative charge in an amount equal to 10% of the cost of the repairs.
- B. Landlord's Repair Obligations. Landlord shall keep and maintain in good repair and working order and make repairs to and perform maintenance upon; (1) structural elements of the Building; (2) mechanical (including HVAC); electrical, plumbing, and fire/life safety systems serving the Building in general; (3) Common Areas; (4) the roof of the Building; (5) exterior windows of the Building, and (6) Alterations performed by contractors retained by Landlord, including related HVAC balancing. Landlord shall promptly make repairs (considering the nature and urgency of the repair) for which Landlord is responsible. Tenant hereby waives any and all rights under and benefits of subsection 1 of Section 1932 (Premature Termination by Hirer), and Sections 1941 (Premature Termination By Letter) and 1942 (Tenants Right To Repair or Vacate) of the California Civil Code, or any similar or successor Laws now or hereinafter in effect (See Attached).
- C. Alterations. Tenant shall not make alterations, additions or improvement to the Premises or install any Cable in the Premises or other portions of the Building or the Project (collectively referred to as "Alterations") without first obtaining the written consent of Landlord in each instance, which consent shall not be unreasonably withheld or delayed. However, Landlord, consent shall not be required for an Alteration that satisfies all of the following criteria (a "Cosmetic Alteration"): (1) is of a cosmetic nature such as painting, wallpapering, hanging pictures and installing carpeting; (2) is not visible from the exterior of the Premises or Building; (3) will not affect the systems or structure of the Building or the Project; and (4) does not require work to be performed inside the walls or above the ceiling of the Premises. However, even though consent is not required, the performance of Cosmetic Alterations shall be subject to all the other provisions of this Section IX.C. Prior to starting work, Tenant shall furnish Landlord with plans and specifications reasonably acceptable to

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Landlord; names of contractors reasonably acceptable to Landlord (provided that Landlord may designate specific contractors with respect to Building systems); copies of contracts; necessary permits and approvals; evidence of contractor's and subcontractor's insurance in amounts reasonably required by Landlord; and any security for performance that is reasonably required by Landlord. Changes to the plans and specifications must also be submitted to Landlord for its approval. Alterations shall be constructed in good and workmanlike manner using materials of a quality that is at least equal to the quality designated by Landlord as the minimum standard for the Building. Landlord may designate reasonable rules, regulations and procedures for the performance of work in the Building and the Project and, to the extent reasonably necessary to avoid disruption to the occupants of the Building and the Project, shall have the right to designate the time when Alterations may be performed. Tenant shall reimburse Landlord within 30 days after receipt of an invoice from Landlord, Tenant shall pay Landlord a fee for Landlord's oversight and coordination of any non-Cosmetic Alterations equal to 3% of the cost of the non-Cosmetic Alterations. Upon completion, Tenant shall furnish "as-built" plans (except for Cosmetic Alterations), completion affidavits, full and final waivers of lien in recordable form, and receipted bills covering all labor and materials. Tenant shall assure that the Alterations comply with all insurance requirements and Laws. Landlord's approval of an Alteration shall not be a representation by Landlord that the Alteration complies with applicable Laws or will be adequate for Tenant's use.

**X. Use of Electrical Services by Tenant.**

- A. Electricity used by Tenant in the Premises shall, at Landlord's option, be paid for by Tenant either; (1) through inclusion in Expenses (except as provided in Section X.B for excess usage; (2) by a separate charge payable by Tenant to Landlord within 30 days after billing by Landlord; or **(3) by separate charge billed by the applicable utility company and payable directly by Tenant.** Landlord will reimburse tenant for Landlord's share of common area expenses. Electrical service to the Premises may be furnished by one or more companies providing electrical generation, transmissions and distribution services, and the cost of electricity may consist of several different components or separate charge for such service, such as generation, distribution and stranded cost charges. Landlord shall have the exclusive right to select any company providing electrical service to the premises, to aggregate the electrical service for the Property and premises with other buildings, to purchase electricity through a broker and/or buyers group and to change the providers and manner of purchasing electricity. Landlord shall be entitled to receive a fee (if permitted by law) for the selection of utility companies and the negotiation and administration of contracts for electricity, provided that the amount of such fee shall not exceed 50% of any savings obtained by Landlord.
- B. Tenant's use of electrical service shall not exceed, either in voltage, rated capacity, use beyond Normal Business Hours or overall load, that which Landlord deems to be standard to the Building. If Tenant requests permission to consume excess electrical service, Landlord may refuse to consent or may condition consent upon conditions that Landlord reasonably elects (including, without limitation, the installation of utility service upgrades, meters, submeters, air handlers or cooling units), and the additional usage (to the extent permitted by Law), installation and maintenance costs shall be paid by Tenant. Landlord shall have the right to separately meter electrical usage for the Premises and to measure electrical usage by surveyor or other commonly accepted methods. The above will only be applicable when at such time another tenant is procured to lease the unoccupied portion of the remaining space and separate meters have not yet been installed.

**XI. Entry by Landlord.**

Landlord, its agents, contractors and representatives may enter the Premises to inspect or show the Premises, to clean and make repairs, alterations or additions to the Premises, and to conduct or facilitate repairs, alterations or additions to any portion of the Building or the

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Project, including other Tenants' premises. Except in emergencies or to provide janitorial and other Building services after Normal Business Hours, Landlord shall provide Tenant with reasonable prior notice of entry into the Premises, which may be given orally. If reasonably necessary for the protection and safety of Tenant and its employees, Landlord shall have the right to temporarily close all or portion of the Premises to perform repairs, alterations and additions. However, except in emergencies, Landlord will not close the Premises if the work can reasonably be completed on weekends and after Normal Business Hours. Entry by Landlord shall not constitute constructive eviction or entitle Tenant to an abatement of reduction of Rent.

## **XII. Assignment and Subletting.**

- A. Except in connection with a Permitted Transfer (defined in Section XII.E. below), Tenant shall not assign, sublease, transfer or encumber any interest in this Lease or allow any third party to use any portion of the Premises (collectively or individually, a "Transfer") without the prior written consent of Landlord, which consent shall not be unreasonably withheld if Landlord does not elect to exercise its termination rights under Section XII.B below. Without limitation, it is agreed that Landlord's consent shall not be considered unreasonably withheld if: (1) the proposed transferee's financial condition does not meet the criteria Landlord uses to select Building and Project Tenants having similar leasehold obligation; (2) the proposed transferee's business is not suitable for the Building or the Project considering the business of the other Tenants and the prestige of the Building and the Project, or would result in a violation of another Tenant's right; (3) the proposed transferee is a governmental agency or occupant of the Building, the Property or the Project; (4) Tenant is in default after the expiration of the notice and cure period in this Lease; or (5) any portion of the Premises, the Building or the Project would likely become subject to additional or different Laws as a consequence of the proposed transfer. Tenant shall not be entitled to receive monetary damages based upon a claim that Landlord unreasonably withheld its consent to a proposed Transfer and Tenant's sole remedy shall be an action to enforce any such provision through specific performance or declaratory judgment. Tenant hereby waives the provisions of Section 1995.310 of the California Civil Code, or any similar of successor Laws, now or hereinafter in effect, and all other remedies, including, without limitation, any right at law or equity to terminate this Lease, on its own behalf, and to the extent permitted under all applicable Laws, on behalf of the proposed transferee. Any attempted Transfer in violation of the Article shall, at Landlord's option, be void. Consent by Landlord to one or more Transfers shall not operate as a waiver of Landlord's rights to approve any subsequent Transfers. In no event shall any Transfer or Permitted Transfer release or relieve Tenant from any obligation under this Lease.
- B. As part of its request for Landlord's consent to a Transfer, Tenant shall provide Landlord with financial statements for the proposed transferee, a complete copy of the proposed assignment, sublease and other contractual documents and such other information as Landlord may reasonably request. Landlord shall, by written notice to Tenant within 30 days of its receipt of the required information and documentation, either; (1) consent to the Transfer by the execution of a consent agreement in a form reasonably designated by Landlord or reasonably refuse to consent to the Transfer in writing; or (2) exercise its right to terminate this Lease with respect to the portion of the Premises that Tenant is proposing to assign or sublet. Any such termination shall be effective on the proposed effective date of the Transfer for which Tenant requested consent. Tenant shall pay Landlord a review fee of \$1,250.00 for Landlord's review of any Permitted Transfer or requested Transfer, provided if Landlord's actual reasonable costs and expenses (including reasonable attorney's fees) exceed \$1,250.00, Tenant shall reimburse Landlord for its actual reasonable costs and expenses in lieu of a fixed review fee.
- C. Tenant shall pay Landlord 50% of all rent and other consideration which Tenant receives as a result of a Transfer that is in excess of the Rent payable to Landlord for the portion of the Premises and Term covered by the Transfer. Tenant shall pay Landlord for Landlord's share of any excess within 30 days after Tenant's receipt of such excess consideration. Tenant

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may deduct from the excess all reasonable and customary expenses directly incurred by Tenant attributable to the Transfer (other than Landlord's review fee) including brokerage fees, legal fees and construction costs. If Tenant is in Monetary Default (defined in Section XIX.A. below), Landlord may require that all sublease payments be made directly to Landlord, in which case Tenant shall receive a credit against Rent in the amount of any payments received (less Landlord's share of any excess.)

- D. Except as provided below with respect to a Permitted Transfer, if Tenant is a corporation, limited liability company, partnership, or similar entity, and if the entity which owns or controls a majority of the voting share/rights at any time changes for any reason (including but not limited to a merger, consolidation or reorganization), such change of ownership or control shall constitute a Transfer. The foregoing shall not apply so long as Tenant is an entity whose outstanding stock is listed on a recognized security exchange, or if at least 80% of its voting stock is owned by another entity, the voting stock of which is so listed.
- E. Tenant may assign its entire interest under this Lease to a successor to Tenant by purchase, merger, consolidation or reorganization without the consent of Landlord, provided that all of the following conditions are satisfied (a "Permitted Transfer"): (1) Tenant is not in default under this Lease; (2) Tenant's successor shall own all or substantially all of the assets of Tenant; (3) Tenant's successor shall have a net worth which is at least equal to the greater of Tenant's net worth at the date of the Lease or Tenant's net worth as of the day prior to the proposed purchase, merger, consolidation or reorganization; (4) the Permitted Use does not allow the Premises to be used for retail purposes; and (5) Tenant shall give Landlord written notice at least 30 days prior to the effective date of the proposed purchase, merger, consolidation or reorganization. Tenant's notice to Landlord shall include information and documentation showing that each of the above conditions has been satisfied. If requested by Landlord, Tenant's successor shall sign a commercially reasonable form of assumption agreement.

### **XIII. Liens.**

Tenant shall not permit mechanic's or other liens to be placed upon the Premises, Building, Property, Project or Tenant's leasehold interest in connection with any work or service done or purportedly done by or for benefit of Tenant. If a lien is so placed, Tenant shall, within 10 days of notice to Landlord of the filing of the lien, fully discharge the lien by settling the claim which resulted in the lien or by bonding or insuring over the lien in the manner prescribed by the applicable lien Law. If Tenant fails to discharge the lien, then, in addition to any other right or remedy of Landlord, Landlord may bond or insure over the lien or otherwise discharge the lien. Tenant shall reimburse Landlord for any amount paid by Landlord to bond or insure over the lien or discharge the lien, including, without limitation, reasonable attorneys' fees (if and to the extent permitted by Law) within 30 days after receipt of an invoice from Landlord.

### **XIV. Indemnity and Waiver of Claims.**

- A. Except to the extent caused by the negligence or willful misconduct of Landlord or any Landlord Related parties (defined below), Tenant shall indemnify, defend and hold Landlord, its trustees, members, principals, beneficiaries, partners, officers, directors, employees, Mortgagee(s) (defined in Article XXVI) and agents ("Landlord Related parties") harmless against and from all liabilities, obligations, damages, penalties, claims, actions, costs, charges and expense, including, without limitation, reasonable attorney's fees and other professional fees (if and to the extent permitted by Law), which may be imposed upon, incurred by or asserted against Landlord or any of the Landlord Related parties and arising out of or in connection with any damage or injury occurring in the Premises or any acts or omissions (including violations of Law) of Tenant, the Tenant Related parties (defined below) or any of Tenant's transferees, contractors or licensees.
- B. Except to the extent caused by the negligence or willful misconduct of Tenant or any Tenant Related Parties (defined below), Landlord shall indemnify, defend and hold Tenant, its trustees, members, principals, beneficiaries, partners, officers, directors, employees and agents ("Tenant Related Parties") harmless against and from all liabilities, obligations,

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damages, penalties, claims, actions, costs, charges and expenses, including, without limitation, reasonable attorneys' fees and other professional fees (if and to the extent permitted by Law), which may be imposed upon, incurred by or asserted against Tenant or any of the Tenant Related parties and arising out of or in connection with the acts or omissions (including violations of Law) of Landlord, the Landlord Related Parties or any of Landlord's contractors.

- C. Landlord and the Landlord Related Parties shall not be liable for, and Tenant waives, all claims for loss or damage to Tenant's business or loss, theft or damage to Tenant's Property or the property of any person claiming by, through or under Tenant resulting from: (1) wind or weather, (2) the failure of any sprinkler, heating or air-conditioning equipment, any electric wiring or any gas, water or steam pipes; (3) the backing up of any sewer pipe or downspout; (4) the busting, leaking or running of any tank, water closet, drain or other pipe; (5) water, snow or ice upon or coming through the roof, skylight, stairs, doorways, windows, walks or any other place upon or near the Building or the Project; (6) any act or omission of any party other than Landlord or Landlord Related parties; and (7) any causes not reasonably within the control of Landlord. Tenant shall insure itself against such losses under Article XV below. Notwithstanding the foregoing, except as provided in Article XVI to the contrary, Tenant shall not be required to waive any claims against Landlord (other than for loss or damage to Tenant's business) where such loss or damage is due to the negligence or willful misconduct of Landlord or any Landlord Related Parties.

**XV. Insurance.**

Tenant shall carry and maintain the following insurance (Tenant's Insurance"), at its sole cost and expense; (1) Commercial General liability Insurance applicable to the Premises and its appurtenances providing, on an occurrence basis, and minimum combined single limit of \$2,000,000.00; (2) All Risk Property/Business Interruption Insurance, including flood and earthquake, written at replacement cost value and with a replacement cost endorsement covering all of Tenant's trade fixture, equipment, furniture and other personal property within the Premises ("Tenant's Property"); (3) Worker's Compensation Insurance as required by the state in which the Premises is located and in amounts as may be required by applicable statute; and (4) Employers Liability Coverage of at least \$1,000,000.00 per occurrence. Any company writing any of Tenant's Insurance shall have an A.M. Best rating of not less than A-VIII. All Commercial General Liability insurance policies shall name Tenant as a named insured and Landlord (or any successor), The Estate of Edwin A. Helwig and Barbara G. Helwig, and EMI Property Management Inc., and their respective members, principals, beneficiaries, partners, officers, directors, employees, and agents, and other designees of Landlord as the interest of such designees shall appear, as additional insureds. All policies of Tenant's Insurance shall contain endorsements that the insurer(s) shall give Landlord and its designees at least 30 days' advance written notice of any change, cancellation, termination or lapse of insurance. Tenant shall provide Landlord with a certificate of insurance evidencing Tenant's insurance prior to the earlier to occur of the Commencement Date or the date Tenant is provided with possession of the Premises for any reason, and upon renewals at least 15 days prior to the expiration of the insurance coverage. So long as the same is available at commercially reasonable rates, Landlord shall maintain so called All Risk property insurance on the Building at replacement cost value, as reasonably estimated by Landlord. Except as specifically provided to the contrary, the limits of either party's' insurance shall not limit such party's liability under this Lease.

**XVI. Subrogation.**

Notwithstanding anything in this Lease to the contrary, Landlord and Tenant hereby waive and shall cause their respective insurance carriers to waive any and all rights of recovery, claim, action or causes of action against the other and their respective trustees, principals, beneficiaries, partners, officers, directors, agents, and employees, for any loss or damage that may occur to Landlord or Tenant or any party claiming by, through or under Landlord or Tenant, as the case may be, with respect to Tenant's Property, the Premises, The Building, the Project, any additions or improvements to the Premises, the Building, or the Project, or

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any contents thereof, including all rights of recovery, claims, actions or causes of action arising out of the negligence of Landlord or any Landlord Related parties or the negligence of Tenant or any Tenant Related Parties, which loss or damage is (or would have been, had the insurance required by this Lease been carried) covered by Insurance.

**XVII. Casualty Damage.**

- A. If all or any part of the Premises is damaged by fire or other casualty, Tenant shall immediately notify Landlord in writing. During any period of time that all or a material portion of the Premises is rendered untenable as a result of a fire or other casualty, the Rent shall abate for the portion of the Premises that is untenable and not used by Tenant. Landlord shall have the right to terminate this lease if: (1) the Building or the Project shall be damaged so that, in Landlord's reasonable judgment, substantial alteration or reconstruction of the Building or the Project shall be required (whether or not the Premises has been damaged); (2) Landlord is not permitted by law to rebuild the Building or the Project in substantially the same form as existed before the fire or casualty; (3) the Premises have been materially damaged and there is less than 2 years of the Term remaining on the date of the casualty; (4) any Mortgagee requires that the insurance proceeds be applied to the payment of the mortgage debt; or (5) a material uninsured loss to the Building or the Project occurs. Landlord may exercise its right to terminate this Lease by notifying Tenant in writing within 90 days after the date of the casualty. If Landlord does not terminate this Lease, Landlord shall commence and proceed with reasonable diligence to repair and restore the Building and the Leasehold Improvement (excluding any Alterations that were performed by Tenant in violation of this Lease). However, in no event shall Landlord be required to spend more than the insurance proceeds received by Landlord. Landlord shall not be liable for any loss or damage to Tenant's Property or to the business of Tenant resulting in any way from the fire or other casualty or from the repair and restoration of the damage. Landlord and Tenant hereby waive the provisions of any Law relating to the matters addressed in this Article, and agree that their respective rights for damage to or destruction of the Premises shall be those specifically provided in this Lease.
- B. If all or any portion of the Premises shall be made untenable by fire or other casualty, Landlord shall, with reasonable promptness, cause an architect or general contractor selected by Landlord to provide Landlord and Tenant with a written estimate of the amount of time required to substantially complete the repair and restoration of the Premises and make the Premises tenantable again, using standard working methods ("Completion Estimate"). If the Completion Estimate indicates that the Premises cannot be made tenantable within 270 days from the date the repair and restorations started, then regardless of anything in Section XVII.A above to the contrary, either party shall have the right to terminate this Lease by giving written notice to the other of such election within 10 days after receipt of the Completion Estimate. Tenant, however, shall not have the right to terminate this Lease if the fire or casualty was caused by the negligence or intentional misconduct of Tenant, Tenant Related parties or any of Tenant's transferees, contractors or licensees.
- C. The provisions of this Lease, including this Article XVII, constitute an express agreement between Landlord and Tenant with respect to any and all damage to or destruction of, all or any part of the Premises, the Building, the Property or the Project, and any Laws, including, without limitation, sections 1943(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties, and any similar or successor Laws now or hereinafter in effect, shall have no application to this Lease or any damage or destruction to all or any part of the Premises, the Building, the Property or the Project.

**XVIII. Condemnation.**

Either party may terminate this Lease if the whole or any material part of the Premises shall be taken or condemned for any public or quasi-public use under Law, by eminent domain or private purchase in lieu thereof (a "Taking"). Landlord shall also have the right to terminate



this lease if there is a Taking of any portion of the Building, Property or Project which would leave the remainder of the Building or the Project unsuitable for use as an office building or an office project in a manner comparable to the use of the Building or the Project prior to the Taking. In order to exercise its right to terminate the Lease, Landlord or Tenant, as the case may be, must provide written notice of termination to the other within 45 days after the terminating party first receives notice of the Taking. Any such termination shall be effective as of the date the physical taking of the Premises or the portion of the Building, Property or Project occurs. If this Lease is not terminated, the Rentable Square Footage of the Building, the Rentable Square Footage of the Premises, the Building's allocable percentage of the Project and Tenant's Pro Rata Share shall, if applicable, be appropriately adjusted. In addition, Rent for any portion of the premises taken or condemned shall be abated during the unexpired Term of this Lease effective when the physical taking of the portion of the Premises occurs. All compensation awarded for a Taking, or sale proceeds, shall be the property of Landlord, any right to receive compensation or proceeds being expressly waived by Tenant. However, Tenant may file a separate claim at its sole cost and expense for Tenant's Property and Tenant's reasonable relocation expenses, provided the filing of the claim does not diminish the award which would otherwise be receivable by Landlord. Tenant hereby waives any and all right it might otherwise have pursuant to Section 1265.130 of the California Code of Civil Procedure, or any similar or successor Laws.

#### **XIX. Events of Default.**

Tenant shall be considered to be in default of this Lease upon the occurrence of any of the following events of default:

- A. Tenant's failure to pay when due all or any portion of the Rent, if the failure continues for 3 days after written notice to Tenant ("Monetary Default").
- B. Tenant's failure (other than a Monetary Default) to comply with any term, provision or covenant of this Lease, if the failure is not cured within 10 days after written notice to Tenant. However, if Tenant's failure to comply cannot reasonably be cured within 10 days, Tenant shall be allowed additional time (not to exceed 60 days) as is reasonably necessary to cure the failure so long as: (1) Tenant commences to cure the failure within 10 days, and (2) Tenant diligently pursues a course of action that will cure the failure and bring Tenant back into compliance with the Lease. However, if Tenant's failure to comply creates a hazardous condition, the failure must be cured immediately upon notice to Tenant. In addition, if Landlord provides Tenant with notice of Tenant's failure to comply with any particular term, provision or covenant of the Lease on 3 occasions during any 12 month period, Tenant's subsequent violation of such term, provision or covenant shall, at Landlord's option, be an incurable event of default by Tenant.
- C. Tenant or any Guarantor becomes insolvent, makes a transfer in fraud of creditors or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts when due.
- D. The leasehold estate is taken by process or operation of Law.
- E. Tenant is in default beyond any notice and cure period under any other lease or agreement with Landlord, without limitation.

#### **XX. Remedies**

- A. Upon the occurrence of any event or events of default under this Lease, whether enumerated in Article XIX or not, Landlord shall have the option to pursue any one or more of the following remedies without any notice (except as expressly prescribed herein) or demand whatsoever (and without limiting the generality of the foregoing, Tenant hereby specifically waives notice and demand for payment of Rent or other obligations, except for those notices specifically required pursuant to the terms of Article XIX or this Article XX, and waives any and all other notices or demand requirements imposed by applicable law):
  - 1. Terminate this Lease and Tenant's right to possession of the Premises and recover from Tenant an award of damages equal to the sum of the following:
    - (a) The Worth at the Time of Award of the unpaid Rent which had been earned at the time of termination;

- (b) The Worth at the Time of Award of the amount by which the unpaid Rent would have been earned after termination until the time of award exceeds the amount of such rent loss that Tenant affirmatively proves could have been reasonably avoided;
- (c) The Worth at the Time of Award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such Rent loss that Tenant affirmatively proves could be reasonably avoided;
- (d) Any other amount necessary to compensate Landlord for all the detriment either proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and
- (e) All such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time under applicable law.

The "Worth at the Time of Award" of the amounts referred to in parts (a) and (b) above, shall be computed by allowing interest at the lesser of a per annum rate equal to: (i) the greatest per annum rate of interest permitted from time to time under applicable law, or (ii) the Prime Rate plus 5%. For purposes hereof, the "Prime Rate" shall be the per annum interest rate publicly announced as its prime or base rate by a federally insured bank selected by Landlord in the State of California. The "Worth at the Time of Award" of the amount referred to in part (c) above, shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1%.

- B. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No waiver by Landlord of any breach hereof shall be effective unless such waiver is in writing and signed by Landlord.
- C. TENANT HEREBY WAIVES ANY AND ALL RIGHTS CONFERRED BY SECTION 3275 OF THE CIVIL CODE OF CALIFORNIA AND BY SECTION 1174 (c) AND 1179 OF THE CODE, (See Attached) OF CIVIL PROCEDURE OF CALIFORNIA AND ANY AND ALL OTHER LAWS AND RULES OF LAW FROM TIME TO TIME IN EFFECT DURING THE LEASE TERM PROVIDING THAT TENANT SHALL HAVE ANY RIGHT TO REDEEM, REINSTATE OR RESTORE THIS LEASE FOLLOWING ITS TERMINATION BY REASON OF TENANT'S BREACH. TENANT ALSO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY IN LITIGATION ARISING OUT OF OR RELATING TO THIS LEASE.
- D. No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing by agreement, applicable law or in equity. In addition to other remedies provided in this Lease, Landlord shall be entitled, to the extent permitted by applicable law, to injunctive relief, or to a decree compelling performance of any of the covenants, agreements, conditions or provisions of this Lease, or to any other remedy allowed to Landlord at law or in equity. Forbearance by Landlord to enforce one of more of the remedies herein provided upon an event of default shall not be deemed or construed to constitute a waiver of such default.
- E. If Tenant is in default, then, to the extent permitted by law, Landlord shall be entitled to receive interest on any unpaid item of Rent at a rate equal to the lesser of the maximum rate permitted by Law or the Prime Rate plus 4% per annum. For purposes hereof, the "Prime Rate" shall be the per annum interest rate publicly announced as its prime or base rate by a federally insured bank selected by Landlord in the state in which the Building is located.
- F. This Article XX shall be enforceable to the maximum extent such enforcement is not prohibited by applicable law, and the unenforceability of any portion thereof shall not thereby render unenforceable any other portion.

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**XXI. Limitation of Liability.**

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS LEASE, THE LIABILITY OF LANDLORD (AND OF ANY SUCCESSOR LANDLORD) TO TENANT SHALL BE LIMITED TO THE INTEREST OF LANDLORD IN THE PROPERTY. TENANT SHALL LOOK SOLELY TO LANDLORD'S INTEREST IN THE PROPERTY FOR THE RECOVERY OF ANY JUDGMENT OR AWARD AGAINST LANDLORD. NEITHER LANDLORD NOR ANY LANDLORD RELATED PARTY SHALL BE PERSONALLY LIABLE FOR ANY JUDGMENT OR DEFICIENCY. BEFORE FILING SUIT FOR AN ALLEGED DEFAULT BY LANDLORD, TENANT SHALL GIVE LANDLORD AND THE MORTGAGEE(S) (DEFINED IN ARTICLE XXVI BELOW) WHOM TENANT HAS BEEN NOTIFIED HOLD MORTGAGES (DEFINED IN ARTICLE XXVI BELOW) ON THE PROPERTY, BUILDING OR PREMISES, NOTICE AND REASONABLE TIME TO CURE THE ALLEGED DEFAULT.

**XXII. No Waiver.**

Either party's failure to declare a default immediately upon its occurrence, or delay in taking action for a default shall not constitute a waiver of the default, nor shall it constitute an estoppel. Either party's failure to enforce its rights for a default shall not constitute a waiver of its rights regarding any subsequent default. Receipt by Landlord of Tenant's keys to the Premises shall not constitute an acceptance or surrender of the Premises.

**XXIII. Quiet Enjoyment.**

Tenant shall, and may peacefully have, hold and enjoy the Premises, subject to the terms of this Lease, provided Tenant pays the Rent and fully performs all of its covenants and agreements. This covenant and all other covenants of Landlord shall be binding upon Landlord and its successors only during its or their respective periods of ownership of the Building, and shall not be a personal covenant of Landlord or the Landlord Related Parties.

**XXIV. Holding Over.**

Except for any permitted occupancy by Tenant under Article VIII, if Tenant fails to surrender the Premises at the expiration or earlier termination of this Lease, occupancy of the Premises after the termination or expiration shall be that of a tenancy at sufferance. Tenant's occupancy of the Premises during the holdover shall be subject to all the terms and provisions of this Lease and Tenant shall pay an amount (on a per month basis without reduction for partial months during the holdover) equal to 150% of the greater of: (1) the sum of the Base Rent and Additional Rent due for the period immediately preceding the holdover; or (2) the fair market gross rental for the Premises as reasonably determined by Landlord. No holdover by Tenant of payment by Tenant after the expiration or early termination of this Lease shall be construed to extend the Term or prevent Landlord from immediate recovery of possession of the Premises by summary proceedings or otherwise. In addition to the payment of the amounts provided above, if Landlord is unable to deliver possession of the Premises to a new Tenant, or to perform improvements for a new Tenant, as a result of Tenant's holdover and Tenant fails to vacate the Premises within 15 days after Landlord notifies Tenant of Landlord's inability to deliver possession, or perform improvements, Tenant shall be liable to Landlord for all damages, including, without limitation, consequential damages, that Landlord suffers from the holdover.

**XXV. Subordination to Mortgages; Estoppel Certificate.**

Tenant accepts this Lease subject and subordinate to any mortgage(s), deed(s) of trust, ground lease(s) or other lien(s) now or subsequently arising upon the Premises, the Building, the Property or the Project, and to renewals, modifications, refinancings and extensions thereof (collectively referred to as a "Mortgage"). The party having the benefit of a Mortgage shall be referred to as a "Mortgagee". This clause shall be self-operative, but upon request from a Mortgagee, Tenant shall execute a commercially reasonable subordination agreement in favor of the Mortgagee. In lieu of having the Mortgage be superior to this Lease, a Mortgagee shall have the right at any time to subordinate its Mortgage to this Lease. If requested by a successor-in-interest to all or part of Landlord's interest in the Lease, Tenant shall, without charge, attorn to

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the successor-in-interest. Landlord and Tenant shall each, within 10 days after receipt of a written request from the other, execute and deliver an estoppel certificate to those parties as are reasonably requested by the other (including a Mortgagee or prospective purchaser). The estoppel certificate shall include a statement certifying that this Lease is unmodified (except as identified in the estoppel certificate) and in full force and effect, describing the dates to which Rent and other charges have been paid, representing that, to such party's actual knowledge, there is no default (or stating the nature of the alleged default) and indicating other matters with respect to the Lease that may reasonably be requested.

**XXVI. Attorney's Fees.**

If either party institutes a suit against the other for violation of or to enforce any covenant or condition of this Lease, or if either party intervenes in any suit in which the other is a party to enforce or protect its interest or rights, the prevailing party shall be entitled to all of its costs and expenses, including, without limitation, reasonable attorneys' fees.

**XXVII. Broker Fees.**

It is agreed that Landlord will pay a commission equal to 4% of the monthly rent to Colliers International. Payment will be made in monthly installments beginning January 2003 and final payment will be made December 2003 or when tenant vacates premises in the event of an early termination of the Lease.

**XXVIII. Notice.**

If a demand, request, approval, consent or notice (collectively referred to as a "notice") shall or may be given to either party by the other, the notice shall be in writing and delivered by hand or sent by registered or certified mail with return receipt requested, or sent by overnight or same day courier service at the party's respective Notice Address(es) set forth in Article I, except that if Tenant has vacated the Premises (or if the Notice Address for Tenant is other than the Premises, and Tenant has vacated such address) without providing Landlord a new Notice Address, Landlord may serve notice in any manner described in this Article or in any other manner permitted by law. Each notice shall be deemed to have been received or given on the earlier to occur of actual delivery or the date on which delivery is refused, or, if Tenant has vacated the Premises or the other Notice Address of Tenant without providing a new Notice Address, 3 days after notice is deposited in the US. Mail or with a courier service in the manner described above. Either party, may, at any time, change its Notice Address (other than to a post office box address) by giving the other party written notice of the new address in the manner described in this Article.

**XXIX. Excepted Rights.**

This Lease does not grant any rights to light or air over or about the Building or the Project. Landlord excepts and reserves exclusively to itself the use of: (1) roofs, (2) telephone, electrical and janitorial closets, (3) equipment rooms, Building risers or similar areas that are used by Landlord for the provision of Building services, (4) rights to the land and improvements below the floor of the Premises, (5) the improvements and air rights above the Premises, (6) the improvements and air rights outside the demising walls of the Premises, and (7) the areas within the Premises used for the installation of utility lines and other installations serving occupants of the Building or the Project. Landlord has the right to change the Building's or Project's name or address. Landlord also has the right to make such other changes to the Building, Property and Project as Landlord deems appropriate, provided the changes do not materially affect Tenant's ability to use the Premises for the Permitted Use. Landlord shall also have the right (but not the obligation) to temporarily close the Building if Landlord reasonably determines that there is an imminent danger of significant damage to the Building or of personal injury to Landlord's employees or the occupants of the Building. The circumstances under which Landlord may temporarily close the building shall include, without limitation, electrical interruptions, hurricanes and civil disturbances. A closure of the Building under such circumstances shall not constitute a constructive eviction nor entitle Tenant to an abatement or reduction of Rent.

**XXX. Surrender of Premises.**

At the expiration or earlier termination of this Lease or Tenant's right of possession, Tenant shall remove Tenant's Property (defined in Article XV) from the Premises, and quit and surrender the

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Premises to Landlord, broom clean, and in good order, condition and repair, ordinary wear and tear excepted. Tenant shall also be required to remove the Required Removables in accordance with Article VIII. If Tenant fails to remove any of Tenant's Property within 2 days after the termination of this Lease or of Tenant's right to possession, Landlord, at Tenant's sole cost and expense, shall be entitled (but not obligated) to remove and store Tenant's Property. Landlord shall not be responsible for the value, preservation or safekeeping of Tenant's Property. Tenant shall pay Landlord, upon demand, the expenses and storage charges incurred for Tenant's Property. In addition, if Tenant fails to remove Tenant's Property from the Premises or storage, as the case may be, within 30 days after written notice, Landlord may deem all or any part of Tenant's Property to be abandoned, and title to Tenant's Property shall be deemed to be immediately vested in Landlord.

**XXXI. Miscellaneous.**

- A. This Lease and the rights and obligations of the parties shall be interpreted, construed and enforced in accordance with the Laws of the State of California and Landlord and Tenant hereby irrevocably consent to the jurisdiction and proper venue of such state. If any term or provision of this Lease shall to any extent be invalid or unenforceable, the remainder of this Lease shall not be affected, and each provision of this Lease shall be valid and enforced to the fullest extent permitted by law. The headings and titles to the Articles and Sections of this Lease are for convenience only and shall have no effect on the interpretation of any part of the Lease.
- B. Tenant shall not record this Lease or any memorandum without Landlord's prior written consent.
- C. Landlord and Tenant hereby waive any right to trial by jury in any proceeding based upon a breach of this Lease.
- D. Whenever a period of time is prescribed for the taking of an action by Landlord or Tenant, the period of time for the performance of such action shall be extended by the number of days that the performance is actually delayed due to strikes, acts of God, shortages of labor or materials, war, civil disturbances and other causes beyond the reasonable control of the performing party ("Force Majeure"). However, events of Force Majeure shall not extend any period of time for the payment of Rent or other sums payable by either party or any period of time for the written exercise of an option or right by either party.
- E. Landlord shall have the right to transfer and assign, in whole or in part, all of its rights and obligations under this Lease and in the Building, Property and/or Project referred to herein, and upon such transfer Landlord shall be released from any further obligations hereunder, and Tenant agrees to look solely to the successor in interest of Landlord for the performance of such obligations.
- F. Tenant represents that is has dealt directly with and only with the Broker as a broker in connection with this Lease. Tenant shall indemnify and hold Landlord and the Landlord Related Parties harmless from all claims of any other brokers claiming to have represented Tenant in connection with this Lease. Landlord agrees to indemnify and hold Tenant and the Tenant Related Parties harmless from all claims of any brokers claiming to have represented the Landlord in connection with this Lease.

EMI Property Management, Inc., is an affiliate of Landlord and represents only the Landlord in this transaction. Any assistance rendered by any agent or employee of EMI Property Management, Inc., in connection with this lease of any subsequent amendment or modification hereto has been or will be made as an accommodation to Tenant solely in furtherance of consummating the transaction on behalf of Landlord, and not as agent for Tenant.

- G. Tenant covenants, warrants and represents that: (1) each individual executing, attesting and/or delivering this Lease on behalf of Tenant is authorized to do so on behalf of Tenant; (2) this Lease is binding upon Tenant; and (3) Tenant is duly organized and legally existing in the state of its organization and is qualified to do business in the State of California. If



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**By:**           /s/ BARBARA HELWIG          

**NAME:**                   Barbara Helwig                  

**TITLE:**                   Landlord                  

**TENANT:**

**SMTC CORPORATION**

**By:**           /s/ GARY WALKER          

**NAME:**                   Gary Walker                  

**TITLE:**                   Vice President

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**EXHIBIT A**

**OUTLINE AND LOCATION OF PREMISES**

This Exhibit is attached to and made a part of the Lease by and between The Estate of Edwin A. Helwig and Barbara G. Helwig (“Landlord”) and SMTC CORPORATION (“Tenant”) for space in the Building located at 2302 Trade Zone Boulevard, San Jose, California.

**INSERT FLOOR PLAN LAYOUT PICTURE HERE. HEADING GOES UNDER FLOOR PLAN.**

**Approximately 34,000 Square Feet  
2302 Trade Zone Boulevard, San Jose, CA**



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**EXHIBIT B**  
**BUILDING RULES AND REGULATIONS**

The following rules and regulations shall apply, where applicable, to the Premises, the Building, the parking facility (if any), the Property, the Project and the appurtenances. Capitalized terms have the same meaning as defined in the Lease.

1. Sidewalks, doorways, vestibules, halls, stairways and other similar areas shall not be obstructed by Tenant or used by Tenant for any purpose other than ingress and egress to and from the Premises. No rubbish, litter, trash, or material shall be placed, emptied, or thrown in those areas. At no time shall Tenant permit Tenant's employees to loiter in Common Areas or elsewhere about the Building, Property or Project.
2. Plumbing fixtures and appliances shall be used only for the purposes for which designed, and no sweepings, rubbish, rags or other unsuitable material shall be thrown or placed in the fixtures or appliances. Damage resulting to fixtures or appliances by Tenant, its agent, employees or invitees, shall be paid for by Tenant, and Landlord shall not be responsible for the damage.
3. No signs, advertisements or notices shall be painted or affixed to windows, doors or other parts of the Building or Project, except those of such color, size, style and in such places as are first approved in writing by Landlord. Unless otherwise specifically provided in the Lease, all Tenant identification at the entrance to the Premises shall be installed by Landlord, at Tenant's cost and expense, using the standard graphics for the Building. Except in connection with the hanging of lightweight pictures and wall decorations, no nails, hooks or screws shall be inserted into any part of the Premises, Building or Project except by the Building maintenance personnel.
4. Tenant shall not place any lock(s) on any door in the Premises, Building or Project without Landlord's prior written consent and Landlord shall have the right to retain at all times and to use keys to all locks within and into the Premises. A reasonable number of keys to the locks on the entry doors in the Premises shall be furnished by Landlord to Tenant at Tenant's cost, and Tenant shall not make any duplicate keys. All keys shall be returned to Landlord at the expiration or early termination of this Lease.
5. All contractor's, contractor's representatives and installation technicians performing work in the Building or Project shall be subject to Landlord's prior approval and shall be required to comply with Landlord's standard rules, regulations, policies and procedures, which may be revised from time to time.
6. Tenant shall assume all risk for damage to articles moved and injury to any persons resulting from movement in or out of the Building or the Project of furniture or office equipment, or dispatch or receipt by Tenant of merchandise or materials the activity. If equipment, property, or personnel of Landlord or of any other party is damaged or injured as a result of or in connection with the activity, Tenant shall be solely liable for any resulting damage or loss.
7. Landlord shall have the right to approve the weight, size, or location of heavy equipment or articles in and about the Premises. Damage to the Building or the Project by the installation, maintenance, operation, existence or removal of Tenant's Property shall be repaired at Tenant's sole expense.
8. Corridor doors, when not in use, shall be kept closed.
9. Tenant shall not: (1) make or permit any improper, objectionable or unpleasant noises or odors in the Building or Project, or otherwise interfere in any way with

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other Tenants or persons having business with them; (2) solicit business or distribute, or cause to be distributed, in any portion of the Building or the Project, handbills, promotional materials or other advertising; or (3) conduct or permit other activities in the Building or the Project that might, in Landlord's sole opinion, constitute a nuisance.

10. No animals, except those assisting handicapped persons, shall be brought into the Building or the Project or kept in or about the Premises.
11. No inflammable, explosive or dangerous fluids or substances shall be used or kept by Tenant in the Premises, the Building, the Property or about the Project except those previously disclosed in the expired lease agreement. Tenant shall not, without Landlord's prior written consent, use, store, install, spill, remove, release or dispose of, within or about the premises or any other portion of the Building, the Property or the Project, any asbestos-containing materials or any solid, liquid or gaseous material now or subsequently considered toxic or hazardous under the provisions of 42 U.S.C. Section 9601 et seq. or any other applicable environmental law which may now or later be in effect. Tenant shall comply with all Laws pertaining to and governing the use of these materials by Tenant, and shall remain solely liable for the costs of abatement and removal.
12. Tenant shall not use or occupy the Premises in any manner or for any purpose which might injure the reputation or impair the present or future value of the Premises, the Building or the Project. Tenant shall not use, or permit any part of the Premises to be used, for lodging, sleeping without prior written consent of the Landlord or for any illegal purpose. Tenant shall not take any action which would violate Landlord's labor contracts or which would cause a work stoppage, picketing, labor disruption or dispute, or interfere with Landlord's or any other Tenant's or occupant's business or with the rights and privileges of any personal lawfully in the Building or the Project ("Labor Disruption"). Tenant shall take the actions necessary to resolve the Labor Disruption, and shall have pickets removed and, at the request of Landlord, immediately terminate any work in the Premises that gave rise to the Labor Disruption, until Landlord gives its written consent for the work to resume. Tenant shall have no claim for damages against Landlord or any of the Landlord Related Parties, nor shall the Commencement Date of the Term be extended as a result of the above actions.
13. Tenant shall not install, operate or maintain in the Premises or in any other area of the Building or the Project, electrical equipment that would overload the electrical system beyond its capacity for proper, efficient and safe operation as determined solely by Landlord. Tenant shall not furnish cooling or heating to the Premises, including, without limitation, the use of electric or gas heating devices, without Landlord's prior written consent. Tenant shall not use more than its proportionate share of telephone lines and other telecommunication facilities available to service the Building or the Project.
14. Tenant shall not operate or permit to be operated a coin or token operated vending machine or similar device (including, without limitation, telephones, lockers, toilets, scales, amusement devices and machines for sale of beverages, foods, candy, cigarettes and other goods), except for machines for the exclusive use of Tenant's employees, and then only if the operation does not violate the lease of any other Tenant in the building or the Project.
15. Bicycles and other vehicles are not permitted inside the Building or on the walkways outside the Building, except in areas designated by Landlord.
16. Landlord may from time to time adopt systems and procedures for the security and safety of the Building, the Property, and the Project, its occupants, entry, use and contents. Tenant, its agents, employees, contractors, guests and invitees shall comply with Landlord's systems and procedures.

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17. Landlord shall have the right to prohibit the use of the name of the Building or the Project or any other publicity by Tenant that in Landlord's sole opinion may impair the reputation of the Building or the Project or their desirability. Upon written notice from Landlord, Tenant shall refrain from and discontinue such publicity immediately.
  18. Tenant shall not canvass, solicit or peddle in or about the Building, the property or the Project.
  19. Neither Tenant nor its agents, employees, contractors, guests or invitees shall smoke or permit smoking in the Common Areas or the Exterior Common Areas, unless the Common Areas or the Exterior Common Areas have been declared a designated smoking area by Landlord, nor shall the above parties allow smoke from the Premises to emanate into the Common Areas or any other part of the Building or the Project. Landlord shall have the right to designate the Building and/or the Project (including the premises) as a non-smoking building.
  20. Landlord shall have the right to designate and approve standard window coverings for the Premises and to establish rules to assure that the Building presents a uniform exterior appearance. Tenant shall ensure, to the extent reasonably practicable, that window coverings are closed on windows in the Premises while they are exposed to the direct rays of the sun.
  21. Deliveries to and from the Premises shall be made only at the times, in the areas and through the entrances and exits designated by Landlord. Tenant shall not make deliveries to or from the Premises in a manner that might interfere with the use by any other Tenant of its premises or of the Common Areas, any pedestrian use, or any use which is inconsistent with good business practice.
  22. The work of cleaning personnel shall not be hindered by Tenant after 5:30 P.M., and cleaning work may be done at any time when the offices are vacant. Windows, doors and fixtures may be cleaned at any time. Tenant shall provide adequate waste and rubbish receptacles to prevent unreasonable hardship to the cleaning service.

**EXHIBIT C**

**COMMENCEMENT LETTER & EARLY TERMINATION PROVISION**

Date: \_\_\_\_\_

Tenant Address:     SMTC Corporation  
                              2302 Trade Zone Boulevard  
                              San Jose, CA 95131

RE: Commencement Letter with respect to that certain Lease dated as of the 19th day of November 2002, by and between The Estate of Edwin A. Helwig and Barbara G. Helwig., as Landlord, and SMTC Corporation as Tenant, for 34,000 rentable square feet of the building located at 2302 Trade Zone Boulevard, San Jose, California.

Dear Tenant:

In accordance with the terms and conditions of the above referenced Lease, Tenant accepts possession of the Premises and agrees:

1. The Commencement Date of the Lease is January 1, 2003.
2. The Termination Date of the Lease is 90 days written notice prior to vacancy or 12 months, whichever comes first.

Please acknowledge your acceptance of possession and agreement to the terms set forth above by signing all 3 counterparts of this Commencement Letter in the space provided and returning 2 fully executed counterparts to my attention.

Sincerely,

\_\_\_\_\_  
/s/ [signature appears here]

EMI Property Management,  
Agent for The Estate of Edwin A. Helwig and Barbara G. Helwig

Agreed and Accepted:

Tenant: SMTC Corporation

By:                             /s/ GARY WALKER  
\_\_\_\_\_

Name:                             Gary Walker  
\_\_\_\_\_

Title:                             Vice President  
\_\_\_\_\_

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**EXHIBIT D**

**WORK LETTER**

THIS PAGE TO BE USED TO LIST ANY TENANT IMPROVEMENTS, OR TENANT ALLOWANCES FOR WORK TO BE COMPLETED. IF NO T.I. TO BE INCLUDED INSERT, THIS PAGE INTENTIONALLY LEFT BLANK.

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**EXHIBIT E**

**ADDITIONAL PROVISIONS**

This exhibit (“the Additional Provisions”) is attached to and made a part of the Lease by and between **The Estate of Edwin A. Helwig and Barbara G. Helwig** (“Landlord”) and SMTC Corporation (“Tenant”) for space in the Building located at 2302 Trade Zone Boulevard, San Jose, California.

**I. RENEWAL OPTION.**

A. None

**EXHIBIT F**

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## PARKING AGREEMENT

This exhibit ("the Parking Agreement") is attached to and made a part of the Lease by and between The Estate of Edwin A. Helwig and Barbara G. Helwig ("Landlord") and SMTC Corporation, ("Tenant") for space in the Building located at 2302 Trade Zone Boulevard, San Jose, California.

1. The capitalized terms used in this Parking Agreement shall have the same definitions as set forth in the Lease to the extent that such capitalized terms are defined therein and not redefined in this Parking Agreement. In the event of any conflict between the Lease and this Parking Agreement, the latter shall control.
2. Landlord hereby grants to Tenant and persons designated by Tenant an agreement to use 52% of the existing non-reserved parking spaces (the "Initial Parking Spaces") in the parking Lot servicing the Building ("Parking Facility"). The term of such agreement shall commence on the Commencement Date under the Lease and shall continue until the earlier to occur of the Termination Date under the Lease, the sooner termination of the Lease, or Tenant's abandonment of the Premises thereunder. During the term of this agreement, Tenant shall pay Landlord the monthly charge of \$0.00 for the Initial Parking Spaces per month, payable in advance with Tenant's payment of monthly Base Rent. No deductions from the monthly charge shall be made for days on which the Parking Lot is not used by Tenant. Tenant may, from time to time request additional parking spaces in the Parking Lot (the "Additional Parking Spaces"), and if Landlord shall provide the same, the Additional parking Spaces shall be provided and used on a month-to-month basis and otherwise on the foregoing terms and provisions. Tenant shall pay Landlord the prevailing monthly parking charges established by Landlord from time to time for the Additional Parking Spaces, payable in advance with Tenant's payment of monthly Base Rent.
3. Tenant shall at all times comply with all applicable ordinances, rules, regulations, codes, laws, statutes and requirements of all federal, state, county and municipal governmental bodies or their subdivisions respecting the use of the Parking Lot. Landlord reserves the right to adopt, modify and enforce reasonable rules ("Rules") governing the use of the Parking Lot from time to time including hours of operation. The Rules set forth herein are currently in effect. Landlord may refuse to permit any person who violates such Rules to park in the Parking Lot, and any violation of the Rules shall subject the car to removal from the Parking Lot.
4. Unless specified to the contrary above, the parking spaces hereunder shall be provided on a non-designated "first-come, first-served" basis. Landlord shall have no liability whatsoever for any damage to items located in the Parking Lot, nor for any personal injuries or death arising out of any matter relating to the Parking Lot, and in all events, Tenant agrees to look first to its insurance carrier and to require that Tenant's employees look first to their respective insurance carriers for payment of any losses sustained in connection with any use of the Parking Lot. Tenant hereby waives on behalf of its insurance carriers all rights of subrogation against Landlord or Landlord's agents. Landlord reserves the right to assign specific parking spaces, and to reserve parking spaces for visitors, small cars, handicapped persons and for other tenants, guests of tenant's or other parties, which assignment and reservation or spaces may be relocated as determined by Landlord from time to time, and Tenant and persons designated by Tenant hereunder shall not park in any location designated for such assigned or reserved parking spaces. Tenant acknowledges that the Parking Facility may be closed entirely or in part in order to make repairs or perform maintenance services, or to alter, modify, re-stripe or renovate the Parking Lot, or if required by casualty, strike, condemnation, act of God, governmental law or requirement or other reason beyond the operator's reasonable control. If Tenant shall default under this Parking Agreement, the operator shall have the right to remove from the Parking Lot any vehicles hereunder which shall have been involved or shall have been owned or driven by parties involved in causing such default, without liability therefor whatsoever. In addition, if Tenant shall default under this Parking Agreement, Landlord shall have the right to cancel this parking Agreement on 10 days' written notice, unless within such 10 day period, Tenant cures such default. If Tenant defaults with respect to the same term or condition under this Parking

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Agreement more than 3 times during any 12 month period, and Landlord notifies Tenant thereof promptly after each such default, the next default of such term or condition during the succeeding 12 month period, shall, at Landlord's election, constitute an incurable default. Such cancellation right shall be cumulative and in addition to any other rights or remedies available to Landlord at law or equity, or provided under the Lease (all of which rights and remedies under the Lease are hereby incorporated herein, as though fully set forth). Any default by Tenant under the Lease shall be a default under this Parking Agreement, and any default under this Parking Agreement shall be a default under the Lease.

## **RULES**

- (i) Landlord reserves the right to establish and change Parking Lot hours from time to time, although, as of the date of this Lease, Tenant shall have access to the Parking Facility on a 24-hour basis, 7 days a week, subject to the other terms of this Parking Agreement. Tenant shall not store or permit its employees to store any automobiles in the Parking Facility without the prior written consent of the Landlord. Except for emergency repair, Tenant and its employees shall not perform any work on any automobiles while located in the Parking lot, or anywhere else on the Property. If it is necessary for Tenant or its employees to leave an automobile in the Parking Facility overnight, Tenant shall provide the Landlord with prior notice designating the license plate number and model of such automobile.
  - (ii) Cars must be parked entirely within the stall lines painted on the floor, ground, asphalt or cement, and only small cars may be parked in areas reserved for small cars.
  - (iii) All directional signs and arrows must be observed.
  - (iv) The speed limit shall be 5 miles per hour.
  - (v) Parking spaces reserved for handicapped persons must be used only by vehicles properly designated.
  - (vi) Parking is prohibited in all areas not expressly designated for parking, including without limitation:
    - (a) Areas not striped for parking
    - (b) Aisles
    - (c) Where "no parking" signs are posted
    - (d) Ramps
    - (e) Loading zone
  - (vii) Parking Facility managers or attendants are not authorized to make or allow any exceptions to these Rules.
  - (viii) Every parker is required to park and lock his/her own car.
  - (ix) Washing, waxing, cleaning or servicing of any vehicle by the customer and/or his agents is prohibited. Parking spaces may be used only for parking automobiles.
  - (x) Tenant agrees to acquaint all persons to whom Tenant assigns a parking space with these Rules.
5. TENANT ACKNOWLEDGES AND AGREES THAT, TO THE FULLEST EXTENT PERMITTED BY LAW, LANDLORD SHALL NOT BE RESPONSIBLE FOR ANY LOSS OR DAMAGE TO TENANT OR TENANT'S PROPERTY (INCLUDING, WITHOUT LIMITATIONS, ANY LOSS OR DAMAGE TO TENANT'S AUTOMOBILE OR THE CONTENTS THEREOF DUE TO THEFT, VANDALISM OR ACCIDENT) ARISING FROM OR RELATED TO TENANT'S USE OF THE PARKING LOT OR EXERCISE OF ANY RIGHTS UNDER THIS PARKING AGREEMENT, WHETHER OR NOT SUCH LOSS OR DAMAGE RESULTS FROM THE LANDLORD'S ACTIVE NEGLIGENCE OR NEGLIGENT OMISSION. THE LIMITATION ON LANDLORD'S LIABILITY UNDER THE PRECEDING SENTENCE SHALL NOT APPLY HOWEVER TO LOSS OR DAMAGE ARISING DIRECTLY FROM LANDLORD'S WILLFUL MISCONDUCT.



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6. Without limiting the provisions of Paragraph 6 above, Tenant hereby voluntarily releases, discharges, waives and relinquishes any and all actions or causes of action for personal injury or property damage occurring to Tenant arising as a result of parking in the Parking Facility, or any activities incidental thereto, wherever or however the same may occur, and further agrees that Tenant will not prosecute any claim for personal injury or property damage against Landlord or any of its officers, agents, servants or employees for any said causes of action. It is the intention of Tenant by this instrument, to exempt and relieve Landlord from liability for personal injury or property damage caused by negligence.

7. The provisions of Article XXI of the Lease are hereby incorporated by reference as if fully recited.

Tenant acknowledges that Tenant has read the provisions of this Parking Agreement, has been fully and completely advised of the potential dangers incidental to parking in the Parking Facility and is fully aware of the legal consequences of agreeing to this instrument.

**CERTIFICATION 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**

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, the undersigned, as chief executive officer of SMTC Corporation (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's quarterly report on Form 10-Q for the quarter ended March 30, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's quarterly report on Form 10-Q for the quarter ended March 30, 2003 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul Walker

Paul Walker  
President and Chief Executive Officer

Dated: May 14, 2003

A signed original of this written statement required by Section 906 has been provided to SMTC Corporation and will be retained by SMTC Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION 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**

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, the undersigned, as chief financial officer of SMTC Corporation (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's quarterly report on Form 10-Q for the quarter ended March 30, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's quarterly report on Form 10-Q for the quarter ended March 30, 2003 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Frank Burke

Frank Burke  
Chief Financial Officer

Dated: May 14, 2003

A signed original of this written statement required by Section 906 has been provided to SMTC Corporation and will be retained by SMTC Corporation and furnished to the Securities and Exchange Commission or its staff upon request.