SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 3, 2005

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	**98-0197680**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**

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

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

Indicate by check mark whether 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 10, 2005, SMTC Corporation had 9,170,619 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 10, 2005, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 5,470,714 exchangeable shares outstanding, excluding 2,477,597 exchangeable shares held by SMTC Corporations's wholly-owned subsidiary, SMTC Nova Scotia Company, each of which is exchangeable into one share of common stock of SMTC Corporation.

SMTC Corporation
Form 10-Q

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SMTC CORPORATION

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

	April 3, 2005	December 31, 2004
Assets		
Current assets:		
Accounts receivable, net of an allowance for doubtful accounts of $1,276 (December 31, 2004 - $1,276)	$ 21,333	$ 23,856
Inventories (note 3)	33,391	33,025
Prepaid expenses	1,523	1,702
	56,247	58,583
Capital assets, net of accumulated depreciation of $33,757 (December 31, 2004 - $32,694)	26,963	29,269
Other assets	4,199	4,729
Deferred income taxes	135	135
	$ 87,544	$ 92,716
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 22,075	$ 25,943
Accrued liabilities	12,412	13,738
Income taxes payable	1,008	1,571
Current portion of long-term debt (note 4)	3,800	3,800
Current portion of capital lease obligations	1,777	1,897
	41,072	46,949
Long-term debt (note 4)	33,970	30,091
Capital lease obligations	1,011	1,542
Shareholders' equity:		
Capital stock (note 6)	52,159	63,394
Warrants (note 6)	10,372	10,372
Loans receivable	(5)	(5)
Additional paid-in capital	204,207	192,972
Deficit	(255,242)	(252,599)
	11,491	14,134
	$ 87,544	$ 92,716

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	
	April 3, 2005	April 4, 2004
Revenue	$49,110	$69,423
Cost of sales	47,109	62,576
Gross profit	2,001	6,847
Selling, general and administrative expenses (note 9)	3,402	4,307
Amortization	—	1,172
Restructuring charges (note 9)	104	—
Operating earnings (loss)	(1,505)	1,368
Interest	1,105	1,292
Earnings (loss) before income taxes	(2,610)	76
Income tax expense (note 5)	33	123
Net loss	$ (2,643)	$ (47)

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	
	April 3, 2005	April 4, 2004
Loss per share:		
Basic loss per share	$ (0.18)	$ (0.01)
Diluted loss per share	$ (0.18)	$ (0.01)
Weighted average number of common shares used in the calculations of loss per share (note 7):		
Basic	14,641,345	5,737,956
Diluted	14,641,345	5,737,956

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

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

Three months ended April 3, 2005
(Unaudited)

	Capital stock	Warrants	Additional paid-in capital	Loans receivable	Deficit	Shareholders' equity
Balance, December 31, 2004	$ 63,394	$10,372	$192,972	$ (5)	$(252,599)	$ 14,134
Conversion of shares from exchangeable to common stock	(11,235)	—	11,235	—	—	—
Net loss for the period	—	—	—	—	(2,643)	(2,643)
Balance, April 3, 2005	$ 52,159	$10,372	$204,207	$ (5)	$(255,242)	$ 11,491

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 April 3, 2005	Three months ended April 4, 2004
Cash provided by (used in):		
Operations:		
Net loss	$(2,643)	$ (47)
Items not involving cash:		
Amortization	—	1,172
Depreciation	1,308	1,508
Loss (gain) on disposition of capital assets	43	(15)
Other	442	—
Change in non-cash operating working capital:		
Accounts receivable	2,523	3,202
Inventories	(366)	(6,185)
Prepaid expenses	179	(234)
Income taxes recoverable/payable	(563)	126
Accounts payable	(3,868)	2,080
Accrued liabilities	(1,326)	(1,328)
	(4,271)	279
Financing:		
Increase in long-term debt	4,956	420
Repayment of long-term debt	(989)	—
Principal payments on capital lease obligations	(651)	(92)
Deferred financing fees	—	(550)
	3,316	(222)
Investments:		
Purchase of capital assets	(45)	(24)
Proceeds from sale of capital assets	1,000	15
	955	(9)
Increase in cash	—	48
Cash and cash equivalents, beginning of period	—	167
Cash and cash equivalents, end of period	$ —	$ 215

	Three months ended April 3, 2005	Three months ended April 4, 2004
Supplemental disclosures:		
Cash paid during the period:		
Income taxes	$ 540	$ 63
Interest	562	1,164

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 April 3, 2005 and April 4, 2004
(Unaudited)

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 April 3, 2005, unaudited consolidated statements of operations for the three month periods ended April 3, 2005 and April 4, 2004, unaudited consolidated statement of changes in shareholders' equity for the three month period ended April 3, 2005, and unaudited consolidated statements of cash flows for the three month periods ended April 3, 2005 and April 4, 2004 have been prepared on substantially the same basis as the annual consolidated financial statements. 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 April 3, 2005 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, 2004.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates include, but are not limited to, the allowance for doubtful accounts, inventory valuation, deferred tax asset valuation allowance, restructuring accruals, the useful lives of capital assets and impairment of long-lived assets. Actual results may differ from those estimates and assumptions.

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 FASB Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure ("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 April 3, 2005 and April 4, 2004
(Unaudited)

2. Stock-based compensation (continued):

The table below sets out the pro forma amounts of net 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	
	April 3, 2005	April 4, 2004
Net loss attributable to common shareholders, as reported	$(2,643)	$ (47)
Stock-based compensation (expense) recovery	(61)	25
Pro forma loss	(2,704)	(22)
Basic and diluted loss per share, as reported	$ (0.18)	$(0.01)
Stock-based compensation (expense) recovery	—	—
Pro forma basic and diluted loss per share	(0.18)	(0.01)

No compensation expense has been recorded in the statement of operations for the quarters ended April 3, 2005 and April 4, 2004.

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. During the three months ended April 3, 2005, the Company granted 200,000 options to purchase exchangeable shares of SMTC Manufacturing Corporation of Canada at an exercise price of Cdn $1.53 per exchangeable share, the fair market value on the date of the grant and 210,000 options to purchase common shares at an exercise price of $1.17 per share, the fair market value on the date of the grant. There were no options granted during the three month period ended April 4, 2004.

During the three months ended April 3, 2005, the Company recorded a pro-forma stock-based compensation expense of $61 for the value of new options issued during the quarter, offset by unvested stock options that were forfeited during the quarter. During the three months ended April 4, 2004, the Company recorded a recovery of pro-forma stock-based compensation of $25 for unvested stock options that were forfeited during the period.

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 April 3, 2005 and April 4, 2004
(Unaudited)

2. Stock-based compensation (continued):

The estimated fair value of options is amortized over the vesting period, on a straight-line basis, and was determined using the Black-Scholes option pricing model with the following assumptions:

	Three months ended	
	April 3, 2005	April 4, 2004
Risk-free interest rate	3.0%	—
Dividend yield	—	—
Expected life	4	—
Volatility	120.0%	—

3. Inventories:

	April 3, 2005	December 31, 2004
Raw materials	$18,337	$ 19,827
Work in process	7,856	4,867
Finished goods	6,676	7,814
Other	522	517
	$33,391	$ 33,025

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 April 3, 2005 and April 4, 2004
(Unaudited)

4. Long-term debt:

	April 3, 2005	December 31, 2004
Senior debt:		
Revolving	$ 9,297	$ 4,339
Term	1,011	1,166
Subordinated debt	26,329	27,164
Other	1,133	1,222
	37,770	33,891
Less current portion	3,800	3,800
	$33,970	$ 30,091

In connection with the initial public offering completed on July 27, 2000, the Company and certain of its subsidiaries entered into a credit agreement (the “Credit Agreement”) that provided for an initial term loan and amounts made available under revolving credit loans, swing line loans and letters of credit. Between July 27, 2000 and May 31, 2004, the Company and its pre-existing lenders amended the Credit Agreement from time to time.

Senior debt:

On June 1, 2004, the Company entered into a 3-year $40,000 revolving credit facility and a $1,400 term loan facility (collectively the “Congress Facilities”) with Congress Financial Corporation and its affiliates (“Congress”). The availability under the Congress revolving credit facilities is subject to certain borrowing base conditions based on the eligible inventory and accounts receivable of the Company and requires a lock-box arrangement where all customer remittances are swept daily to reduce the borrowings outstanding. The revolving credit facilities bear interest at a rate of 0.5% in excess of the Canadian prime rate for Canadian-denominated loans and 0.5% in excess of the U.S. prime rate for U.S.-denominated loans. The Congress Facilities are secured by the present and future assets of the Company, require the Company to be in compliance with a financial covenant based on achieving certain EBITDA (earnings before interest, taxes, depreciation and amortization) targets and contain subjective acceleration clauses which would allow Congress to forego additional advances should they determine certain conditions exist, including those with a material adverse change of the Company’s business, assets, operations, prospects or financial condition. The initial term of the revolving credit facility is three years, with a one-year renewal period at the option of the lender, at which time, the facility would become annually renewable. The term loan bears interest at a rate of 1% in excess of the U.S. prime rate.

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 April 3, 2005 and April 4, 2004
(Unaudited)

4. Long-term debt (continued):

On November 16, 2004, the Company, together with Congress, executed a letter of understanding amending the terms of the Congress Facilities. The letter of understanding provided that, at the Company's option, it may elect to use a "springing lock-box" arrangement, whereby remittances from customers are forwarded to the Company's general bank account rather than the lock-box arrangement, as previously required, whereby customer remittances are swept daily to reduce the borrowings under the revolving credit facilities.

Should the Company elect to change to the springing lock-box arrangement, as allowed under the letter of understanding, availability under the facility may be reduced by the eligible inventory. The Company would be required to revert back to a required lock-box arrangement if (i) availability under the revolving credit facility is less than the greater of (a) $2,500 or (b) 25% of the outstanding borrowings under the credit facility or (ii) the occurrence of an event of default.

In March 2005, the Company and Congress signed amendments to the Congress Facilities (the "March 2005 Amendments") which formalized the November 16, 2004 letter of understanding on the terms described above and reduced the EBITDA targets for the quarters ended December 31, 2004 through December 31, 2005.

Management believes that no conditions have occurred that would result in subjective acceleration by the lenders, nor do they believe that any such conditions will exist over the next 12 months. Furthermore, Congress has not informed the Company that any such condition or event has occurred. Because of the option to use a springing lock-box arrangement and based on management's assessment of the subjective acceleration clauses, the debt has been classified as long-term as at April 3, 2005.

Management does not foresee being precluded from exercising the option of converting to a springing lock-box based on its expected financing needs over the next 12 months; however, due to the effective cash management aspect of the current lock-box arrangement, the Company has no plans to move to a springing lock-box arrangement at this time.

The Congress Facilities and the Credit Agreement (as amended on June 1, 2004) are jointly and severally guaranteed by and secured by the assets of the Company and the assets and capital stock of each of the Company's subsidiaries (other than certain foreign subsidiaries) and its future subsidiaries. The security interest granted to Congress ranks senior to the security interest of the pre-existing lenders.

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 April 3, 2005 and April 4, 2004
(Unaudited)

4. Long-term debt (continued):

Subordinated debt:

On June 1, 2004, the Company completed a transaction with the Company's pre-existing lenders under which the Company satisfied a portion of its indebtedness outstanding under the Credit Agreement. The Company paid consideration with a fair value of $50,000, comprised of a cash payment of $40,000 and $10,000 of common stock of the Company and warrants (note 6), in exchange for a reduction of debt with a par value of $50,000 and cancellation of the warrants issued and to be issued to such lenders under the Credit Agreement.

The pre-existing lenders converted the remaining $27,500 of outstanding indebtedness into a Tranche A term loan in the amount of $15,000 and a Tranche B term loan in the amount of $12,500 under the Amended Credit Agreement. The Tranche A term loan matures on December 31, 2007 and bears interest at the U.S. base rate plus 2.5% except for the period from January 1, 2005 to January 1, 2006, during which it bears interest at the U.S. base rate plus 2.75%. The Tranche B term loan matures December 31, 2008 and bears interest at a rate equal to 8% payment in kind ("PIK") interest plus 4% cash interest, except for the period from January 1, 2005 to January 1, 2006, during which it bears interest at 8% PIK plus 4.25% cash interest, during the period the Tranche A term loan is outstanding and 6% PIK interest plus 6% cash interest thereafter. The Tranche B PIK interest is added to the outstanding principal balance during the term of the loan.

The Company accounted for the transactions with the pre-existing lenders as a modification of debt. The Company allocated the fair value of the $50,000 consideration to the outstanding debt and cancelled warrants using the relative fair value method, resulting in a reduction of debt outstanding of $48,600 and allocation of $1,400 to the cancelled warrants. The amount allocated to the cancelled warrants was recorded as long-term debt, and is being amortized as a reduction of interest expense over the term of the term loans.

The Company incurred costs in relation to completion of the term loan transactions with the pre-existing lenders of $1,800, and these costs and the remaining net book value of the previous deferred financing fees of $180 were recorded as a non-current deferred charge and are being amortized as additional interest expense over the term of the term loans.

On March 10, 2005, the Company executed an amendment to the Credit Agreement, which reduced the EBITDA targets for each of the four quarters in the year ending December 31, 2005.

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 April 3, 2005 and April 4, 2004
(Unaudited)

4. Long-term debt (continued):

The Company is in compliance with the financial covenants included in its lending agreements at April 3, 2005. Continued compliance with the financial covenants through the next twelve months is dependant on the Company achieving its forecasts. 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 products and services by the Company's customers. In the event of non-compliance, the Company's lenders have the ability to amend the financial covenants, demand repayment of the amounts outstanding under the lending agreements or pursue other remedies.

5. Income taxes:

During the quarter ended April 3, 2005, the Company recorded income tax expense of $33 on a loss before income taxes of $2,610. The majority of the income tax expense relates to minimum taxes in certain jurisdictions.

At December 31, 2004, the Company had total net operating loss ("NOL") carryforwards of approximately $105,200, of which $2,376 will expire in 2010, $6,660 will expire in 2011, $1,368 will expire in 2012, $1,078 will expire in 2018, $60 will expire in 2019, $30 will expire in 2020, $54,097 will expire in 2021, $20,069 will expire in 2022, and $19,462 will expire in 2023. There has been no significant transactions in the three months ending April 3, 2005 that would materially impact these loss carryforwards.

Whether the recapitalization transactions described in note 6 result in an ownership change for purposes of Section 382 of the Internal Revenue Code ("Section 382"), which imposes a limitation on a corporation's use of NOL carryforwards following an "ownership change," depends upon whether the exchangeable shares of SMTC Canada are treated as shares of the Company under U.S. tax principles. The tax law governing the exchangeable shares is unclear and, accordingly, it is uncertain whether Section 382 will apply to the Recapitalization Transaction. If deemed applicable, Section 382 would limit the amount of NOLs available to offset taxable income in the post-ownership change period and would preclude the full utilization of the Company's NOLs. However, the Company would file the appropriate tax election to ensure that the taxable intercompany dividend, paid in connection with the recapitalization transaction (note 6), would be allocated to the pre-ownership change period in the year ended December 31, 2004, and thus the utilization of NOLs against this income amount would not be limited.

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 April 3, 2005 and April 4, 2004
(Unaudited)

6. **Capital Stock:**

a) Private Placement of Special Warrants:

On March 3, 2004, the Company completed a private placement, fully underwritten by a syndicate of Canadian investment dealers, of 33,350,000 Special Warrants (each a "Special Warrant" and collectively, the "Special Warrants") of SMTC Manufacturing Corporation of Canada ("SMTC Canada"), an indirect wholly owned subsidiary of the Company. Each Special Warrant was issued at a price of Cdn. $1.20 per Special Warrant, resulting in aggregate proceeds of Cdn. $40,020. The proceeds, net of underwriters commissions and certain other expenses, were placed into escrow on March 3, 2004, pending receipt of shareholder approval.

Subject to the satisfaction of applicable legal requirements, each Special Warrant was exercisable for one unit, consisting of one-fifth of an exchangeable share of SMTC Canada, and one-half of a warrant to purchase one-fifth of an exchangeable share of SMTC Canada. Each whole warrant (a "Purchase Warrant") is exercisable for one-fifth of an exchangeable share of SMTC Canada at an exercise price of Cdn. $9.25 per share until March 3, 2009. The Special Warrants were exercised into units on June 2, 2004.

Subject to the satisfaction of applicable legal requirements, each exchangeable share of SMTC Canada can be exchanged on a one-for-one basis for one share of the common stock of the Company. Each exchangeable share of SMTC Canada, as nearly as practicable, is intended to be the economic equivalent of a share of common stock of the Company and holders of the exchangeable shares of SMTC Canada are able to exercise essentially the same voting rights with respect to the Company as they would have if they had exchanged their exchangeable shares of SMTC Canada for common stock of the Company. On or after July 27, 2015, subject to certain adjustment and acceleration provisions, SMTC Canada will redeem all of the outstanding exchangeable shares by delivering common shares of the Company on a one-for-one basis.

The proceeds, net of underwriter commissions and other expenses and including interest earned while held in escrow, were released from escrow on June 1, 2004, and were used to repay a portion of the debt under the Credit Agreement (note 4).

The gross proceeds of Cdn. $40,020 ($29,372 based on the exchange rate at June 1, 2004) were allocated between the exchangeable shares and Purchase Warrants using the relative fair value method.

The gross proceeds were allocated between the exchangeable shares and warrants in the amounts of $20,962 and $8,410, respectively.

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 April 3, 2005 and April 4, 2004
(Unaudited)

6. Capital Stock (continued):

The Company incurred total costs related to the private placement of $2,772, resulting in net proceeds of $26,600. These costs were offset against the exchangeable shares and warrants in proportion to their relative fair values, resulting in net proceeds allocated to these instruments of $18,983 and $7,617, respectively.

(b) Conversion of outstanding debt:

On June 1, 2004, the pre-existing lenders exchanged $10,000 of outstanding debt (note 4) and all warrants previously issued or required to be issued for 2,233,389 shares of common stock and 11,166,947 warrants (the “Conversion Warrants”). Each warrant is exercisable for one-tenth of one share of common stock of the Company at an exercise price of $6.90 per share of common stock. The warrants may be exercised by the holders at any time on or before March 4, 2009.

The common stock and the Conversion Warrants issued to the pre-existing lenders are subject to transfer restrictions on trading. The pre-existing lenders have agreed to retain:

- all of the shares of common stock, Conversion Warrants and shares of common stock underlying such Conversion Warrants until September 1, 2004;
- at least 2/3 of the shares of common stock, Conversion Warrants and shares of common stock underlying such Conversion Warrants until December 1, 2004; and
- at least 1/6 of the shares of common stock, and Conversion Warrants and shares of common stock underlying such Conversion Warrants until March 1, 2005.

The fair value of the consideration paid upon conversion of $10,000 of debt was allocated between the common stock and Conversion Warrants using the relative fair value method. The fair value of the consideration paid was allocated between the common stock and Conversion Warrants in the amounts of $7,137 and $2,863, respectively.

The Company incurred total costs of $379 related to the conversion. These costs were offset against the common stock and Conversion Warrants in proportion to their relative fair values, resulting in net proceeds allocated to these instruments of $6,866 and $2,755, respectively. The excess of the amount allocated to the common stock over the par value of $6,754 was recorded as additional paid-in capital.

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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 April 3, 2005 and April 4, 2004
(Unaudited)

6. Capital Stock (continued):

(c) Exchange of exchangeable shares:

During the three months ended April 3, 2005 and April 4, 2004, 1,188,838 and 55,950 exchangeable shares were exchanged for common stock, respectively.

(d) Reverse stock split:

On October 4, 2004, the Company completed a reverse stock split of its issued and outstanding common and exchangeable shares whereby every five shares of common stock were exchanged for one share of common stock and every five exchangeable shares were exchanged for one exchangeable share. All share information relating to shares outstanding and all employee stock options and warrants have been retroactively adjusted to reflect the reverse stock split.

(e) Warrants

Pursuant to the private placement described above, SMTC Canada issued 16,675,000 warrants. Each warrant is exercisable for one-fifth of an exchangeable share of SMTC Canada at an exercise price of Cdn. $9.25 per share until March 3, 2009.

Pursuant to the exchange by the pre-existing lenders of $10,000 of outstanding debt and all warrants previously issued or required to be issued, the Company issued 11,166,947 warrants. Each warrant is exercisable for one-tenth of one share of common stock of the Company at an exercise price of $6.90 per share of common stock. The warrants may be exercised by the holders at any time on or before March 4, 2009.

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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 April 3, 2005 and April 4, 2004
(Unaudited)

7. Earnings (loss) per share:

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

	Three months ended	
	April 3, 2005	April 4, 2004
Numerator:		
Net loss	$ (2,643)	$ (47)
Denominator:		
Weighted average shares - Basic and diluted	14,641,345	5,737,956
Loss per share:		
Basic and diluted	$ (0.18)	$ (0.01)

For the three months ended April 4, 2004, the calculation of weighted average shares - diluted did not include 182,478 options and 439,961 warrants, as the effect would have been anti-dilutive. For the three months ended April 3, 2005, the calculation did not include 778,260 options, 16,675,000 warrants, each warrant exercisable for one-fifth of an exchangeable share of SMTC Canada and 11,166,947 warrants, each warrant exercisable for one-tenth of one share of common stock of the Company, as the effect would have been anti-dilutive.

SMTC CORPORATION

Notes to Consolidated Financial Statements (continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Three months ended April 3, 2005 and April 4, 2004
(Unaudited)

8. 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 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 (recoveries), discontinued operations and the effects of a change in accounting policies. 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 April 3, 2005			Three months ended April 4, 2004		
	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue
United States	$28,625	$ (115)	$28,510	$ 40,773	$ (28)	$14,294
Canada	5,077	(982)	4,095	32,402	(3,724)	28,678
Mexico	22,209	(5,704)	16,505	41,525	(15,074)	26,451
	$55,911	$ (6,801)	$49,110	$114,700	$ (18,826)	$69,423

Revenue is attributed to the country from which the customer is invoiced.

EBITA (before restructuring charges):

United States	$ 951	$ 16
Canada	(2,347)	(11)
Mexico	(5)	2,535
	(1,401)	2,540
Interest	1,105	1,292
Amortization	—	1,172
Restructuring charges (note 9)	104	—
Earnings (loss) before income taxes	$(2,610)	$ 76
Capital expenditures:		
United States	$ 31	$ —
Canada	—	6
Mexico	14	18
	$ 45	$ 24

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 April 3, 2005 and April 4, 2004
(Unaudited)

8. 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	
	April 3, 2005	April 4, 2004
Geographic revenue:		
United States	$29,014	$ 52,218
Canada	12,709	2,982
Europe	535	2,730
Asia	761	3,275
Mexico	6,091	8,218
	$49,110	$ 69,423

	April 3, 2005	December 31, 2004
Long-lived assets:		
United States	$ 9,553	$ 9,939
Canada	2,170	2,462
Mexico	15,240	16,868
	$26,963	$ 29,269

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.

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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 April 3, 2005 and April 4, 2004
(Unaudited)

9. Restructuring and other charges:

The following table details the components of the restructuring and other charges:

	Three months ended	
	April 3, 2005	April 4, 2004
Severance	104	—
Other charges (adjustments) included in selling, general and administrative expenses	(42)	(287)

(a) Restructuring charges:

2002 Plan:

In response to the continuing industry economic downturn, the Company took further steps to realign its cost structure and plant capacity (the “2002 Plan”) and recorded net restructuring charges of $36,900 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 following table details the related amounts included in accrued liabilities as at April 3, 2005 in respect of the 2002 Plan:

	Accrual at December 31, 2004	Cash payments	Accrual at April 3, 2005
Lease and other contract obligations	$ 2,390	$ (123)	$ 2,267
Severance	856	—	856
Other facility exit costs	33	(25)	8
	$ 3,279	$ (148)	$ 3,131

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 April 3, 2005 and April 4, 2004
(Unaudited)

9. Restructuring and other charges (continued):

2004 Plan:

During the third quarter of 2004, the Company announced changes to its manufacturing operations as it continued to execute its transformation plan (the "2004 Plan"). This plan seeks to provide greater focus on new customer and new product introduction and technical activities, to improve capacity utilization and to align cost structure to expected revenue. As the result of operational and administrative changes, the Company recorded severance charges of $104 relating to 17 employees at the Chihuahua, Mexico and Appleton, Wisconsin locations. The Company expects to record further charges related to the 2004 Plan during the second quarter of 2005.

The following table details the related amounts included in accrued liabilities as at April 3, 2005 in respect of the 2004 Plan:

	Accrual at December 31, 2004	2005 charges	Cash payments	Accrual at April 3, 2005
Severance	$ 736	$ 104	$ (578)	$ 262

(b) Other charges (recoveries):

During the quarters ended April 3, 2005 and April 4, 2004, the Company received proceeds of $42 and $287, respectively, from the sale of an asset previously written off. As the write-off was originally recorded in selling, general and administrative expenses, these amounts have also been recorded in selling, general and administrative expenses, as recoveries.

10. Contingencies:

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

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Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

SELECTED CONSOLIDATED FINANCIAL DATA

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

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

(Unaudited)

	Three months ended	
	April 3, 2005	**April 4, 2004**
Revenue	$ 49.1	$ 69.4
Cost of sales	47.1	62.6
Gross profit	2.0	6.8
Selling, general and administrative expenses (a)	3.4	4.3
Amortization	—	1.1
Restructuring charges (a)	0.1	—
Operating earnings (loss)	(1.5)	1.4
Interest	1.1	1.3
Earnings (loss) before income taxes	(2.6)	0.1
Income tax expense	—	0.1
Net loss	$ (2.6)	$ 0.0
Loss per common share (b):		
Basic loss per share	$ (0.18)	$ (0.01)
Diluted loss per share	$ (0.18)	$ (0.01)
Weighted average number of shares outstanding (b):		
Basic	14.6	5.7
Diluted	14.6	5.7

(a) The Company recorded restructuring charges of $0.1 million during the first quarter of 2005 relating to severance costs associated with the 2004 restructuring plan. Refer to note 9 to our April 3, 2005 interim consolidated financial statements.

The Company recorded an adjustment to other charges of $0.3 million during the first quarter of 2004 relating to proceeds from the sale of an asset previously written off. This amount has been recorded in selling, general and administrative expenses. Refer to note 9 to our April 3, 2005 interim consolidated financial statements.

(b) On October 4, 2004, the Company completed a reverse stock split of its issued and outstanding common and exchangeable shares whereby every five shares of common stock were exchanged for one share of common stock and every five exchangeable shares were exchanged for one exchangeable share, resulting in 7,775,181 common shares outstanding and 6,866,152 exchangeable shares outstanding at that date. All share information related to shares outstanding has been retroactively adjusted to reflect the reverse stock split.

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Consolidated Balance Sheet Data:
(in millions)

	April 3, 2005 (Unaudited)	December 31, 2004
Working capital	$ 15.2	$ 12.4
Total assets	87.5	92.7
Total debt, including current maturities	37.8	33.9
Shareholders' equity	11.5	14.1

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

Overview

We provide advanced electronics manufacturing services, or EMS, to original equipment manufacturers, or OEMs, primarily in the industrial, enterprise computing and networking, and communications market segments. We currently service our customers through five 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.

As the technology sector grew rapidly in the years 1999 and 2000, we sought to take advantage of such growth and completed several acquisitions. When the technology sector declined, we found ourselves with significant excess capacity and incurred significant operating losses. As a result, in fiscal year 2001, we began an operational restructuring that is substantially complete and involved closing six and selling one of our manufacturing facilities.

In early 2004, we initiated a comprehensive transformation plan designed to restructure, refinance and restore profitability and growth. The transformation plan has several components, including operational optimization, refinancing, strategy development and organization renewal.

During the third quarter of 2004, we announced changes to our manufacturing operations to provide greater focus on new customer and new product introduction and technical activities, improve capacity utilization, align our cost structure to expected revenue, and to become profitable on a sustained basis. Our Markham, Ontario site has become the Company's technical center of excellence, with particular emphasis on assisting current and new customers to develop, prototype and bring new products to full production. This site also will continue to manufacture low volume, high complexity printed circuit board assemblies. Our Chihuahua, Mexico facility will serve as SMTC's primary assembly operation, offering customers high quality services in a highly efficient, cost effective site. Our operations in Franklin, Massachusetts and San Jose, California will continue to specialize in high precision metal manufacturing and system integration activities. Similarly, our engineering design services capability will continue as will our manufacturing relationship with China-based Alco Electronic.

In addition, during the third quarter of 2004, we continued to streamline our overhead, selling, general and administrative structure to improve productivity and customer responsiveness and to provide greater focus on key market segments. As a result of operational and administrative changes, we recorded restructuring charges of $1.9 million during the third and fourth quarters of 2004 and $0.1 million during the first quarter of 2005 related to severance charges and as we continued to execute our transformation plan.

During the first quarter of 2005, we continued to execute our transformation plan to restore the Company to growth and profitability. Having reduced capacity and costs, stabilized the stakeholder base and refinanced the balance sheet, our primary challenge is to develop and execute a strategy that grows revenue through a combination of new customer acquisition and increasing the level of business with current customers. Although not evident in the financial results for the first quarter of 2005, the Company has gained several important new customers and added a number of new program wins within our current customer base. Historically, the first quarter typically is soft for SMTC and the EMS sector overall. However, we were able to produce a modest revenue growth as compared to the previous quarter and believe the previous quarter will prove to be the low point in our revenue. While the Company did incur a loss in the first quarter of 2005, it was partially a function of the cost of program transfers to Mexico, and higher staffing and training costs as compared to the fourth quarter of 2004 as we ramp for higher production volumes for the second quarter of 2005.

In the first and second quarters of 2004, our priority was refinancing to strengthen our balance sheet by lowering total indebtedness, restructuring a major portion of remaining debt into longer terms and establishing a new revolving credit facility. On June 1, 2004, we completed the Recapitalization Transaction, which consisted of three main components: a private placement of equity securities, a transaction with SMTC's pre-existing lenders to repay a portion of SMTC's pre-existing debt and restructure the balance of SMTC's pre-existing debt and a new secured credit facility with Congress Financial Corporation and its affiliates. The following summary briefly describes the material terms of the Recapitalization Transaction.

Private Placement of Equity Securities (share amounts adjusted to reflect reverse stock split)

The private placement consisted of a committed private placement fully underwritten by a syndicate of Canadian investment dealers comprised of Orion Securities Inc., CIBC World Markets Inc., GMP Securities Limited and RBC Dominion Securities Inc. (collectively, the "Underwriters") of 33,350,000 Special Warrants of SMTC Canada (each a "Special Warrant" and, collectively, the "Special Warrants") to qualified investors at a price of C$1.20 (approximately US$0.90) per Special Warrant, representing an aggregate amount of issue of C$40.02 million, C$37.3 million net of underwriting expenses, or approximately US$29.9 million, US$27.6 million net of underwriting expenses, based on the exchange rate on March 3, 2004 (the "Offering"). While we completed the Offering of Special Warrants on March 3, 2004, the Special Warrants and the net proceeds from the Offering were held in escrow until June 1, 2004, until all conditions to release were satisfied. Proceeds were used for debt reduction and to fund working capital.

The Offering of Special Warrants included the following terms (as adjusted to reflect the reverse stock split):

- Each Special Warrant was exercisable, without any additional consideration, into one unit consisting of one-fifth of an exchangeable share, and one half of one warrant to purchase one-fifth of an exchangeable share. Each whole warrant is exercisable for one-fifth of an exchangeable share at an exercise price of C$9.25 per exchangeable share until March 3, 2009. The Special Warrants were exercised for units on June 2, 2004.
- Subject to satisfaction of applicable legal requirements, each exchangeable share may be exchanged on a one-for-one basis for one share of common stock. Each exchangeable share, as nearly as practicable, is the economic equivalent of a share of common stock, and holders of exchangeable shares are entitled to dividend and liquidation rights and participation in a tender offer, share exchange offer, issuer bid, take-over bid or similar transaction with respect to the common stock to the same extent and on an economically equivalent basis as the holders of common stock. Holders of exchangeable shares are able to exercise essentially the same voting rights with respect to SMTC as they would have if they had exchanged their exchangeable shares for shares of common stock.

Transaction with SMTC's Pre-existing Lenders

The Recapitalization Transaction included a transaction with SMTC's pre-existing lenders, (the "Pre-existing Lenders") under which SMTC:

- repaid $40 million of debt at par;
- exchanged $10 million of debt for $10 million of SMTC's common stock and warrants valued on the same terms as the private placement; and
- converted $27.5 million in debt into second lien subordinated debt with maturity ranging from four to five years.

In addition, all warrants issued (or required to be issued) to the Pre-existing Lenders prior to the closing of the Recapitalization Transaction were cancelled.

New Secured Credit Facility

In connection with the Recapitalization Transaction, we entered into new asset-based credit facilities with Congress Financial Corporation and its affiliates ("Congress"). The Congress Credit Facility is available to the Company's U.S. and Canadian operating entities in a maximum amount of $40 million. The Congress Credit Facility includes a term loan of up to $2 million, which bears interest at the reference rate plus 1.00%, and a revolving loan that bears interest at the reference rate plus 0.50%. The reference rate is the Canadian prime rate for the loans in Canada and the U.S. prime rate for the loans in the United States. The Congress Credit Facility provides for customary fees, including a 1.00% closing fee, an unused line fee of 0.25% and a termination fee of up to 2.00%.

The Congress Credit Facility included the following terms:

- The borrowing base for the revolving loan facilities provided by Congress is calculated using a formula based on (i) the lesser of 50% of the value of the eligible inventory of the Company's U.S. and

Canadian operating entities valued at the lower of cost or market value, or 85% of such inventory's appraised value, both subject to a $5 million cap and (ii) 85% of the eligible accounts receivable of those entities.

- The revolving loan facility originally required a lock-box arrangement where all customer remittances were swept daily to reduce the borrowings outstanding.
- The Congress Credit Facility includes a single financial covenant that requires the Company to maintain a specified level of consolidated EBITDA and subjective acceleration clauses which would allow Congress to forego additional advances should they determine certain conditions exist, including those resulting in a material adverse change of the Company's business, assets, operations, prospects or financial condition. The Company was required to achieve consolidated EBITDA of $5.0 million cumulatively for the first two quarters of 2004, $7.5 million cumulatively for the first three quarters of 2004, which the Company achieved, and $11.0 million cumulatively for 2004 in total. In March 2005, the Company and Congress signed an amendment to the Congress Credit Facility (the "March 2005 Amendment") which amended the EBITDA covenant for the year ended December 31, 2004 to $10.0 million, and on a consolidated rolling four quarter basis, amended the EBITDA covenant for the first, second, third and fourth quarters of fiscal year 2005 to $6.5 million, $5.0 million, $5.0 million and $8.0 million, respectively. Thereafter, the Company will be required to maintain consolidated EBITDA of $11.0 million on a rolling four quarter basis. See March 2005 Amendments below.
- The Congress Credit Facility is secured by the current and future assets of the Company's U.S. and Canadian operations. The security interest granted to Congress ranks senior to any security interest in the Pre-existing Lenders.
- The Congress Credit Facility includes representations, warranties, covenants and events of default that are customary for asset based credit facilities.

The Company drew approximately $12.5 million under the Congress Credit Facility at the closing of the Recapitalization Transaction on June 1, 2004.

On November 16, 2004, the Company, together with Congress, executed a letter of understanding amending the terms of the revolving credit facility. The letter of understanding provided that, at the Company's option, the Company could elect to use a "springing lock-box" arrangement whereby remittances from customers would be forwarded to the Company's general bank rather than the lock-box arrangement, as previously required, where all customer remittances were swept daily to reduce the borrowings outstanding.

Should the Company elect to change to the springing lock-box arrangement, as allowed under the letter of understanding, availability under the facility may be reduced by the eligible inventory. Pursuant to the letter of understanding, the Company will be required to revert back to a required lock-box arrangement if (a) availability under the revolving credit facility is less than the greater of (i) $2.5 million or (ii) 25% of the outstanding borrowings under the credit facility or (b) the occurrence of an event of default.

In March 2005, the Company and Congress signed amendments to the Congress facilities (the "March 2005 Amendments") which formalized the November 16, 2004 letter of understanding on the terms described above and reduced the EBITDA targets for the quarters ended December 31, 2004 through December 31, 2005.

Management believes that no conditions have occurred that would result in subjective acceleration by the lenders, nor do they believe that any such conditions will exist over the next 12 months. Furthermore, Congress has not informed the Company that any such condition or event has occurred. Because of the option to use a springing lock-box arrangement and based on management's assessment of the subjective acceleration clauses, the debt has been classified as long-term as at April 3, 2005.

Management does not foresee being precluded from exercising the option of converting to a springing lock-box based on its expected financing needs over the next 12 months; however, due to the effective cash management aspect of the current lock-box arrangement, the Company has no plans to move to a springing lock-box arrangement at this time.

In March 2005, the Company executed an amendment to the subordinated debt agreement, which reduced the EBITDA targets for each of the four quarters in the year ending December 31, 2005.

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Certain Effects of the Recapitalization Transaction

Upon the closing of the Recapitalization Transaction, SMTC's overall indebtedness was decreased by approximately $37.5 million. As of July 4, 2004, SMTC's aggregate indebtedness under the Credit Facilities was $43.7 million.

The following table sets forth the shares of SMTC's common stock (including shares of common stock issuable upon exchange of outstanding exchangeable shares of our subsidiary SMTC Canada) outstanding immediately prior to the closing of the Recapitalization Transaction, after the closing of the Recapitalization Transaction and after the exercise of the warrants underlying the Special Warrants and the warrants that were issued to our Pre-existing Lenders, after giving effect to the one-for-five reverse stock split:

	Common Shares	Exchangeable Shares	Total
Existing stockholders as at May 28, 2004, after the effect of the reverse stock split	4,875,144	862,812	5,737,956
Shares issued in connection with the exercise of the Special Warrants, after the effect of the reverse stock split	—	6,670,000	6,670,000
Shares issued to Pre-existing Lenders in exchange for debt, after the effect of the reverse stock split	2,233,389	—	2,233,389
Total shares outstanding post closing of Recapitalization Transaction, after the effect of the reverse stock split	7,108,533	7,532,812	14,641,345
Exchangeable shares issuable upon exercise of the warrants, after the effect of the reverse stock split	—	3,335,000	3,335,000
Common stock issuable to Pre-existing Lenders upon exercise of warrants, after the effect of the reverse stock split	1,116,698	—	1,116,698
Total shares outstanding post closing at June 1, 2004, after the effect of the reverse stock split (a)	8,225,231	10,867,812	19,093,043

(a) Assumes that all warrants are exercised and that no options are exercised.

Corporate History

SMTC Corporation is the result of the July 1999 combination of Surface Mount and 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. On July 27, 2000, we consummated an initial public offering of 1,325,000 shares of our common stock and 875,000 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 330,000 shares of common stock upon exercise of the underwriters' over-allotment option. 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. In fiscal 2001, we closed our facilities in Denver, Colorado and Haverhill, Massachusetts. In fiscal 2002, we closed our facility in Cork, Ireland. In fiscal 2003, we closed our facilities in Donegal, Ireland, Austin, Texas and Charlotte, North Carolina and sold the majority of our operations in Appleton, Wisconsin.

Results of Operations

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

Our fiscal year end is December 31. The consolidated financial statements of SMTC, including the consolidated financial statements of HTM for periods prior to the combination, are prepared in accordance with United States GAAP, which conforms in all material respects to Canadian GAAP, except as disclosed in note 18 to the annual consolidated financial statements included in the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2004. In 2002, the transitional goodwill impairment charge of $55.6 million was recognized in opening retained earnings under Canadian GAAP. Under United States GAAP, the cumulative adjustment was recognized in earnings during 2002. There are no Canadian GAAP differences in 2003. In 2004, Canadian GAAP requires companies to expense the fair value of stock-based compensation awarded to employees over the vesting period of the stock options. Under US GAAP, companies are required to calculate and disclose pro forma information related to fair value of stock-based compensation but they are not required to record a related compensation expense. Under Canadian GAAP, a compensation expense of $0.3 million would have been be recorded as an expense in 2004.

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

(Unaudited)

	Three months ended	
	April 5, 2005	April 4, 2004
Revenue	100.0%	100.0%
Cost of sales	95.9	90.2
Gross profit	4.1	9.8
Selling, general and administrative expenses	6.9	6.2
Amortization	—	1.6
Restructuring charges	0.2	—
Operating earnings	(3.0)	2.0
Interest	2.3	1.9
Earnings (loss) before income taxes and discontinued operations	(5.3)	0.1
Income tax expense	—	0.1
Net loss	5.3%	0.0%

Quarter ended April 3, 2005 compared to quarter ended April 4, 2004

Revenue

Revenue decreased $20.3 million, or 29.3%, from $69.4 million for the first quarter of 2004 to $49.1 million for the first quarter of 2005. The decline in revenue resulted from lower production volume from IBM as certain programs are nearing completion and the effect of the loss in fiscal year 2004 of Square D as a customer. This resulted in approximately $10.6 million and $11.0 million, respectively, in lower revenue from these customers for the first quarter of 2005 compared to the first quarter of 2004. Growth in revenue from EMC² was offset by a reduction in revenue from certain other customers.

During the first quarter of 2005, revenue from the industrial sector represented 37.7% of revenue compared to 58.3% of revenue for the first quarter of 2004. The percentage of sales attributable to the enterprise computing and networking sector and the communications sector was 41.8% and 20.5%, respectively, for the first quarter of 2005 compared to 28.8% and 12.9%, respectively, for the first quarter of 2004. The reduction in the percentage of revenue generated from the industrial sector in the first quarter of 2005 compared to the first quarter of 2004 is due to the effect of the loss of Square D as a customer in fiscal year 2004. The increase in the percentage of revenue generated from the computing and networking sector in the first quarter of 2005 compared to the first quarter of 2004 is due to the growth in revenue earned from EMC² for the first quarter of 2005 compared to the same period last year. The increase in the percentage of revenue earned from the communications sector in the first quarter of 2005 compared to the first quarter of 2004 is due to the lower revenue base in the first quarter of 2005.

During the first quarter of 2005, we recorded approximately $3.7 million of sales of raw materials inventory to customers, which carried no margin, compared to $2.1 million in the first quarter of 2004. The Company purchases raw materials based on customer purchase orders. To the extent the customer requires these orders to be altered or changed, the customer is generally obligated to purchase the original on-order raw material.

Due to changes in market conditions, the life cycle of products, the nature of specific programs and other factors, customer volumes produced by the Company typically vary from year to year. For the first quarter of 2005, the Company's ten largest customers represented approximately 90% of revenue. Revenue from our three largest customers was $11.1 million from EMC², $6.9 million from Mars Electronics and $5.0 million from Ingenico representing 22.6%, 14.1% and 10.1%, respectively, of total revenue for the period. This compares with revenue of $13.8 million from IBM, $11.8 million from Ingenico and $11.1 million from Square D representing 19.9%, 17.1% and 16.0%, respectively, of total revenue for the period. No other customers represented more than 10% of revenue in either period.

During the first quarter of 2005, 47.6% of our revenue was produced from operations in Mexico, 44.4% from the United States and 8.0% from Canada. During the first quarter of 2004, 59.8% of our revenue was produced from operations in Mexico, 22.0% from Canada and 18.2% from the United States. The increase in production in the United States is the result of the increase in revenue earned from EMC² compared to the prior year. The decrease in production in Canada is due to certain product lines being transferred our lower cost Mexico facility.

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

Gross Profit

Gross profit decreased $4.8 million from $6.8 million, or 9.8% of revenue, for the first quarter of 2004 to $2.0 million, or 4.1% of revenue, for the first quarter of 2005. The decline in the gross margin percentage is largely due a change in customer mix coupled with higher variable costs, as a percentage of revenue.

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

Selling, General & Administrative Expenses

Selling, general and administrative expenses decreased $0.9 million from $4.3 million for the first quarter of 2004 to $3.4 million for the first quarter of 2005. Selling, general and administrative expenses for the first quarter of 2004 include an adjustment of $0.3 million related to proceeds received on the sale of an asset previously written off. Excluding this adjustment, selling, general and administrative expenses decreased $1.2 million from $4.6 million, or 6.6% of revenue, for the first quarter of 2004, to $3.4 million, or 6.9% of revenue for the first quarter of 2005. The decrease is a result of corporate-wide cost containment measures, partially offset by an investment in sales resources. The increase in selling, general and administrative expenses as a percentage of revenue is due to the lower revenue base.

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

Amortization

Amortization of intangible assets of $1.1 million for the first quarter of 2004 is in connection with the amortization of deferred finance costs related to the establishment of our senior credit facility in July 2000 and subsequent amendments thereto.

The deferred finance costs related to the Recapitalization Transaction that closed on June 1, 2004 are recorded as interest expense commencing the third quarter of 2004.

Restructuring and Other Charges

During 2001 and 2002 the Company announced restructuring programs aimed at reducing its cost structure and plant capacity (the “2001 Plan” and the “2002 Plan”, respectively) and recorded restructuring and other charges consisting of a write-down of goodwill and other intangible assets, the costs of exiting equipment and facility leases, severance costs, asset impairment charges, inventory exposures and other facility exit costs. During the third quarter of 2004, the Company announced further changes to its manufacturing operations as it continues to execute its transformation plan (the “2004 Plan”). This plan seeks to provide greater focus on new customer and new product introduction and technical activities, to improve capacity utilization and to align its cost structure to expected revenue.

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(a) Restructuring charges:

During the first quarter of 2005, the Company recorded severance charges of $0.1 million related to 17 employees at the Chihuahua, Mexico and Appleton, Wisconsin locations in accordance with the 2004 Plan. The Company expects to record further charges related to the 2004 Plan during the second quarter of 2005.

The following table details the related amounts included in accrued liabilities as at April 3, 2005 relating to the 2002 Plan:

(in millions)

	Accrual at December 31, 2004	Cash payments	Accrual at April 3, 2005
Lease and other contract obligations	$ 2.4	$ (0.2)	$ 2.2
Severance	0.9	—	0.9
	$ 3.3	$ (0.2)	$ 3.1

The following table discloses the restructuring amounts included in accrued liabilities by segment relating to the 2002 Plan:

(in millions)

	Accrual at December 31, 2004	Cash payments	Accrual at April 3, 2005
US	$ 2.3	$ (0.2)	$ 2.1
Canada	0.8	—	0.8
Mexico	0.2	—	0.2
	$ 3.3	$ (0.2)	$ 3.1

We expect the outstanding severance amounts will be paid out during 2005. We are in a legal dispute for the remaining lease and other contractual obligations outstanding.

The following table details the related amounts included in accrued liabilities as at April 3, 2005 relating to the 2004 Plan:

(in millions)

	Accrual at December 31, 2004	2005 charges	Cash payments	Accrual at April 3, 2005
Severance	$ 0.8	$ 0.1	$ (0.6)	$ 0.3

The following table discloses the restructuring amounts included in accrued liabilities by segment relating to the 2004 Plan:

(in millions)

	Accrual at December 31, 2004	2005 charges	Cash payments	Accrual at April 3, 2005
Canada	$ 0.8	$ —	$ (0.5)	$ 0.3
Mexico	—	0.1	(0.1)	—
	$ 0.8	$ 0.1	$ (0.6)	$ 0.3

We expect the majority of the remaining restructuring accrual related to the 2004 Plan to be paid by the end of fiscal year 2005.

(b) Other charges (recoveries):

The Company recorded an adjustment to other charges of $0.3 million during the first quarter of 2004 relating to proceeds from the sale of an asset previously written off. This amount has been recorded in selling, general and administrative expenses.

Interest Expense

Interest expense decreased $0.2 million from $1.3 million for the first quarter of 2004 to $1.1 million for the first quarter of 2005. Interest expense for the first quarter of 2005 includes the amortization of deferred financing fees of $0.3 million offset by a reduction in interest expense of $0.1 million related to the amortization of the value of the cancelled warrants. Excluding the amortization of deferred financing fees and the reduction in interest expense related to the amortization of the value of the cancelled warrants, interest expense decreased $0.4 million from $1.3 million to $0.9 million due to lower average debt balances outstanding, partially offset by higher interest rates during the first quarter of 2005. The weighted average interest rates with respect to the debt for the first quarter of 2005 and 2004 were 9.0% and 7.2%, respectively.

Income Tax Expense

For the first quarter of 2004 an income tax expense $0.1 million was recorded on a pre-tax income of $0.1 million. The majority of the income tax expense relates to minimum taxes in certain jurisdictions thereby increasing the Company's effective income tax rate.

At December 31, 2004, the Company had total net operating loss ("NOL") carryforwards of approximately $105.2 million, of which $2.4 million will expire in 2010, $6.7 million will expire in 2011, $1.3 million will expire in 2012, $1.1 million will expire in 2018, $0.1 million will expire in 2019 and 2020, $54.1 million will expire in 2021, $20.1 million will expire in 2022, and $19.4 million will expire in 2023.

Whether the recapitalization transactions described in note 4 result in an ownership change for purposes of Section 382 of the Internal Revenue Code ("Section 382"), which imposes a limitation on a corporation's use of NOL carryforwards following an "ownership change," depends upon whether the exchangeable shares of SMTC Canada are treated as shares of the Company under U.S. tax principles. The tax law governing the exchangeable shares is unclear and, accordingly, it is uncertain whether Section 382 will apply to the Recapitalization Transaction. If deemed applicable, Section 382 would limit the amount of NOLs available to offset taxable income in the post-ownership change period and would preclude the full utilization of the Company's NOLs. However, the Company would file the appropriate tax election to ensure that the taxable intercompany dividend, paid in connection with the recapitalization transaction, would be allocated to the pre-ownership change period in the year ended December 31, 2004, and thus the utilization of NOLs against this income amount would not be limited.

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. FASB Statement No. 109, Accounting for Income Taxes, states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. As a result of the quarterly review undertaken at the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainty in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets arising from its operations in the jurisdictions to which the deferred tax assets relate. The U.S. and Canadian jurisdictions continued to have a full valuation allowance established for the deferred tax asset. In addition, the Company expects to continue to provide a full valuation allowance for the assets relating to the U.S and Canadian jurisdictions until it can demonstrate a sustained level of profitability that establishes its ability to utilize the assets in the jurisdictions to which the assets relate.

Liquidity and Capital Resources

Our principal sources of liquidity are cash provided from operations and borrowings under our existing credit facilities. We have also previously relied on our access to the capital markets. Our principal uses of cash have been to meet debt service requirements and to finance working capital requirements. We anticipate our principal uses of cash in the future will continue to be to meet debt service requirements and to finance working capital requirements.

Three months ended April 3, 2005 Liquidity:

Net cash used in operating activities the first quarter of 2005 was $4.3 million. The use of cash was the result of a net loss of $2.6 million and a net increase in working capital of $3.4 million, offset by non-cash depreciation and other charges of $1.8 million. The net increase in working capital of $3.4 million consists of a reduction in accounts receivable and prepaid expenses of $2.5 million and $0.2 million, respectively, offset by an increase in inventory of $0.4 million and a decrease in income taxes payable, accounts payable and accrued liabilities of $0.5 million, $3.9 million and $1.3 million, respectively. Accounts receivable days sales outstanding was 40 days at the end of the first quarter of 2005 compared to 50 days for the same period last year as the Company renewed its focus on managing accounts receivable. Inventory turned 6 times for the first quarter of 2005 compared to 7 times for the same period last year partially due an unanticipated volume decline that negatively affected the inventory levels in the first quarter of 2005 compared to the same period last year. Accounts payable days outstanding was 43 days at the end of the first quarter of 2005 compared to 62 days for the same period last year. The decline in the accounts payable days is due to the additional liquidity generated from the recapitalization transaction that closed in June of 2004. During the first quarter of 2005, the Company paid $0.7 million in connection with restructuring charges.

Net cash provided by financing activities during the first quarter of 2005 of $3.3 million consists of the net increase in long-term debt of $4.0 million offset by and the repayment of capital leases of $0.7 million. Under the Congress Credit Facility, we have a secured revolving credit facility of up to $40 million. At April 3, 2005, we had $10.3 million of indebtedness outstanding under our credit facilities. The Congress Credit Facility has a borrowing base formula that limits our ability to borrow based on the characteristics of our accounts receivable and inventory.

Net cash provided by investing activities the first quarter of 2005 of $1.0 million represents proceeds from the disposal of a vacant building in Mexico.

Three months ended April 4, 2004 Liquidity:

Net cash provided by operating activities for the first quarter of 2004 was $0.3 million. Inventory turns declined to 7 times at the end of the first quarter of 2004 from 8 times for the same period in 2003. Accounts receivable days sales outstanding (excluding the accounts receivable related to discontinued operations) decreased to 50 days at the end of the first quarter of 2004 from 61 days for the same period in 2003. During the first quarter of 2004, the Company made $1.4 million of restructuring payments.

Net cash used in financing activities for the first quarter of 2004 of $0.2 million consists of the increase in long-term debt of $0.4 million offset by the repayment of capital leases of $0.1 million and deferred financing fees of $0.5 million.

Net cash used in investing activities for the first quarter of 2004 was negligible.

Capital Resources

As described in greater detail under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview,” in 2004, the Company effected a Recapitalization Transaction through three main components: a private placement of equity securities, a transaction with our Pre-existing Lenders to repay a portion of and restructure a portion of the Company’s existing debt and a new secured credit facility:

- On March 3, 2004, we closed in escrow a fully underwritten, committed private placement of 33,350,000 Special Warrants of SMTC Canada to qualified investors at a price of C$1.20 (approximately US$0.90) per Special Warrant, representing an aggregate amount of issue of C$40.02 million, C$37.3 million net of underwriting expenses, or approximately US $29.9 million, US $27.6 million net of underwriting expenses, based on the exchange rate on March 3, 2004. The net proceeds were released from escrow on June 1, 2004 and were used for debt reduction and working capital.
- We satisfied debt that was owed to the Pre-existing Lenders by repaying $40 million of debt at par, exchanging $10 million of debt for $10 million of the Company’s common stock and warrants valued on the same terms as the private placement, and converting $27.5 million of debt into second lien subordinated debt with maturity ranging from four to five years.
- We obtained a new, 3-year $40 million credit facility, subject to certain borrowing base conditions, from Congress.

The Recapitalization Transaction lowered our overall indebtedness by approximately $37.5 million, extended the term of the majority of the remaining indebtedness and provided additional liquidity. The level of indebtedness under our credit facility at December 31, 2003 was $70.1 million and at May 31, 2004 was $77.5 million. Immediately following the closing of the Recapitalization Transaction on June 1, 2004, we had approximately $40.0 million of indebtedness outstanding under the Credit Facilities. At April 3, 2005, we had $10.3 million of indebtedness outstanding under the Congress Credit Facility and term debt, $26.3 million of subordinated debt and $1.1 million related to the unamortized value of the cancelled warrants related to the Pre-existing Facility.

Having successfully completed the Recapitalization Transaction on June 1, 2004, we believe that cash generated from operations, available cash and amounts available under our Credit Facilities 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 Facilities. We have agreed to a borrowing base formula under which the amount we are permitted to borrow under the Congress Credit Facility is based on our accounts receivable and inventory. Further, there can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to enable us to service our indebtedness. Our future operating performance and ability to service or refinance indebtedness will be subject to future economic conditions and to financial, business and other factors, certain of which are beyond our control.

On November 16, 2004, we executed a letter of understanding with Congress amending the terms of the revolving credit facility. The letter of understanding provides that, at our option, we may elect to use a “springing lock-box” arrangement whereby remittances from customers are forwarded to our general bank account and we are not required to reduce the borrowings under the facility unless certain conditions exist. Previous to the letter of understanding, the revolving credit facility required a lock-box arrangement, where all customer remittances were swept daily to reduce the borrowings outstanding. The original lock-box arrangement, combined with the existence of subjective acceleration clauses, required us to classify the borrowings under the revolving credit facility as a current liability on the balance sheet, pursuant to the guidance in the Financial Accounting Standards Board’s Emerging Issues Task Force Issue No. 95-22, “Balance Sheet Classifications of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement.” Accordingly, we were required to restate our balance sheet as at July 4, 2004 to reclassify the borrowings outstanding under the revolving credit facility as a current liability rather than a long-term liability as originally recorded. The subjective acceleration clauses allow the lenders to forego additional advances should they determine certain conditions exist, including a material adverse effect on the Company’s business, assets, operations, prospects or financial condition.

Should we elect to change to the springing lock-box arrangement, as allowed under the letter of understanding, availability under the facility may be reduced by the eligible inventory. Pursuant to the letter of understanding, we will be required to revert back to a required lock-box arrangement if (a) availability under the revolving credit facility is less than the greater of (i) $2.5 million or (ii) 25% of the outstanding borrowings under the credit facility or (b) the occurrence of an event of default.

In March 2005, the Company and Congress signed amendments to the Congress facilities (the “March 2005 Amendments”) which formalized the November 16, 2004 letter of understanding on the terms described above and reduced the EBITDA targets for the quarters ended December 31, 2004 through December 31, 2005.

We believe that no conditions have occurred that would result in subjective acceleration by the lenders, nor do we believe that any such conditions will exist over the next 12 months. Furthermore, Congress has not informed us that any such condition or event has occurred. Because of the option to use a springing lock-box arrangement and based on our assessment of the subjective acceleration clauses, the debt has been classified as long-term as at April 3, 2005.

We do not foresee being precluded from exercising the option of converting to a springing lock-box based on our expected financing needs over the next 12 months; however, due to the effective cash management aspect of the current lock-box arrangement, we have no plans to move to a springing lock-box arrangement at this time.

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

The Company is in compliance with the financial covenants included in its lending agreements at April 3, 2005. Continued compliance with the financial covenants through the next twelve months is dependent on the Company achieving its forecasts. 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 products and services by the Company’s customers. In the event of non-compliance, the Company’s lenders have the ability to amend the financial covenants, demand repayment of the amounts outstanding under the lending agreements or pursue other remedies.

In March 2005, the Company executed an amendment to the subordinated debt agreement, which reduced the EBITDA targets for each of the four quarters in the year ending December 31, 2005.

Critical Accounting Estimates

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

Note 2 to our December 31, 2004 Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. The following critical accounting policies are affected significantly by judgments, assumptions and estimates used in the preparation of financial statements. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Allowance for Doubtful Accounts

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

Inventory Valuation

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

Restructuring and Other Charges

In response to excess capacity, we have recorded restructuring and other charges aimed at reducing our cost structure. In connection with exit activities, we have 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 us 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, we evaluate the remaining accrued balances to ensure that no excess accruals are retained and the utilization of the provision are for their intended purposed in accordance with the developed exit plans.

Long-lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with FASB Statement No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (“Statement 144”). Under Statement 144 assets must be classified as either held-for-use or available-for-sale. An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows when quoted market prices are not available. For assets available-for-sale, an impairment loss is recognized when the carrying amount exceeds the fair value less costs to sell. In accordance with the provisions of Statement 144, we have presented the closure of our Cork facility in 2002 and sale of our Appleton facility in 2003 as discontinued operations.

Income Tax Valuation Allowance

In assessing the realization of deferred tax assets, we consider whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. We consider the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. FASB Statement No. 109, Accounting for Income Taxes, states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. Based upon consideration of these factors, management believes the recorded valuation allowance related to all of its loss carryforwards is appropriate.

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 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 agreements; (4) the loss or retirement of key members of management; (5) increases in SMTC's cost of borrowings or lack of availability of additional debt or equity capital on terms considered reasonable by management; (6) adverse provincial, 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; (9) our ability to maintain compliance with requirements for continued listing on the Nasdaq National Market; and (10) 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, reduced capital spending and changes in our customers' manufacturing requirements, our sales have declined during fiscal years 2002 to 2004 and in the first quarter of 2005. In particular, sales to OEMs in the telecommunications and enterprise computing and networking industries worldwide were impacted during 2003. If general 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 larger customers, our revenue could decline significantly.

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

Our largest three customers were EMC², Mars Electronics and Ingenico, which represented approximately 22.6%, 14.1% and 10.1%, respectively, of our total revenue for the first quarter of 2005. Our top ten largest customers (including EMC², Mars Electronics and Ingenico) collectively represented approximately 90% of our total revenue the first quarter of 2005. 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 Electronics Inc., Pemstar Inc. and Plexus Corp. 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 have substantially greater manufacturing, financial, research and development and marketing resources and lower cost structures than us. We also face competition from the manufacturing operations of current and potential customers, which are continually evaluating the merits of manufacturing products internally versus the advantages of using external manufacturers.

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

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

- variations in the timing and volume of customer orders relative to our manufacturing capacity;
- variations in the timing of shipments of products to customers;
- introduction and market acceptance of our customers' new products;
- changes in demand for our customers' existing products;
- the accuracy of our customers' forecasts of future production requirements;
- effectiveness in managing our manufacturing processes and inventory levels;
- changes in competitive and economic conditions generally or in our customers' markets;
- willingness of suppliers to supply the Company on normal credit terms; and
- changes in the cost or availability of components or skilled labor.

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

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.

Many of our customers are in the electronics industry, which is characterized by intense competition, short product life-cycles and significant fluctuations in product demand. In addition, the electronics industry is generally subject to rapid technological change and product obsolescence. If our customers are unable to create products that keep pace with the changing technological environment, their products could become obsolete and the demand for our services could significantly decline. Our success is largely dependent on the success achieved by our customers in developing and marketing their products. Furthermore, 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 requirements 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 allocate available quantities among their customers, and we have not been able to obtain all of the materials required. Our inability to obtain these materials could slow production or assembly, delay shipments to our customers, increase costs and reduce operating income. Also, we may bear the risk of periodic component price increases. 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 an operational 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 and in 2003, we closed our sites in Austin, Texas, Donegal, Ireland and Charlotte, North Carolina and sold our manufacturing operations in Appleton, Wisconsin. In late 2003, we developed a broad-based transformation plan designed to restructure, refinance and restore profitability and growth. This plan involved operational optimization programs, refinancing, stockholder stabilization initiatives, strategy development and organizational renewal. Through 2004 we initiated and executed on the components of the plan. Retrenchment has caused strain on our infrastructure, including our managerial, technical and other resources. In addition, we have reduced the geographic dispersion of our operations, which may make it harder for us to compete and could 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 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. Our ability to successfully implement our business plan depends in part on our ability to attract and retain management and existing employees. There can be no assurance that we will be able to attract and retain executive officers and key personnel or attract qualified management in the future. In 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 manufacturing operations could adversely affect our overall results.

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

- fluctuations in the value of currencies and high levels of inflation;
- longer payment cycles and greater difficulty in collecting amounts receivable;
- 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
- 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 April 3, 2005, we had $10.3 million of indebtedness outstanding under our credit facilities with Congress Financial Corporation and its affiliates, which we refer to in this report as the "Congress Credit Facility." The amount of indebtedness outstanding under the Congress Credit Facility fluctuates based on our operations. Under the Congress Credit Facility, we have a secured revolving credit and term loan facility of up to $40 million. At April 3, 2005, we also had $26.3 million of second lien, subordinated term indebtedness outstanding under our restructured, pre-existing credit facility, which we refer to in this report as the "Pre-existing Facility" (and together with the Congress Credit Facility, the "Credit Facilities"), with our pre-existing lenders, Lehman Commercial Paper Inc., The Bank of Nova Scotia, General Electric Capital Corporation, IBM Credit Corporation, Silver Point Capital L.P., Royal Bank of Canada, Comerica Bank, AMMC CDO I Limited and

AMMC CDO II Limited, which we refer to in this report as the "Pre-existing Lenders." Our debt, whether under our Congress Credit Facility or Pre-existing Facility, 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 restrictive covenants and the borrowing base formula in our credit arrangements in our borrowing of additional funds.
- We may fail to comply with 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, our lenders could proceed against any collateral granted to them to secure that indebtedness. There can be no assurance that we will maintain compliance with the covenants under our Credit Facilities.
- Our Congress Credit Facility contains subjective acceleration clauses. There can be no assurance that the lender will not exercise their rights to accelerate repayment under the terms of the agreement.

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

We face significant restrictions on our ability to operate under the terms of our Credit Facilities.

The terms of our Credit Facilities generally restrict, among other things, our ability to incur additional indebtedness, complete acquisitions, pay dividends or make certain other restricted payments, consummate certain asset sales, make capital expenditures, enter into certain transactions with affiliates, merge, consolidate or sell, assign, transfer, lease, convey or otherwise dispose of our assets (other than in the ordinary course of business). We are also required to maintain specified EBITDA (earnings before interest expense, income taxes, depreciation and amortization) levels under the Credit Facilities.

The Congress Credit Facility also has a borrowing base formula that limits our ability to borrow based on the characteristics of our accounts receivable and inventory. Further, Congress has discretion to reduce availability under the Congress Credit Facility.

If we are not able to comply with these covenants and requirements, customers may lose confidence in us and reduce or eliminate their orders with us which may have 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 Credit Facilities.

Certain institutional investors have 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. By virtue of their stock ownership and Board representation, certain of our institutional investors could have a significant influence over all matters submitted to our stockholders, including the election of our directors, and could exercise significant control over our business policies and affairs.

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.

The Company’s ability to use existing net operating losses to offset future taxable income may be subject to certain limitations.

Section 382 of the Internal Revenue Code (“Section 382”) imposes a limitation on a corporation’s use of net operating loss (“NOL”) carryforwards following an “ownership change”. Whether or not the Recapitalization Transaction results in an ownership change for purposes of Section 382 depends upon whether the exchangeable shares of SMTC Canada are treated as shares of the Company under U.S. tax principles. Because the tax law governing the exchangeable shares is unclear, it is uncertain whether Section 382 will apply to the Recapitalization Transaction. If deemed applicable, Section 382 would limit the amount of NOLs available to offset taxable income in the post-ownership change period and would preclude the full utilization of the Company’s NOLs. As of December 31, 2004, the Company had total net operating loss carryforwards (both U.S. and Canadian) of approximately $105.2 million.

The issuance of additional authorized shares of common stock may dilute the voting power and equity interest of present stockholders and may prevent a hostile takeover of the Company.

Shares of authorized but unissued common stock may be issued from time to time by our Board of Directors without further stockholder action unless such action is required by Delaware law, under which the Company is incorporated, our charter, or the rules of the Nasdaq National Market System. Additional authorized but unissued shares of common stock might be used in the context of a defense against or response to possible or threatened hostile takeovers. It is not possible to predict in advance whether the issuance of additional shares will have a dilutive effect on earnings per share as it depends on the specific events associated with a particular transaction.

Item 3: Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

Our credit facilities bear interest at both floating and fixed rates. The weighted average interest rate on our credit facilities for the first quarter of 2005 was 9.0%. At April 3, 2005, our revolving credit facility of $9.3 million bore interest at 6.0% based on the U.S. prime rate and our tranche A term debt bore interest at 8.5% based on the U.S. base rate. If the U.S. base rates increased by 10%, our interest expense would have increased by approximately $0.1 million annually.

Foreign Currency Exchange Risk

Most of our sales are denominated in U.S. dollars. Most of our purchases are denominated in U.S. dollars, with the exception of Canadian and Mexican payroll and other various expenses denominated in local currencies. As a result we have relatively little exposure to foreign currency exchange risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Principal Financial Officer have conducted an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on their evaluation, the Company's Chief Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and the Company's Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There have been no changes in internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 6. EXHIBITS

List of Exhibits:

10.1 First Amendment to Lease and Extension Agreement effective as of October 1, 2004 between Teachers Insurance and Annuity Association of America and SMTC Manufacturing Corporation of Massachusetts.

31.1 Certification of John Caldwell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 18, 2005.

31.2 Certification of Jane Todd pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 18, 2005.

32.1 Certification of John Caldwell, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 18, 2005.

32.2 Certification of Jane Todd, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 18, 2005.

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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/ John Caldwell

Name: John Caldwell
Title: President and CEO

By: /s/ Jane Todd

Name: Jane Todd
Title: Chief Financial Officer

Date: May 18, 2005

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EXHIBIT INDEX

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EXHIBIT 10.1

FIRST AMENDMENT TO LEASE
AND EXTENSION AGREEMENT

THIS FIRST AMENDMENT TO LEASE AND EXTENSION AGREEMENT (the "First Amendment") is made as of this 1st day of October, 2004 by and between Teachers Insurance and Annuity Association of America, a New York corporation, for the benefit of its Real Estate Account (the "Landlord") having an office at 730 Third Avenue, New York, New York 10017 and SMTC Manufacturing Corporation of Massachusetts, a Massachusetts corporation (the "Tenant") having a mailing address c/o SMTC Corporation, 635 Hood Road, Markham, Ontario, Canada L3R 4N6, Attention: Linda Millage, Director of Financial Reporting.

WITNESSETH:

WHEREAS, Lincoln-Franklin LLC (the "Original Landlord") has leased certain space comprised of approximately 144,000 rentable square feet (the "Premises") to the Tenant on the first (1st) floor in that certain building (the "Building") located at and known as 109 Constitution Boulevard, Franklin, Massachusetts (the Building together with the land parcel on which it is situated is hereinafter called the "Property") pursuant to that certain Lease dated August 11, 2000 (the "Lease"); and

WHEREAS, the Landlord is the owner of the Property and is the successor in interest to RREEF America REIT Corp. BB (the "Successor Landlord") as "Landlord" under the Lease, and the Successor Landlord is the successor in interest to the Original Landlord as "Landlord" under the Lease; and

WHEREAS, SMTC Corporation, a Delaware corporation (the "Guarantor") executed and delivered that certain Guarantee dated August 11, 2000 in favor of the Original Landlord (the "Guarantee") in which the Guarantor guaranteed to the Original Landlord and its successors the payment and performance of all of the Tenant's covenants, agreements and obligations on the part of the Tenant to be observed, performed and complied with under the Lease; and

WHEREAS, the Landlord and the Tenant mutually desire to extend the Term of the Lease and to amend the Lease upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to the conditions that Tenant is current as to payment of Yearly Rent and other charges under the Lease and no default of Tenant exists under the Lease which remains uncured beyond any applicable notice, grace and cure periods under the Lease, the Landlord and the Tenant hereby agree that as of the "Extended Term Commencement Date" (as said term is hereinafter defined), the Lease is hereby amended as follows:

1. As used in this First Amendment, the term "Extended Term Commencement Date" shall mean October 1, 2004 and the term "Extended Term" shall mean the period commencing on the Extended Term Commencement Date and expiring on September 30, 2014, unless sooner terminated in accordance with the terms and provisions of the Lease.

2. The term of the Lease is extended to September 30, 2014. Exhibit 1, Sheet 2 to the Lease is amended to change the meaning of the defined term "Termination Date" to the following "September 30, 2014 (unless sooner terminated in accordance with the terms and provisions of the Lease), or such later date to which the term of this Lease may be extended by Tenant pursuant to Paragraph 2 of the Rider to Lease."

3. The Tenant is currently in possession of the Premises in its existing "As Is" condition.

4. During the Extended Term, the Tenant shall pay Yearly Rent for the Premises in accordance with the terms and provisions of the Lease, as amended by this First Amendment, as follows:

Yearly Rent

Rent Year	Annual Per Square Foot Rate	Yearly Rent	Monthly Rent
1 (10/1/2004 through and including 9/30/2005)	$4.50 per rentable square foot	$ 648,000.00	$54,000.00
2 (10/1/2005 through and including 9/30/2006)	$5.50 per rentable square foot	$ 792,000.00	$66,000.00
3 (10/1/2006 through and including 9/30/2007)	$6.00 per rentable square foot	$ 864,000.00	$72,000.00
4 (10/1/2007 through and including 9/30/2008)	$7.25 per rentable square foot	$1,044,000.00	$87,000.00
5 (10/1/2008 through and including 9/30/2009)	$7.50 per rentable square foot	$1,080,000.00	$90,000.00

6 (10/1/2009 through and including 9/30/2010)	$8.00 per rentable square foot	$1,152,000.00	$ 96,000.00
7 (10/1/2010 through and including 9/30/2011)	$8.00 per rentable square foot	$1,152,000.00	$ 96,000.00
8 (10/1/2011 through and including 9/30/2012)	$8.50 per rentable square foot	$1,224,000.00	$102,000.00
9 (10/1/2012 through and including 9/30/2013)	$8.50 per rentable square foot	$1,224,000.00	$102,000.00
10 (10/1/2013 through and including 9/30/2014)	$8.50 per rentable square foot	$1,224,000.00	$102,000.00

5. In the definition of "Landlord" in Exhibit 1, Sheet 1 of the Lease, the reference to "LINCOLN-FRANKLIN LLC, a Delaware limited liability company" is hereby deleted and, in replacement thereof, the following is hereby added to the Lease: "Teachers Insurance and Annuity Association of America, for the benefit of its Real Estate Account".

6. In the definition of "Mailing Address" in Exhibit 1, Sheet 1 of the Lease, the addresses of "c/o Lincoln Property Company, 101 Arch Street, Suite 650, Boston, Massachusetts 02110, Attention: Sean V. Chrisom…with a copy to: Goulston & Storrs, P.C., 400 Atlantic Avenue, Boston, Massachusetts 02110, Attention: Raymond Kwasnick, Esq." are hereby deleted and, in replacement thereof, the following is hereby added to the Lease: "730 Third Avenue, New York, New York 10017, Attention: Michael Farrell, Associate Director/Mortgage and Real Estate Division".

7. Section 4.7 of the Lease, entitled "Landlord's Contribution", is hereby deleted in its entirety from the Lease.

8. The following is hereby added to subparagraph (b) of Section 26 of the Lease: "Notwithstanding anything to the contrary contained in this Lease, the Tenant acknowledges and agrees that the Landlord owns the Building as an investment for its separate Real Estate Account and the Landlord's liability under this Lease shall be limited to the Landlord's equity interest in

the Building and the uncollected rents, issues and profits thereof without recourse to any other assets of the Landlord, whether of its separate Real Estate Account or its general account. The Tenant specifically agrees to look solely to the Landlord's then equity interest in the Building at the time owned and the uncollected rents, issues and profits thereof, for recovery of any judgment against the Landlord and not to any other assets of the Landlord; it being specifically agreed that neither the Landlord (original or successor) nor any of its assigns, agents, servants, employees, directors, shareholders, officers, trustees and beneficiaries shall ever be personally liable for any such judgment, or for the payment of any monetary obligations to the Tenant. Nothing in this Section 26 shall limit any right that Tenant might otherwise have to obtain injunctive relief against Landlord or to take any other action which shall not involve the personal liability of Landlord to respond in monetary damages from Landlord's assets, other than Landlord's equity interest in the Building and the uncollected rents, issues and profits thereof."

9. The following paragraph is hereby added as subparagraph (c) to Section 29.3 of the Lease: "Each of the Landlord and the Tenant represents and warrants to the other that it has dealt with no broker in connection with the consummation of that certain First Amendment to Lease and Extension Agreement dated as of October 1, 2004 by and between the Landlord and the Tenant other than JRT Realty Group, Inc., Cushman & Wakefield of Massachusetts, Inc. and Equis Corporation (collectively, the "Recognized Brokers"). In the event of any brokerage claims against either the Landlord or the Tenant predicated upon the other party's prior dealing with any broker other than any of the Recognized Brokers, the party with such dealings agrees to defend the party against which such claim was made and to indemnify and hold harmless such party against any such claim (except any claim by any of the Recognized Brokers, all of which shall be paid by the Landlord pursuant to its separate agreements with the Recognized Brokers). The obligations of each of the Landlord and the Tenant contained in the preceding sentence shall expressly survive the expiration or any termination of this Lease."

10. Paragraph 1 entitled "Security Deposit" is hereby deleted in its entirety and, in replacement thereof, the following is hereby added to the Lease:

"1. SECURITY DEPOSIT/LETTER OF CREDIT.

Simultaneously with the Tenant's execution and delivery of that certain First Amendment to Lease and Extension Agreement dated as of October 1, 2004 by and between the Landlord and the Tenant, the Tenant shall deposit with the Landlord a Letter of Credit in the amount and form hereafter described (the "Letter of Credit") to be held and, as applicable, presented and drawn upon and the proceeds thereof retained and applied by the Landlord as security for the faithful payment, performance and observance by the Tenant of the terms, covenants, provisions, conditions and agreements of the Tenant under and pursuant to this Lease. It is agreed and understood that in the event of the occurrence of a default of the Tenant under the Lease beyond all applicable notice, grace, or cure periods, the Landlord may present for payment and draw upon the Letter of Credit and the Landlord shall use, apply or retain the whole or any part of the amounts available to be drawn under the Letter of Credit to the extent required for the payment of any Yearly Rent, the Tenant's Taxes, the Tenant's Operating Expenses, additional rent or any other sum which the Landlord may expend or be entitled to the payment of by reason of any default of the Tenant or any failure of the Tenant to pay, perform or observe any term, covenant, condition or provision of this Lease, including without limitation, any late charges, interest payments or any damages or deficiency in the re-letting of the Premises whether said damages or deficiency occurred before or after summary proceedings or other re-entry by the Landlord.

If the Landlord shall present, draw upon and apply or retain all or any portion of the amounts evidenced by the Letter of Credit, the Tenant shall immediately replenish and reinstate the amount available to be drawn under the Letter of Credit or cause a substitute Letter of Credit in the form and amount required by this Lease to be re-issued so that at all times during the Term of this Lease, the Landlord shall be entitled to draw upon the entire dollar amount of the Letter of Credit in the amounts required hereunder notwithstanding any prior presentation and draw thereon.

In addition, in the event of a termination of this Lease by the Landlord as a result of any default of the Tenant or a rejection of this Lease pursuant to the provisions of the Federal Bankruptcy Code, the Landlord shall have the right to draw upon the Letter of Credit and/or any substitute Letter of Credit or additional Letter(s) of Credit (from time to time, if necessary) to cover the full amount of damages and other amounts due from the Tenant to the Landlord under this Lease without reference, if the same is applicable, to any limitation on such damages and amounts that might otherwise be imposed by the Bankruptcy Code.

The Letter of Credit must at all times be an “irrevocable clean” commercial Letter of Credit in the amount required by this Lease. The Letter of Credit shall be in the form attached hereto as Exhibit 7 or in another form approved by Landlord, which approval Landlord shall not unreasonably withhold. The Letter of Credit shall be issued by Wachovia Bank, N.A. or another bank or financial institution approved by Landlord, which approval Landlord shall not unreasonably withhold. The Letter of Credit must be payable upon presentment in New York City, New York. In addition, the Letter of Credit shall be payable solely to the benefit of the Landlord from time to time under this Lease and shall be automatically renewable and, upon the direction of the Landlord, transferable to and payable for the benefit of any successor the Landlord under the Lease. The Letter of Credit (or substitutes thereof consistent with the terms hereof) shall be and remain presentable and payable for a period of one (1) year from the original date of issuance. The Letter of Credit shall be automatically renewable in accordance with the terms set forth in the form attached as Exhibit 7; provided, however, that if the issuer of the Letter of Credit gives notice of its election not to renew the Letter of Credit, then Tenant shall be required to deliver to Landlord a new Letter of Credit satisfying the conditions set forth in this Paragraph 1 of Rider to Lease (a “Substitute Letter of Credit”) on or before the date that is thirty (30) days prior to the expiration of the term of such Letter of Credit. If Tenant fails to deliver a Substitute Letter of Credit when required, then Landlord may, without giving any additional notice to Tenant, draw down the Letter of Credit. The proceeds from any such draw shall be held by the Landlord as a cash security deposit under this Lease to be used, applied or retained as provided herein including, without limitation, application against any defaults of the Tenant hereunder, which remain uncured beyond all applicable notice, grace or cure periods herein, from time to time arising under this Lease.

The Tenant shall bear all costs and expenses in connection with procuring the Letter of Credit (and any Substitute Letter of Credit) and maintaining it in full force and effect for the time periods required hereunder. In the event of a sale or other transfer of the Building, the Tenant shall, at its sole cost and expense, cause the Letter of Credit, in the form required hereunder (and any Substitute Letter of Credit, in the form required hereunder), to be issued to and for the benefit of such transferee or purchaser, as designated by the Landlord.

The Landlord from time to time under this Lease, shall be entitled to receive thirty (30) days prior written notice of any cancellation of the Letter of Credit for any reason and the Letter of Credit shall not be cancellable unless and until the Landlord shall have received such thirty (30) day advance written notice. Upon (i) receiving notice of cancellation of the Letter of Credit or (ii) failure of the Tenant to deliver to the Landlord a substitute Letter of Credit on or before the date which is thirty (30) days prior to any renewal date and whether or not the Tenant shall then be in default in the payment, performance or observance of any term, covenant or provision of this Lease, the Landlord shall be entitled to present, draw upon and retain the entire amount of the Letter of Credit and upon so doing, the Landlord shall be entitled to hold, apply and retain the proceeds of such payment as if it were a cash security deposit under this Lease to be applied against defaults of the Tenant, which remain uncured beyond all applicable notice, grace or cure periods herein, from time to time arising under this Lease.

It is agreed and understood that any failure of the Tenant to perform, observe or comply with any term or provision contained in this Paragraph 1 of the Rider to Lease to be performed or observed by the Tenant shall entitle the Landlord to the same rights and remedies under this Lease, as a failure by the Tenant to pay Yearly Rent as and when same shall be due and payable.

The amount of the Letter of Credit shall be Four Hundred Fifty Thousand and No/100ths ($450,000.00) Dollars.

Within thirty (30) days after the last day of the term of this Lease or the date on which all of Tenant's obligations under this Lease have been satisfied, whichever is later, Landlord shall return all collateral held by Landlord as the Security Deposit for Tenant's obligations under this Lease, whether in the form of the Letter of Credit, cash, or both.

Upon Landlord's receipt and approval of the Letter of Credit and the execution and delivery of this First Amendment by all the parties hereto, Landlord shall pay to Tenant $162,750.00 representing the balance of the original cash security deposit currently held by Landlord."

11. In the first sentence of subparagraph A of Paragraph 3 of the Rider to Lease, the word "retail" is deleted.

12. Exhibit 7 to the Lease is deleted in its entirety and is replaced with Exhibit 7 to this First Amendment.

13. All capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to them in the Lease.

14. Except as amended and modified by this First Amendment, all the terms, provisions, covenants and conditions of the Lease are hereby affirmed and ratified.

15. This First Amendment may be executed in any number of counterparts, each of which is an original, but all of which shall constitute one instrument.

[Remainder of page intentionally left blank. Signatures appear on next following page.]

IN WITNESS WHEREOF, this First Amendment to Lease and Extension Agreement has been executed as of the day and year first above written.

Landlord:	TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA, a New York corporation for the benefit of its Real Estate Account
	By: /s/ Michael Farrell
	Its: Director
Tenant:	SMTC MANUFACTURING CORPORATION OF MASSACHUSETTS
	By: /s/ Patrick Dunne
	Its: Senior Vice President

GUARANTOR:

ACKNOWLEDGED, AGREED AND
CONSENTED TO AS OF THIS
1ST DAY OF OCTOBER, 2004.

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned hereby affirms and ratifies its obligations as Guarantor under that certain Guarantee dated August 11, 2000 to guarantee to the Landlord the payment and performance of all of the covenants, agreements and obligations on the part of the Tenant to be observed, performed and complied with under the Lease.

SMTC CORPORATION,
a Delaware corporation

By: /s/ Jane Todd

Its: Chief Financial Officer

Guarantor's Address:
SMTC Corporation
632 Hood Road
Markham, Ontario, Canada L3R 4N6
Attention: Linda Millage, Director of Financial Reporting

Exhibit 31.1

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

CERTIFICATIONS

I, John Caldwell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SMTC Corporation;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

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

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

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

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

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

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

Date: May 18, 2005

/s/ John Caldwell

John Caldwell
President and Chief Executive Officer

Exhibit 31.2

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

CERTIFICATIONS

I, Jane Todd, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SMTC Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

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

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

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

Date: May 18, 2005

/s/ Jane Todd

Jane Todd
Chief Financial Officer

Exhibit 32.1

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 April 3, 2005 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 April 3, 2005 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Caldwell

John Caldwell
President and Chief Executive Officer

Date: May 18, 2005

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.

Exhibit 32.2

**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 principal 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 April 3, 2005 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 April 3, 2005 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jane Todd

Jane Todd
Chief Financial Officer

Date: May 18, 2005

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.