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SMTC CORP
Form POS AM
April 04, 2001

As filed with the Securities and Exchange Commission on April 4, 2001
Registration No. 333-33208

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Post-Effective
Amendment No. 1
to
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SMTC Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	3672 (Primary Standard Industrial Classification Code Number) 635 Hood Road Markham, Ontario, Canada L3R 4N6 (905) 479-1810	98-0197680 (I.R.S. Employer Identification No.)
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(Address, including zip code, and telephone number, including area code, of registrant's principal executive office)

Paul Walker
President
SMTC Corporation
635 Hood Road
Markham, Ontario, Canada L3R 4N6
(905) 479-1810
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of all communications, including communications sent to agent for service, should be sent to:

Alfred O. Rose, Esq.
Ropes & Gray
One International Place
Boston, Massachusetts 02110-2624
(617) 951-7000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and

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list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

 CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, par value \$.01 per share.....	12,650,000(1)	\$16.00	\$202,400,000	\$53,434(3)

-
- (1) Of the 12,650,000 shares registered by this registration statement, 4,365,000 shares were registered to be issued in exchange for exchangeable shares of SMTC Manufacturing Corporation of Canada, a subsidiary of ours.
 - (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended.
 - (3) \$33,000 was paid on March 20, 2000, \$7,750 was paid on May 23, 2000, \$160 was paid on June 19, 2000 and \$12,524 was paid on July 20, 2000.
-

Filed pursuant to Rule 424(b)(3)
 Registration No. 333-33208

PROSPECTUS

4,375,000 Shares

[SMTC LOGO APPEARS HERE]

SMTC CORPORATION

Common Stock

The shares of our common stock offered by this prospectus will be issued in exchange for exchangeable shares of SMTC Manufacturing Corporation of Canada, or SMTC Canada, a subsidiary of ours. We are bearing the expenses of registration of the shares in this prospectus.

Our shares of common stock have been approved for quotation on the Nasdaq

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National Market under the symbol "SMTX". The exchangeable shares are traded on the Toronto Stock Exchange under the symbol "SMX". On April 3, 2001 the closing sale price of the common stock on Nasdaq was \$1.9375 per share.

Investing in our common stock involves risks. "Risk Factors" begin on page 12.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 4, 2001.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. We are offering to exchange exchangeable shares of SMTC Canada for shares of our common stock only in jurisdictions where such exchanges are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

PROSPECTUS SUMMARY

This summary highlights information we present in greater detail elsewhere in this prospectus. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of factors described under "Risk Factors" and elsewhere in this prospectus.

SMTC Corporation

We are a leading provider of advanced electronics manufacturing services, or EMS, to electronics industry original equipment manufacturers, or OEMs, worldwide. We service our customers through eleven manufacturing and technology centers strategically located in key technology corridors in the United States, Canada, Europe and a cost-effective region of Mexico. Our full range of value-added services include product design, procurement, prototyping, assembly, test, final system build, comprehensive supply chain management, packaging, global distribution and after-sales support. Our business is focused on the fast-growing communications, networking and computing sectors. Based upon a comparison of our 2000 pro forma revenue of approximately \$842.6 million with 2000 EMS industry revenue data provided by Technology Forecasters, Inc., or TFI, we are among the 15 largest public EMS companies worldwide. We believe we are well-positioned to capitalize on the significant and growing market opportunity to provide advanced EMS solutions to OEMs on a global basis.

We have customer relationships with over 50 OEMs, many of which date back more than five years. Our customers include industry leading OEMs such as Alcatel, Dell, EMC, IBM and Lucent Technologies. We developed these relationships by capitalizing on the continuing trend of OEMs to outsource manufacturing services, to consolidate their supply base and to form long-term strategic partnerships with selected high quality EMS providers. We also have relationships with a number of emerging companies in the high-growth communications and networking sectors, including Cobalt Networks (now part of Sun Microsystems), Netopia, and Sycamore Networks. In 2000, approximately 79% of our pro forma revenue was generated from the communications and networking sectors. We expect to continue to grow our business both through the addition of new, high quality customers and the expansion of our relationships with our existing customers.

The EMS market is large and continues to grow rapidly. According to TFI, global EMS industry revenue is forecasted to grow at a compounded annual rate of approximately 27%, from \$78.0 billion in 1999 to \$260.0 billion in 2004. TFI forecasts that larger EMS companies will grow more rapidly. We believe that the growth for larger EMS companies is projected to be greater than the industry average because OEMs are increasingly outsourcing production to larger manufacturers that have the ability to provide a total service solution. Industry growth is being fueled by the overall growth of the electronics industry, the increased outsourcing of manufacturing by OEMs and the divestiture of OEM manufacturing assets to EMS businesses. We believe that OEMs decide to outsource in order to take advantage of the technology and manufacturing expertise of EMS companies, eliminate manufacturing overhead,

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reduce time-to-market of products and improve supply chain efficiency. TFI estimates that the percentage of total cost of goods sold in the electronics industry which is outsourced for manufacture by OEMs will increase from 11% in 1999 to 26% by 2004. According to TFI, the EMS industry is highly fragmented with over 3,000 independent EMS companies in existence and the 15 largest companies accounting for 45% of the worldwide market in 1999 based on revenue. The EMS industry has experienced, and is anticipated to continue to experience, significant consolidation. We believe that the fragmented nature of the industry will allow us to take advantage of acquisition opportunities to increase our scale and geographic scope as well as expand our customer relationships and service offerings.

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Since 1995 we and our predecessors have completed eight acquisitions and one new site development which have substantially expanded our geographic reach, added manufacturing capacity, enabled us to diversify into new markets and broadened our technological capabilities and service offerings. Our corporate structure is the result of the July 1999 combination of the former SMTC Corporation, or Surface Mount, and HTM Holdings, Inc., or HTM. Combining Toronto, Ontario based Surface Mount and Denver, Colorado based HTM provided us with increased strategic and operating scale and greater geographic breadth. 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 enclosures capabilities by acquiring Boston, Massachusetts based W.F. Wood, Incorporated, or W.F. Wood. In July 2000, we acquired Pensar Corporation, or Pensar, an EMS Company specializing in design engineering headquartered in Appleton, Wisconsin. In November 2000, we acquired Qualtron Teoranta, or Qualtron, a provider of specialized cable and harness assemblies, based in Donegal, Ireland and Haverhill, Massachusetts. We intend to continue to capitalize on the attractive acquisition opportunities that exist in the EMS marketplace. We are considering potential acquisitions in North America and Europe and are presently targeting Asia as an area for future expansion.

Our Solutions

Our solutions capitalize on our technological capabilities and the service offerings we deliver to OEMs. Key elements of our solutions include:

- . Customer-focused Team Oriented Production System, or T.O.P.S. Our cross-functional teams work as customer-focused business units without departmental barriers. As a result, we are able to tailor the manufacturing process for each customer resulting in reduced cycle times and quick time-to-market capabilities.
- . Comprehensive Supply Chain Management; Web-based System. Our supply chain management expertise enables us to rapidly scale operations to meet customer needs, shift capacity in response to product demand fluctuations, reduce material costs and effectively distribute products to our customers or their end-customers. In addition, we have available and are implementing a web-based supply chain management system which allows us to communicate, collaborate and plan with our suppliers and customers in real time.
- . Fully Integrated Worldwide Factories. Our global reach enables us to provide OEMs with the flexibility to manufacture products locally in several regions of the world. All of our assembly locations operate

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under the same model and with the same systems, allowing customers to seamlessly transfer their production from one of our facilities to another. This gives our customers greater flexibility to transfer production to the facility that suits their needs, enhances communication among facilities and allows our employees to work effectively at any of our sites.

Our Strategy

Our objective is to enhance our position as a leading EMS provider to OEMs worldwide. We intend to achieve this objective by pursuing the following strategies:

- . Expand our global presence in strategic markets;
- . Continue to provide leading edge supply chain management capabilities;
- . Strengthen our relationships with leading and emerging global OEMs in attractive EMS segments;
- . Provide advanced technological capabilities and comprehensive service offerings; and
- . Pursue selective acquisition opportunities, including asset divestitures by OEMs.

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Initial Public Offering and Amendment of Senior Credit Facility

On July 27, 2000, we consummated an initial public offering of 6,625,000 shares of our common stock and 4,375,000 exchangeable shares of our subsidiary SMTC Manufacturing Corporation of Canada, or SMTC Canada. Each exchangeable share of SMTC Canada is exchangeable at the option of the holder at any time into one share of our common stock, subject to compliance with applicable securities laws.

Concurrently with the consummation of our initial public offering, we amended our senior credit facility. In connection with the amendment to our senior credit facility, we borrowed an additional \$30.0 million in term loans and increased the borrowing availability under our revolving credit facilities to \$100.0 million. See "Description of Indebtedness".

Our net proceeds from our initial public offering of \$157.1 million, after deducting the underwriting discounts and commissions and estimated fees and expenses paid by us, including a fee of \$1.8 million paid in connection with the termination of our management agreement and from our \$30.0 million of new term borrowings under our senior credit facility, were approximately \$187.1 million. We used the net proceeds to: (i) repay approximately \$75.4 million outstanding under the term loans and approximately \$68.3 million outstanding under the revolving credit facilities under our senior credit facility, (ii) repay approximately \$5.1 million outstanding under our senior subordinated notes, (iii) repay approximately \$10.3 million outstanding under our demand notes, (iv) finance the \$18.0 million cash portion of the purchase price for our acquisition of Pensar Corporation, or Pensar and (v) repay approximately \$5.1 million of Pensar's outstanding debt. We used the remaining approximately \$4.9 million for general corporate purposes.

On August 18, 2000, we sold additional shares of common stock upon exercise of the underwriters' over-allotment option, raising net proceeds of \$24.6 million.

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Address

SMTC Corporation is a Delaware corporation incorporated in 1998. Our principal executive office is located at 635 Hood Road, Markham, Ontario, Canada L3R 4N6 and our telephone number is (905) 479-1810. We maintain a website on the Internet at www.smtc.com. Our website, and the information contained therein, is not a part of this prospectus.

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The Offering

Common Stock offered by SMTC in exchange for the outstanding exchangeable shares of SMTC Canada.....	4,375,000 shares
Use of proceeds.....	SMTC will not receive any proceeds from the exchange of the exchangeable shares of SMTC Canada into shares of common stock.
Nasdaq National Market symbol for common stock.....	SMTX

Exchange Procedure

Holders of exchangeable shares may initiate the exchange of their exchangeable shares for common stock by exercising their retraction rights. The retraction right is exercised by presenting to SMTC Canada or to CIBC Mellon Trust Company, as trustee, (i) a certificate or certificates representing the number of exchangeable shares the holder desires to retract; (ii) a duly executed retraction request indicating the number of exchangeable shares the holder desires to retract and the retraction date; and (iii) such other documents as may be required to effect the retraction of the retracted exchangeable shares. A holder wishing to exercise the retraction right must present these documents to SMTC Canada or to the trustee at least 10 business days prior to the retraction date specified in the retraction request. The retraction rights of holders of exchangeable shares and the retraction procedure are described in greater detail under "Details of the Exchangeable Shares."

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Summary Consolidated Historical and Pro Forma Financial Statements and Other Data

The summary consolidated financial data set forth below is only a summary and you should read it together with "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Unaudited Pro Forma Consolidated Financial Information," and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

- . The results of operations and other financial data for 1998 represents the results of operations and financial data for HTM. For accounting purposes, HTM is considered to have acquired Surface Mount in the July 1999 combination.

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- . The results of operations and other financial data included in this prospectus for the year ended December 31, 1999 include a full year of results for HTM, as well as the results for Surface Mount from July 30, 1999 through to December 31, 1999 and results for W.F. Wood from September 4, 1999 through to December 31, 1999.
- . The results of operations and other financial data included in this prospectus for the year ended December 31, 2000 include a full year of results for HTM, Surface Mount and W.F. Wood as well as the results for Pensar from July 27, 2000 through to December 31, 2000 and the results of Qualtron from November 22, 2000 through to December 31, 2000.
- . The unaudited pro forma results of operations, adjusted net earnings and other financial data for the years ended December 31, 1999 and December 31, 2000 contain the results of Surface Mount, HTM, W.F. Wood, Pensar and Qualtron as if the combination of Surface Mount and HTM and the acquisitions of W.F. Wood, Pensar and Qualtron and the initial public offering and application of proceeds to reduce indebtedness had occurred on January 1, 1999. As such, the pro forma results have been adjusted to reflect additional goodwill amortization related to the combination of Surface Mount and HTM, additional goodwill amortization related to the acquisition of W.F. Wood, additional goodwill amortization related to the acquisition of Pensar, additional goodwill amortization related to the acquisition of Qualtron, additional interest expense and income tax effects related to the borrowings required to complete the Pensar and Qualtron acquisitions, and the effect of the initial public offering including the exercise of the underwriters over-allotment option.

Our consolidated financial statements and our selected consolidated financial data have been prepared in accordance with United States GAAP. These principles conform in all material respects to Canadian GAAP except as described in Note 22 to our consolidated financial statements. The differences between the line items under United States GAAP and those as determined under Canadian GAAP are not significant except that under Canadian GAAP the 1999 and 2000 extraordinary losses would have been reported as pre-tax expenses of \$2.1 million and \$4.3 million, respectively. Accordingly, the 1999 loss before income tax recovery would be \$2.8 million, income tax recovery would be \$0.7 million and net loss would be unchanged at \$2.1 million under Canadian GAAP. The 2000 income before income taxes would be \$9.4 million, income tax expense would be \$5.7 million and net earnings would be \$3.7 million under Canadian GAAP.

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Years Ended			Pro forma	
December 31,			Year Ended	
December 31,			December 31,	
1998	1999	2000	1999	2000
(in millions, except per share amounts)				

SMTC Corporation					
Consolidated Statement of Operations					
Data:					
Revenue.....	\$ 89.7	\$258.0	\$782.7	\$530.7	\$842.6
Cost of sales.....	82.5	236.3	714.4	472.6	764.3

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Gross profit.....	7.2	21.7	68.3	58.1	78.3
Selling, general and administrative expenses.....	3.3	13.3	34.6	33.9	40.3
Amortization.....	0.2	2.0	6.2	8.7	9.2
Recapitalization expenses (a).....	2.2	--	--	--	--
Former shareholders' compensation (b)....	--	--	--	0.6	--
Acquisition-related bonuses (c).....	--	--	--	2.6	--
Operating income.....	1.5	6.4	27.5	12.3	28.8
Interest.....	2.0	7.1	13.8	0.1	7.7
Earnings (loss) before income taxes (d).....	(0.5)	(0.7)	13.7	12.2	21.1
Income taxes (recovery).....	(0.2)	0.1	7.4	5.4	10.5
Earnings (loss) before extraordinary loss.....	(0.3)	(0.8)	6.3	\$ 6.8	\$ 10.6
Extraordinary loss (e).....	--	(1.3)	(2.7)	=====	=====
Net earnings (loss).....	\$ (0.3)	\$ (2.1)	\$ 3.6	=====	=====
Earnings (loss) before extraordinary loss per common share (f):					
Basic.....	\$ (0.44)	\$ (1.89)	\$ 0.24	\$ 0.24	\$ 0.38
Diluted.....	(0.44)	(1.89)	0.23	0.24	0.37
Weighted average number of shares outstanding (f):					
Basic.....	2.1	1.6	13.2	28.2	28.2
Diluted.....	2.1	1.6	13.7	28.9	29.0
Other Financial Data:					
EBITDA (g).....	\$ 4.6	\$ 14.9	\$ 43.3	\$ 31.6	\$ 48.7
Depreciation.....	\$ 2.9	\$ 6.5	\$ 9.6	\$ 10.6	\$ 10.7
Amortization of goodwill.....	--	1.5	5.3	8.6	8.6
Amortization of deferred financing costs.....	0.2	0.5	0.6	0.1	0.3
Amortization of deferred lease costs....	--	--	0.3	--	0.3
Capital expenditures.....	3.2	4.1	25.7	13.6	27.4
Cash flows from operating activities....	(3.8)	(6.6)	(104.9)		
Cash flows from financing activities....	4.3	49.6	159.1		
Cash flows from investing activities....	(0.5)	(41.4)	(53.6)		

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	As of December 31, 1999	As of December 31, 2000
	----- Actual	----- Actual
	(in millions)	

Consolidated Balance Sheet Data:

Cash and short-term investments.....	\$ 2.1	\$ 2.7
Working capital.....	53.4	188.3
Total assets.....	228.1	547.5

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Total debt, including current maturities.....	134.0	118.0
Shareholders' equity.....	7.8	228.5

-
- (a) Leveraged recapitalization expenses of \$2.2 million for the year ended December 31, 1998 include transaction costs and compensation expense related to our leveraged recapitalization.
 - (b) Reflects compensation paid to the former shareholders of W.F. Wood and Pensar.
 - (c) Acquisition-related bonuses for pro forma as adjusted December 31, 1999 consist of one-time bonuses of \$2.3 million paid to management of W.F. Wood and \$0.3 million paid to employees of W.F. Wood.
 - (d) Refer to Note 22 to our consolidated financial statements for a description of differences between United States GAAP and Canadian GAAP.
 - (e) The extraordinary loss of \$1.3 million in 1999 arises from debt prepayment penalties of \$0.8 million, the write-off of unamortized debt financing fees of \$1.0 million and the write-off of unamortized debt discount of \$0.3 million, net of a tax recovery of \$0.8 million. The extraordinary loss of \$2.7 million in 2000 arises from debt prepayment penalties of \$0.3 million, the write-off of unamortized debt financing fees of \$2.9 million and the write-off of the value of the warrants issued in excess of the proceeds received of \$1.1 million, net of a tax recovery of \$1.6 million.
 - (f) Earnings (loss) per common share is calculated after providing for priority rights of preferred shares. Given the changes in our capital structure in connection with the 1999 combination of Surface Mount and HTM, historical earnings (loss) per share of common stock for the year ended December 31, 1998 are not comparable to subsequent years. Pro forma earnings per share and pro forma weighted average number of common shares outstanding include all outstanding common stock and exchangeable shares.
 - (g) EBITDA means earnings before interest expense, income taxes, depreciation and amortization. EBITDA is presented because we believe it is a widely accepted financial indicator of an entity's ability to incur and service debt. EBITDA should not be considered as an alternative to cash flow from operating activities, as a measure of liquidity or as an alternative to net income as a measure of operating results in accordance with United States or Canadian GAAP.

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ABOUT THIS PROSPECTUS

The industry statistical data presented in this prospectus, except where otherwise noted, have been compiled from an electronics manufacturing services industry report, "Contract Manufacturing from a Global Perspective-2000 Update," and other data prepared by TFI, a California-based management consulting firm specializing in the electronics manufacturing industry. Although we have not independently verified the data, we believe that TFI is a reliable source of information. In addition, certain statistical data relating to us presented in this prospectus have been compiled from our internal surveys and schedules that, while believed by us to be reliable, have not been verified by any independent sources.

Some of the statements under the captions "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and elsewhere in this

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prospectus are forward-looking statements. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this prospectus that are not historical facts. When used in this prospectus, the words "anticipates," "believes," "continue," "could," "estimate," "expects," "intends," "may," "plans," "seeks," "should," or "will," or the negative of these terms or similar expressions, are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including the factors discussed under "Risk Factors." You should read this prospectus completely and with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements after the date of this prospectus, even though our situation will change in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

We have applied for trademark protection for SMTC and the SMTC logo. This prospectus contains trademarks, service marks and trade names of companies and organizations other than SMTC Corporation.

Except where the context otherwise requires,

- . references in this prospectus to "SMTC," "we," "our," "us" and similar expressions are references to SMTC Corporation, together with its direct and indirect subsidiaries (and for periods prior to the July 1999 combination of our predecessors, SMTC Corporation and HTM Holdings, Inc., include both of our predecessors and their respective subsidiaries),
- . references in this prospectus to "Surface Mount" are references to SMTC Corporation and its affiliated companies, including The Surface Mount Technology Centre Inc., prior to the July 1999 combination of SMTC Corporation and HTM Holdings, Inc.,
- . references in this prospectus to "shares" are references, collectively, to shares of common stock issued by SMTC and the exchangeable shares issued by SMTC Canada,
- . references in this prospectus to this "offering" are references to SMTC's offering of common stock in exchange for the outstanding exchangeable shares of SMTC Canada, and
- . references in this prospectus to "US\$" or "\$" are to U.S. dollars and all references to "C\$" are to Canadian dollars.
- . references in this prospectus to our "initial public offering" are to the combined initial public offerings of our common stock and our exchangeable shares.

Unless otherwise indicated, the information in this prospectus is presented as though all the exchangeable shares of SMTC Canada outstanding on the closing of our initial public offering have been exchanged for our common stock.

RISK FACTORS

FORWARD-LOOKING STATEMENTS

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

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

Our largest customer in 2000 was Dell, which represented approximately 14.7% of our total pro forma revenue in 2000. Our next five largest customers collectively represented an additional 35.1% of our total pro forma revenue in 2000. 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., SCI

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Systems, Inc. and Solectron Corporation. In addition, we may in the future encounter competition from other large electronics manufacturers that are selling, or may begin to sell, electronics

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manufacturing services. Many of our competitors have international operations, and some may have substantially greater manufacturing, financial research and development and marketing resources and lower cost structures than we do. We also face competition from the manufacturing operations of current and potential customers, which are continually evaluating the merits of manufacturing products internally versus the advantages of using external manufacturers.

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

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

- . variations in the timing and volume of customer orders relative to our manufacturing capacity;
- . variations in the timing of shipments of products to customers;
- . introduction and market acceptance of our customers' new products;
- . changes in demand for our customers' existing products;
- . the accuracy of our customers' forecasts of future production requirements;
- . effectiveness in managing our manufacturing processes and inventory levels;
- . changes in competitive and economic conditions generally or in our customers' markets;
- . changes in the cost or availability of components or skilled labor; and
- . the timing of, and the price we pay for, acquisitions and related integration costs.

In addition, most of our customers typically do not commit to firm production schedules more than 30 to 90 days in advance. Accordingly, we cannot forecast the level of customer orders with certainty. This makes it difficult to schedule production and maximize utilization of our manufacturing capacity. In the past, we have been required to increase staffing, purchase materials and incur other expenses to meet the anticipated demand of our customers. Sometimes anticipated orders from certain customers have failed to materialize, and sometimes delivery schedules have been deferred as a result of changes in a customer's business needs. Any material delay, cancellation or reduction of orders from our largest customers could cause our revenue to decline significantly. In addition, as many of our costs and operating expenses are relatively fixed, a reduction in customer demand can decrease our gross margins and adversely affect our business, financial condition and results of

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operations. On other occasions, customers have required rapid and unexpected increases in production, which have placed burdens on our manufacturing capacity.

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

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

Substantially all of our customers are in the electronics industry, which is characterized by intense competition, short product life-cycles and significant fluctuations in product demand. In addition, the electronics industry is generally subject to rapid technological change and product obsolescence. If our customers are unable to create products that keep pace with the changing technological environment, their products could become obsolete and the demand for our services could significantly decline. Our success is largely dependent on the success achieved by our customers in developing and marketing their products. Furthermore, this

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

Shortage or price fluctuation in component parts specified by our customers could delay product shipment and affect our profitability.

A substantial portion of our revenue is derived from "turnkey" manufacturing. In turnkey manufacturing, we provide both the materials and the manufacturing services. If we fail to manage our inventory effectively, we may bear the risk of fluctuations in materials costs, scrap and excess inventory, all of which can have a material adverse effect on our business, financial condition and results of operations. We are required to forecast our future inventory needs based upon the anticipated demands of our customers. Inaccuracies in making these forecasts or estimates could result in a shortage or an excess of materials. In addition, delays, cancellations or reductions of orders by our customers could result in an excess of materials. A shortage of materials could lengthen production schedules and increase costs. An excess of materials may increase the costs of maintaining inventory and may increase the risk of inventory obsolescence, both of which may increase expenses and decrease profit margins and operating income.

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

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results of operations.

We have experienced significant growth in a short period of time and may have trouble integrating acquired businesses and managing our expansion.

Since 1996, we have completed eight 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.

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

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Our acquisition strategy may not succeed.

As part of our business strategy, we expect to continue to grow by pursuing acquisitions of other companies, assets or product lines that complement or expand our existing business. Competition for attractive companies in our industry is substantial. We cannot assure you that we will be able to identify suitable acquisition candidates or finance and complete transactions that we select. Our failure to execute our acquisition strategy may have a material adverse effect on our business, financial condition and results of operation. Also, if we are not able to successfully complete acquisitions, we may not be able to compete with larger EMS providers who are able to provide a total customer solution.

If we do not effectively manage the expansion of our operations, our business may be harmed.

We have grown rapidly in recent periods, and this growth may be difficult to sustain. Internal growth and further expansion of services may require us to expand our existing operations and relationships. We plan to expand our design and development services and our manufacturing capacity by expanding our facilities and by adding new equipment. Expansion has caused, and is expected to continue to cause, strain on our infrastructure, including our managerial, technical, financial and other resources. Our ability to manage future growth effectively will require us to attract, train, motivate and manage new employees successfully, to integrate new employees into our operations and to continue to improve our operational and information systems. We may experience inefficiencies as we integrate new operations and manage geographically dispersed operations. We may incur cost overruns. We may encounter construction delays, equipment delays or shortages, labor shortages and disputes, and

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production start-up problems that could adversely affect our growth and our ability to meet customers' delivery schedules. We may not be able to obtain funds for this expansion on acceptable terms or at all. In addition, we expect to incur new fixed operating expenses associated with our expansion efforts, including increases in depreciation expense and rental expense. If our revenue does not increase sufficiently to offset these expenses, our business, financial condition and results of operations would be materially adversely affected.

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

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

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

We depend on the services of our key senior executives, including Paul Walker, Philip Woodard, Gary Walker and Derrick D'Andrade. Our business also depends on our ability to continue to recruit, train and retain skilled employees, particularly executive management, engineering and sales personnel. Recruiting personnel in our industry is highly competitive. In addition, our ability to successfully integrate acquired companies depends in part on our ability to retain key management and existing employees at the time of the acquisition. There can be no assurance that we will be able to retain our executive officers and key personnel or attract qualified management in the future.

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

Our success will depend, among other things, on successful expansion into new foreign markets in order to offer our customers lower cost production options. Entry into new foreign markets may require considerable management time as well as start-up expenses for market development, hiring and establishing office facilities before any significant revenue is generated. As a result, operations in a new foreign market may operate at low profit margins or may be unprofitable.

Pro forma revenue generated outside of the United States and Canada was approximately 11% in 2000. International operations are subject to inherent risks, including:

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

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- . 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;
- . inability to utilize net operating losses incurred by our foreign operations to reduce our U.S. and Canadian income taxes;
- . imposition of restrictions on currency conversion or the transfer of funds; and
- . trade restrictions.

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

Our operations are regulated under a number of federal, state, provincial, local and foreign environmental and safety laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of such materials. Compliance with these environmental laws is a major consideration for us because we use metals and other hazardous materials in our manufacturing processes. We may be liable under environmental laws for the cost of cleaning up properties we own or operate if they are or become contaminated by the release of hazardous materials, regardless of whether we caused such release. In addition we, 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.

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RISKS RELATED TO OUR CAPITAL STRUCTURE

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

At December 31, 2000, we had \$115.8 million of indebtedness under our senior credit facility. We plan to incur additional indebtedness from time to time to finance acquisitions or capital expenditures or for other purposes. This debt could have adverse consequences for our business, including:

- . We will be more vulnerable to adverse general economic conditions;
- . We will be required to dedicate a substantial portion of our cash flow from operations to repayment of debt, limiting the availability of cash

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for other purposes;

- . We may have difficulty obtaining additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes;
- . We may have limited flexibility in planning for, or reacting to, changes in our business and industry;
- . We could be limited by financial and other restrictive covenants in our credit arrangements in our borrowing of additional funds; and
- . We may fail to comply with the covenants under which we borrowed our indebtedness which could result in an event of default. If an event of default occurs and is not cured or waived, it could result in all amounts outstanding, together with accrued interest, becoming immediately due and payable. If we were unable to repay such amounts, the lenders could proceed against any collateral granted to them to secure that indebtedness.

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 our senior credit facility or successor facilities.

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

The terms of our current credit agreement restrict, among other things, our ability to incur additional indebtedness, pay dividends or make certain other restricted payments, consummate certain asset sales, enter into certain transactions with affiliates, merge, consolidate or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets. We are also required to maintain specified financial ratios and satisfy certain financial condition tests, which further restrict our ability to operate as we choose. Substantially all of our assets and those of our subsidiaries are pledged as security under our senior credit facility.

Investment funds affiliated with Bain Capital, Inc., investment funds affiliated with Celerity Partners, Inc., Kilmer Electronics Group Limited and certain members of management have significant influence over our business, and could delay, deter or prevent a change of control or other business combination.

Investment funds affiliated with Bain Capital, Inc., investment funds affiliated with Celerity Partners, Inc., Kilmer Electronics Group Limited and certain members of management held approximately 12.9%, 12.1%, 7.1% and 13.2%, respectively, of our outstanding shares as of March 16, 2001. In addition, three of the nine directors who serve on our board are, or were, representatives of the Bain funds, two are representatives of the Celerity funds, two are representatives of Kilmer Electronics Group Limited and two are members of management. By virtue of such stock ownership and board representation, the Bain funds, the Celerity funds, Kilmer Electronics Group Limited and certain members of management have a significant influence over all

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matters submitted to our stockholders, including the election of our directors, and exercise significant control over our business policies and affairs. Such concentration of voting power could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders.

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

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

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USE OF PROCEEDS

Because the shares of our common stock offered hereunder will be issued in exchange for the exchangeable shares of our subsidiary SMTC Canada, none of which will be held by us, we will receive no proceeds from the sale of such common stock.

THE RECLASSIFICATION

Prior to the initial public offering, SMTC had three classes of common stock, designated as Class A common stock, Class L common stock and Class N common stock. The Class L common stock was identical to the Class A common stock, except that each share of Class L common stock was entitled to a preferential payment upon any distribution by SMTC to holders of SMTC capital stock, whether by dividend, liquidating distribution or otherwise, equal to the original cost of such share, \$162.00, plus an amount which accrued on a daily basis at a rate of 12.0% per annum, compounded quarterly. After payment of this preference amount, each share of Class A common stock and Class L common stock was to share equally in all distributions to holders of SMTC capital stock. As of July 27, 2000, the closing date of our initial public offering, the preference amount was \$182.16 per share of Class L common stock. The Class N common stock was non-participating and represented voting rights only.

In addition, prior to our initial public offering, SMTC Canada had outstanding Class L exchangeable shares that were exchangeable into shares of SMTC Class L common stock on a one-for-one basis. SMTC Canada also had outstanding Class Y shares that carried dividend and voting rights on the same basis as the Class L exchangeable shares. The holder of the Class Y shares entered into an agreement with SMTC under which the Class Y shares are exchangeable for shares of Class L common stock on a one-for-one basis. See "Description of Capital Stock."

In connection with the completion of the initial public offering, we

- . purchased the outstanding SMTC Canada Class Y shares in exchange for shares of Class L common stock;
- . converted each of the outstanding shares of Class L common stock into one share of Class A common stock plus an additional number of shares of Class A common stock determined by dividing the preference amount by the value of a share of Class A common stock based on the initial public

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offering price;

- . converted each share of Class A common stock into 3.6745 shares of common stock;
- . redeemed all outstanding shares of Class N common stock and issued one share of special voting stock which is held by a trustee for the benefit of the holders of exchangeable shares; and
- . converted each Class L exchangeable share into exchangeable shares of the same class as those offered in our initial public offering in the same ratio as shares of Class L common stock were converted to shares of common stock.

The transactions described above are collectively referred to in this prospectus as the "reclassification."

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DIVIDEND POLICY

SMTC Corporation has never declared or paid a cash dividend on its shares, and we currently do not anticipate paying any cash dividends in the foreseeable future. Our existing credit facilities restrict our ability to pay dividends. We currently intend to retain earnings and cash flow to finance future operations and expansion and to reduce indebtedness. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

On closing of our initial public offering, SMTC and its Canadian affiliates entered into a support agreement under which SMTC agreed to maintain the economic equivalence of the exchangeable shares and the common stock by, among other things, not declaring and paying dividends on the common stock unless SMTC Canada is able to declare and pay economically equivalent dividends on the exchangeable shares in accordance with the terms of those shares. SMTC Canada may also declare stock dividends from time to time as necessary to maintain the one-for-one economic equivalence between exchangeable shares and shares of common stock. The SMTC Canada exchangeable shares do not carry any other right to receive dividends from SMTC Canada. Although SMTC Canada has paid dividends on its shares in the past, it does not currently anticipate paying any cash dividends on the exchangeable shares in the foreseeable future.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of December 31, 2000.

You should read this information together with our consolidated financial statements and the related notes to those statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus.

December 31,
2000

Actual

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Cash and cash equivalents.....	\$ 2.7
	=====
Short-term obligations.....	8.5
Long-term obligations:	
Long-term debt.....	108.3
Capital lease obligations.....	1.2

Total long-term obligations.....	109.5
Shareholders' equity:	
Common stock, \$0.01 par value, 60,000,000 shares authorized and 28,223,860 shares issued and outstanding (a).....	77.4
Additional paid-in capital.....	151.4
Retained earnings (deficit).....	(.7)
Other.....	.4

Total shareholders' equity.....	228.5

Total capitalization.....	\$ 346.5
	=====

- (a) Includes 6,370,959 exchangeable shares, no par value, issued by SMTC Canada. Does not include (i) 466,395 shares of common stock reserved for issuance pursuant to our Amended and Restated 1998 Equity Incentive Plan, (ii) 1,397,000 shares of common stock reserved for issuance pursuant to our Amended and Restated 2000 Equity Incentive Plan or (iii) 578,441 shares of common stock reserved for issuance pursuant to outstanding warrants as of December 31, 2000.

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DILUTION

This offering is for shares of common stock to be issued in exchange for currently outstanding exchangeable shares. The exchange of common stock for exchangeable shares will not result in any change to the net tangible book value per share before and after the exchange of shares. Investors should be aware, however, that the price of our shares may not bear any rational relationship to net tangible book value per share.

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SELECTED CONSOLIDATED FINANCIAL DATA

SMTC Corporation, or SMTC, is the result of the July 1999 combination of the former SMTC Corporation, or Surface Mount, and HTM Holdings, Inc., or HTM. Upon completion of the combination and concurrent recapitalization, the former stockholders of HTM held approximately 58.0% of the outstanding shares of SMTC. We have accounted for the combination under the purchase method of accounting as a reverse acquisition of Surface Mount by HTM. Because HTM acquired Surface Mount for accounting purposes, HTM's assets and liabilities are included in our consolidated financial statements at their historical cost and the comparative figures for the periods prior to the combination reflect the results of operations of HTM. The results of operations of Surface Mount are included in our consolidated financial statements from the date of the combination.

Pro Forma Selected Financial Data (Unaudited)

The unaudited pro forma results of operations, adjusted net earnings and

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other financial data included in this report for the years ended December 31, 1999 and December 31, 2000 contain the results of Surface Mount, HTM, W.F. Wood Incorporated, or W.F. Wood, Pensar Corporation, or Pensar, and Qualtron Teoranta or Qualtron, as if the combination of Surface Mount and HTM and the acquisitions of W.F. Wood, Pensar and Qualtron and the initial public offering and application of proceeds to reduce indebtedness had occurred on January 1, 1999. As such, the pro forma results have been adjusted to reflect additional goodwill amortization related to the combination of Surface Mount and HTM, additional goodwill amortization related to the acquisitions of W.F. Wood, Pensar and Qualtron, additional interest expense and income tax effects related to the borrowings required to complete the Pensar and Qualtron acquisitions, and the effect of the initial public offering including the exercise of the underwriters' over-allotment option.

This pro forma selected financial data is presented as a supplement to our actual selected financial data to provide a basis for analyzing and comparing the results of operations of the combined and acquired companies.

Actual Selected Financial Data

The actual selected financial data includes the following:

- . The results of operations, adjusted net earnings and other financial data for 1996, 1997 and 1998 represent the results of operations, adjusted net earnings and financial data for HTM. For accounting purposes, HTM is considered to have acquired Surface Mount in the July 1999 combination.
- . The results of operations, adjusted net earnings and other financial data for 1999 include a full year of results of HTM, as well as the results for Surface Mount from July 30, 1999 through to December 31, 1999 and results for W.F. Wood from September 4, 1999 through to December 31, 1999.
- . The results of operations, adjusted net earnings and other financial data for 2000 include a full year of results for HTM, Surface Mount and W.F. Wood as well as the results for Pensar from July 27, 2000 through to December 31, 2000 and the results for Qualtron Teoranta from November 22, 2000 through to December 31, 2000.

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

Our consolidated financial statements and our selected consolidated financial data have been prepared in accordance with United States GAAP. These principles conform in all material respects to Canadian GAAP except as described in Note 22 to our consolidated financial statements. The differences between the line items under United States GAAP and those as determined under Canadian GAAP are not significant except that under Canadian GAAP the 1999 and 2000 extraordinary losses would have been reported as pre-tax expenses of \$2.1 million and \$4.3 million, respectively. Accordingly, the 1999 loss before income tax recovery would be \$2.8 million, income tax recovery would be \$0.7 million and net loss would be unchanged at \$2.1 million under Canadian GAAP. The 2000 income before income taxes would be \$9.4 million, income tax expense would be \$5.7 million and net earnings would be \$3.7 million under Canadian GAAP.

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	Year Ended December 31,					Pro forma Year Ended December 31,	
	1996	1997	1998	1999	2000	1999	2000
	(in millions, except per share data)						
SMTC Corporation Consolidated Statement of Operations Data:							
Revenue.....	\$ 70.8	\$59.0	\$ 89.7	\$258.0	\$782.7	\$530.7	\$842.6
Cost of sales.....	68.9	53.6	82.5	236.3	714.4	472.6	764.3
Gross profit.....	1.9	5.4	7.2	21.7	68.3	58.1	78.3
Selling, general and administrative expenses...	2.8	2.8	3.3	13.3	34.6	33.9	40.3
Amortization.....	--	--	0.2	2.0	6.2	8.7	9.2
Relocation expenses (a)....	0.5	--	--	--	--	--	--
Recapitalization expenses (b).....	--	--	2.2	--	--	--	--
Former shareholders' compensation (c).....	--	--	--	--	--	0.6	--
Acquisition-related bonuses paid to management and employees of W.F. Wood (d).....	--	--	--	--	--	2.6	--
Operating income (loss)....	(1.4)	2.6	1.5	6.4	27.5	12.3	28.8
Interest.....	0.7	0.7	2.0	7.1	13.8	0.1	7.7
Earnings (loss) before income taxes (e).....	(2.1)	1.9	(0.5)	(0.7)	13.7	12.2	21.1
Income taxes (recovery)....	(0.8)	0.7	(0.2)	0.1	7.4	5.4	10.5
Earnings (loss) before extraordinary loss.....	(1.3)	1.2	(0.3)	(0.8)	6.3	\$ 6.8	\$ 10.6
Extraordinary loss (f).....	--	--	--	(1.3)	(2.7)	=====	=====
Net earnings (loss).....	\$ (1.3)	\$ 1.2	\$ (0.3)	\$ (2.1)	\$ 3.6	=====	=====
Earnings (loss) before extraordinary loss per common share (g):							
Basic.....	\$ (0.40)	\$0.40	\$ (0.44)	\$ (1.89)	\$0.24	\$0.24	\$0.38
Diluted.....	\$ (0.40)	\$0.40	\$ (0.44)	\$ (1.89)	\$0.23	\$0.24	\$0.37
Net earnings (loss) per common share (g).....							
Basic.....	\$ (0.40)	\$0.40	\$ (0.44)	\$ (2.68)	\$0.04		
Diluted.....	\$ (0.40)	\$0.40	\$ (0.44)	\$ (2.68)	\$0.03		
Weighted average number of shares outstanding (g):							
Basic.....	3.1	3.1	2.1	1.6	13.2	28.2	28.2
Diluted.....	3.1	3.1	2.1	1.6	13.7	28.9	29.0

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Consolidated
Adjusted
Net
Earnings:

	Year Ended December 31,					Pro forma Year ended December 31,	
	1996	1997	1998	1999	2000	1999	2000
	(in millions, except per share amounts)						
Net earnings (loss).....	\$ (1.3)	\$ 1.2	\$ (0.3)	\$ (2.1)	\$ 3.6	\$ 6.8	\$ 10.6
Adjustments:							
Extraordinary loss.....	--	--	--	1.3	2.7	--	--
Amortization of goodwill.....	--	--	--	1.5	5.3	8.6	8.6
Relocation expenses.....	0.5	--	--	--	--	--	--
Recapitalization expenses.....	--	--	2.2	--	--	--	--
Management fees.....	--	--	0.1	0.7	--	0.7	--
Former shareholder compensation.....	--	--	--	0.6	--	0.6	--
Acquisition-related bonuses paid to management and employees of W.F. Wood.....		--	--	2.6	--	2.6	--
Income tax effect.....	(0.2)	--	(0.9)	(0.5)	(1.1)	(3.3)	(1.7)
Adjusted net earnings (loss)	\$ (1.0)	\$ 1.2	\$ 1.1	\$ 0.9	\$10.5	\$ 16.0	\$ 17.5
Adjusted net earnings (loss) per common share:							
Basic.....	\$ (0.32)	\$ 0.40	\$ 0.52	\$ (0.80)	\$ 0.56	\$ 0.57	\$ 0.62
Diluted.....	\$ (0.32)	\$ 0.40	\$ 0.52	\$ (0.80)	\$ 0.54	\$ 0.55	\$ 0.60
Weighted average number of shares outstanding:							
Basic.....	3.1	3.1	2.1	1.6	13.2	28.2	28.2
Diluted.....	3.1	3.1	2.1	1.6	13.7	28.9	29.0

As a result of the combination of Surface Mount and HTM and a number of subsequent acquisitions, we use consolidated adjusted net earnings and consolidated pro forma adjusted net earnings as measures of our operating performance. Consolidated adjusted net earnings is consolidated net earnings (loss) adjusted for extraordinary items and acquisition related charges such as the amortization of goodwill, management fees, former shareholders' compensation and other charges as described in the table, and the related income tax effect of these adjustments. Consolidated pro forma adjusted net earnings is consolidated pro forma net earnings adjusted for acquisition related charges such as the amortization of goodwill, management fees, former shareholders' compensation and other charges as described in the table, and the related income tax effect of these adjustments. Consolidated adjusted net

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earnings and consolidated pro forma adjusted net earnings are not measures of performance under United States GAAP or Canadian GAAP. Consolidated adjusted net earnings and consolidated pro forma adjusted net earnings should not be considered in isolation or as a substitute for net earnings prepared in accordance with United States GAAP or Canadian GAAP or as alternative measures of performance or profitability.

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	As of December 31,					Pro forma December 31,	
	1996	1997	1998	1999	2000	1999	2000

	(in millions)						
Other Financial Data:							
EBITDA (h).....	\$0.5	\$4.8	\$4.6	\$14.9	\$ 43.3	\$ 31.6	\$ 48.7
Depreciation.....	1.9	2.2	2.9	6.5	9.6	10.6	10.7
Amortization of goodwill.....	--	--	--	1.5	5.3	8.6	8.6
Amortization of deferred financing costs.....	--	--	0.2	0.5	0.6	0.1	0.3
Amortization of deferred lease cost.....	--	--	--	--	0.3	--	0.3
Capital expenditures.....	0.6	0.9	3.2	4.1	25.7	13.6	27.4
Cash flows from operating activities.....	6.1	(0.4)	(3.8)	(6.6)	(104.9)		
Cash flows from financing activities.....	(5.5)	1.2	4.3	49.6	159.1		
Cash flows from investing activities.....	(0.6)	(0.4)	(0.5)	(41.4)	(53.6)		

	As of December 31,				
	1996	1997	1998	1999	2000

	(in millions)				
Consolidated Balance Sheet Data:					
Cash and short-term investments.....	\$ 0.1	\$ 0.4	\$ 0.5	\$ 2.1	\$ 2.7
Working capital.....	1.7	4.1	8.1	53.4	188.3
Total assets.....	22.9	31.7	44.2	228.1	547.5
Total debt, including current maturities.....	7.0	8.2	35.5	134.0	118.0
Shareholders' equity (deficit).....	7.1	8.4	(10.5)	7.8	228.5

- (a) Relocation expenses include costs incurred to move equipment and employees from a facility in Longmont, Colorado to Denver, Colorado.
- (b) Leveraged recapitalization expenses of \$2.2 million for the year ended December 31, 1998 include transaction costs and compensation expense related to our leveraged recapitalization.
- (c) Reflects compensation paid to the former shareholders of W.F. Wood and Pensar.

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- (d) Acquisition-related bonuses consist of one-time bonuses of \$2.3 million paid to management and \$0.3 million paid to employees.
- (e) Refer to Note 22 to our consolidated financial statements for a description of differences between United States GAAP and Canadian GAAP.
- (f) The extraordinary loss of \$1.3 million in 1999 arises from debt prepayment penalties of \$0.8 million, the write-off of unamortized debt financing fees of \$1.0 million and the write-off of the unamortized debt discount of \$0.3 million, net of a tax recovery of \$0.8 million. The extraordinary loss of \$2.7 million in 2000 arises from debt prepayment penalties of \$0.3 million, the write-off of unamortized debt financing fees of \$2.9 million and the write-off of the value of the warrants issued in excess of the proceeds received of \$1.1 million, net of a tax recovery of \$1.6 million.
- (g) Earnings (loss) per common share is calculated after providing for priority rights of preferred shares. Given the changes in our capital structure in connection with the 1999 combination of Surface Mount and HTM, historical earnings (loss) per share of common stock for the years ended December 31, 1997 and 1998 are not comparable to subsequent years.
- (h) EBITDA means earnings before interest expense, income taxes, depreciation and amortization. EBITDA is presented because we believe it is a widely accepted financial indicator of an entity's ability to incur and service debt. EBITDA should not be considered as an alternative to cash flow from operating activities, as a measure of liquidity or as an alternative to net income as a measure of operating results in accordance with United States or Canadian GAAP.

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Quarterly Results

The following tables set forth our unaudited pro forma quarterly results and historical quarterly results for the eight quarters ended December 31, 2000. This information has been prepared on the same basis as our annual consolidated financial statements and it includes all adjustments necessary for a fair presentation of the financial results of such periods. This information should be read in conjunction with our annual consolidated financial statements for the years ended December 31, 1999 and 2000. The operating results for any previous quarter are not necessarily indicative of results for any future periods.

	Pro Forma Results						
	Quarter Ended						
	March 31, 1999	June 30, 1999	October 3, 1999	December 31, 1999	April 2, 2000	July 2, 2000	October 1, 2000

	(in millions, except per share amounts)						
Revenue.....	\$123.6	\$119.6	\$140.9	\$146.6	\$146.2	\$190.0	\$242.5
Gross profit.....	14.8	12.3	14.1	16.9	14.7	17.3	21.3
Earnings (loss).....	2.9	2.1	(0.7)	2.5	0.3	1.9	3.7
Adjusted earnings.....	4.6	3.9	2.9	4.6	2.0	3.6	5.4
Adjusted earnings per share--diluted.....	\$ 0.16	\$ 0.13	\$ 0.10	\$ 0.16	\$ 0.07	\$ 0.12	\$ 0.19
Weighted average number of shares outstanding--							

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diluted..... 28.9 28.9 28.9 28.9 28.9 28.9 28.9

Historical Results
Quarter Ended

March 31, June 30, October 3, December 31, April 2, July 2, October 1,
1999 1999 1999 1999 2000 2000 2000

(in millions, except per share amounts)

Revenue.....	\$ 23.3	\$ 23.3	\$ 88.0	\$123.4	\$124.3	\$167.1	\$231.5
Gross profit.....	1.7	1.5	6.7	11.8	11.1	13.7	19.6
Earnings (loss) before extraordinary loss.....	--	--	(0.7)	(0.1)	(1.4)	0.1	3.3
Net earnings (loss).....	--	--	(2.0)	(0.1)	(1.4)	0.1	0.6
Adjusted net earnings (loss).....	0.1	--	(0.2)	1.0	(0.6)	1.0	4.4
Net earnings (loss) per share before extraordinary loss.....	\$ 0.03	\$ (0.07)	\$ (0.73)	\$ (0.61)	\$ (1.16)	\$ (0.53)	\$ 0.14
Adjusted net earnings (loss) per share-- diluted.....	\$ 0.06	\$ (0.03)	\$ (0.45)	\$ (0.17)	\$ (0.81)	\$ (0.18)	\$ 0.19
Weighted average number of shares outstanding-- diluted.....	1.4	1.4	2.1	2.4	2.4	2.4	21.1

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the "Selected Consolidated Financial Data" section of this prospectus, our consolidated financial statements and notes to those statements included elsewhere in this prospectus. The forward-looking statements in this discussion regarding the electronics manufacturing services industry, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion include numerous risks and uncertainties, as described in the "Risk Factors" section of this prospectus. Our actual results may differ materially from those contained in any forward-looking statements. You should read this discussion completely and with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements after the date of this prospectus, even though our situation will change in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

All amounts are stated in thousands of U.S. dollars, except where stated otherwise.

Overview

We are a leading provider of advanced electronics manufacturing services, or EMS, to electronics industry original equipment manufacturers, or OEM's, worldwide. Our full range of value-added 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.

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SMTC Corporation, or SMTC, is the result of the July 1999 combination of the former SMTC Corporation, or Surface Mount, and HTM Holdings, Inc., or HTM. Upon completion of the combination and concurrent recapitalization, the former stockholders of HTM held approximately 58.0% of the outstanding shares of SMTC. We have accounted for the combination under the purchase method of accounting as a reverse acquisition of Surface Mount by HTM. Because HTM acquired Surface Mount for accounting purposes, HTM's assets and liabilities are included in our consolidated financial statements at their historical cost and the comparative figures for the periods prior to the combination reflect the results of operations of HTM. The results of operations of Surface Mount are included in our consolidated financial statements from the date of the combination. Surface Mount was established in Toronto, Ontario in 1985. HTM was established in Denver, Colorado in 1990. SMTC was established in Delaware in 1998.

Our revenue has grown from approximately \$59.0 million in 1997 to pro forma revenue of \$842.6 million in 2000 through both internal growth and strategic acquisitions. The July 1999 combination of Surface Mount and HTM provided us with increased strategic and operating scale and greater geographic breadth. Collectively, since 1995 we have completed the following seven acquisitions:

- . Radian Electronics' operations, which enabled our expansion into Austin, Texas, and established our relationship with Dell, in 1996;
- . Ogden Atlantic Design's operations in Charlotte, North Carolina, which provided us with a facility in a major technology center in the Southeastern United States, in 1997;
- . Ogden International Europe's operations in Cork, Ireland, which expanded our global presence into Europe, in 1998;
- . Zenith Electronics' facility in Chihuahua, Mexico, which expanded our cost-effective manufacturing capabilities and added Zenith (now Motorola) as a customer, in July 1999;

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- . W.F. Wood, based outside Boston, Massachusetts, which provided us with a manufacturing presence in the Northeastern United States, expanded our value-added services to include high precision enclosures capabilities, and added EMC and Sycamore Networks as customers, in September 1999;
- . Pensar Corporation, located in Appleton, Wisconsin, which provided us with a wide range of electronics and design manufacturing services, on July 27, 2000 and concurrent with the closing of the initial offering; and
- . Qualtron Teoranta, with sites in both Donegal, Ireland and Haverhill, Massachusetts, which allowed us to expand our ability to provide customers with a broad range of services focusing on fibre optic connector assemblies and volume cable assemblies, on November 22, 2000.

In addition, we completed the following financing activities in 2000:

Initial Public Offering

- . On July 27, 2000, we completed an initial public offering of our common stock in the United States and the exchangeable shares of our subsidiary, SMTC Manufacturing Corporation of Canada, in Canada, raising net proceeds (not including proceeds from the sale of shares upon the

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exercise of the underwriters' over-allotment option) of \$157.1 million;

- . Concurrent with the effectiveness of the initial public offering, we completed a share capital reorganization;
- . In connection with the initial public offering, we entered into an amended and restated credit agreement with our lenders, which provided for an initial term loan of \$50.0 million and revolving credit loans, swing line loans and letters of credit up to \$100.0 million;
- . On July 27, 2000, we paid a fee of \$1.8 million to terminate a management agreement under which we paid quarterly fees of approximately \$0.2 million; and
- . On August 18, 2000, we sold additional shares of common stock upon exercise of the underwriters' over-allotment option, raising net proceeds of \$24.6 million.

Pre Initial Public Offering

- . In May 2000, we issued senior subordinated notes to certain shareholders for proceeds of \$5.0 million, which were repaid with the proceeds of our initial public offering;
- . On May 18, 2000, we issued 41,667 warrants for \$2.5 million cash consideration in connection with the May 2000 issue of \$5.0 million in senior subordinated notes; and
- . On July 3, 2000, we issued demand notes in the aggregate principal amount of \$9.9 million, which were repaid with the proceeds of our initial public offering;

We continue to seek acquisition opportunities that enable us to expand our geographic reach, add manufacturing capacity and diversify into new markets. We are considering potential acquisitions in North America and Europe, and we are targeting Asia for future expansion. We intend to continue to capitalize on attractive acquisition opportunities in the EMS marketplace, and our goal is generally to have each acquisition be accretive to earnings after a transition period of approximately one year. We also plan to continue our strategy of augmenting our existing EMS capabilities with the addition of related value-added services. By expanding the services we offer, we believe that we will be able to expand our business with our existing customers and develop new opportunities with potential customers.

Consistent with our past practices and normal course of business, we engage from time to time in discussions with respect to potential acquisitions. While we have identified several opportunities that would

expand our global presence, add to our value-added services and establish strategic relationships with new customers, we are not currently party to any definitive acquisition agreements.

We used approximately \$143.7 million of the proceeds from our initial public offering to reduce indebtedness under our credit facility. On July 27, 2000, we entered into an amended and restated credit facility with our lenders, which provided for an initial term loan of \$50.0 million and revolving credit loans, swing line loans and letters of credit up to \$100.0 million. As at December 31, 2000, we had borrowed \$115.8 million under this facility. We intend to continue to borrow under our new credit facility to finance working capital growth and

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any cash portion of future acquisitions; however we generally intend to keep our debt at approximately 30% of our total capitalization.

We currently provide turnkey manufacturing services to the majority of our customers. In 2000, 98.8% of our pro forma revenue was from turnkey manufacturing services compared to 97.1 % in 1999. From July 1999 to March 2000, under the terms of a production agreement with Zenith, we manufactured products for Zenith on a consignment basis. In a consignment arrangement, we provide manufacturing services only, while the customer purchases the materials and components necessary for production. In April 2000, we began to purchase materials for Zenith, and as a result, our relationship with Zenith evolved into a turnkey manufacturing relationship. Turnkey manufacturing services typically result in higher revenue and higher gross profits but lower gross profit margins when compared to consignment services.

With our turnkey manufacturing customers, we generally operate under contracts that provide a general framework for our business relationship. Our actual production volumes are based on purchase orders under which our customers do not commit to firm production schedules more than 30 to 90 days in advance. In order to minimize customers' inventory risk, we generally order materials and components only to the extent necessary to satisfy existing customer forecasts or purchase orders. Fluctuations in material costs are typically passed through to customers. We may agree, upon request from our customers, to temporarily delay shipments, which causes a corresponding delay in our revenue recognition. Ultimately, however, our customers are generally responsible for all goods manufactured on their behalf.

We service our customers through a total of eleven facilities located in the United States, Canada, Europe and Mexico. In 2000, approximately 80.0% of our pro forma revenue was generated from operations in the United States, approximately 9.0% from Canada, approximately 3.0% from Europe and approximately 8.0% from Mexico. Our facility in Chihuahua was acquired in July 1999 from Zenith Electronics Corporation. We expect to continue to increase revenue from this facility, with the transfer of certain production from other facilities and with the addition of new business and increased volume from our current business.

The unaudited pro forma results of operations are presented as a supplement to our actual results of operations to provide a basis for analyzing and comparing the results of operations of the combined and acquired companies. As such, the pro forma results of operations for the year ended December 31, 1999 contain the results of Surface Mount, HTM, W.F. Wood, Pensar and Qualtron as if the combination of Surface Mount and HTM, the acquisitions of W.F. Wood, Pensar and Qualtron and the initial public offering and application of proceeds to reduce indebtedness had occurred on January 1, 1999. The historical results of operations for the year ended December 31, 1999 include a full year of operating results for HTM, as well as the operating results for Surface Mount from July 30, 1999 through to December 31, 1999 and operating results for W.F. Wood from September 3, 1999 through to December 31, 1999. As such, the 1999 pro forma results have been adjusted to reflect seven months of additional goodwill amortization related to the acquisition of Surface Mount by HTM, eight months of additional goodwill amortization related to the acquisition of W.F. Wood, twelve months of additional goodwill amortization related to the acquisitions of Pensar and Qualtron, additional interest expense and income tax effects related to the borrowings required to complete the acquisitions of Pensar and Qualtron and the effects of the initial public offering including the exercise of the underwriters' over-allotment option.

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The unaudited pro forma results of operations for the year ended December 31, 2000 contain the results of Surface Mount, HTM, W.F. Wood, Pensar and Qualtron as if the combination of Surface Mount and HTM, the acquisitions of W.F. Wood, Pensar and Qualtron and the initial public offering and application of proceeds to reduce indebtedness had occurred on January 1, 1999. The historical results of operations for the year ended December 31, 2000 include a full year of operating results for HTM, Surface Mount and W.F. Wood as well as the results of Pensar from July 27, 2000 through to December 31, 2000 and the results of Qualtron from November 22, 2000 through to December 31, 2000. As such, the 2000 pro forma results have been adjusted to reflect seven months of additional goodwill amortization related to the acquisition of Pensar, eleven months of additional goodwill amortization related to the acquisition of Qualtron, the additional interest expense and income tax effects related to the borrowings required to complete the acquisitions of Pensar and Qualtron and the effects of the initial public offering including the exercise of the underwriters' over-allotment option.

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 22 to the consolidated financial statements.

We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations with a discussion of the pro forma year ended December 31, 2000 compared to the pro forma year ended December 31, 1999. Because our historical financial statements do not fully reflect the July 1999 combination of HTM and Surface Mount, our September 1999 acquisition of W.F. Wood, our July 2000 acquisition of Pensar and our November 2000 acquisition of Qualtron or the completion of our initial public offering, a discussion of our historical operations does not provide a sufficient understanding of the financial conditions and results of operations of our business. Following our discussion of the pro forma results of operations, we discuss our historical financial condition and results of operations for the year ended December 31, 2000 compared to the year ended December 31, 1999 and for the year ended December 31, 1999 compared to the year end December 31, 1998.

SMTC Corporation

Pro Forma Results of Operations

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

	December 31, 1999	December 31, 2000
	-----	-----
Revenue.....	100.0%	100.0%
Cost of sales.....	89.1	90.7
	-----	-----
Gross profit.....	10.9	9.3
Selling, general and administrative expenses.....	7.0	4.8
Amortization of intangible assets.....	1.6	1.1
	-----	-----
Operating income.....	2.3	3.4
Interest.....	--	0.9
	-----	-----
Earnings before income taxes.....	2.3	2.5

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Income taxes.....	1.0	1.2
	-----	-----
Earnings.....	1.3%	1.3%
	=====	=====

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Pro forma year ended December 31, 2000 compared to the pro forma year ended December 31, 1999

Pro Forma Revenue

Pro forma revenue increased \$311.9 million, or 58.8%, from \$530.7 million for the year ended December 31, 1999, to \$842.6 million for the year ended December 31, 2000. This increase resulted primarily from the growth of pro forma revenue generated by our United States operations and our Chihuahua facility. For the year ended December 31, 2000, 80.3% of our pro forma revenue was generated from operations in the United States, 8.9% from Canada, 3.0% from Europe and 7.8% from Mexico. For the year ended December 31, 1999, 83.5% of our pro forma revenue was generated from operations in the United States, 9.4% from Canada, 5.2% from Europe and 1.9% from Mexico.

Pro forma revenue from Dell for the year ended December 31, 2000 was \$124.0 million, or 14.7% of total pro forma revenue. For the year ended December 31, 1999, pro forma revenue from Dell was \$157.5 million, or 29.7%, of total pro forma revenue. The 1999 revenue from Dell consisted primarily of personal computer based products, whereas the 2000 revenue from Dell consisted primarily of the high growth, networking based products. No other customer represented more than 10% of pro forma revenue in the years ended December 31, 1999 and December 31, 2000.

Pro Forma Gross Profit

Pro forma gross profit increased \$20.2 million, or 34.8%, from \$58.1 million for the year ended December 31, 1999 to \$78.3 million for the year ended December 31, 2000. Our pro forma gross profit margin declined from 10.9% for the year ended December 31, 1999 to 9.3% for the year ended December 31, 2000. The decline in the pro forma gross margin is due to a shift from lower revenue/higher gross margin consignment revenue to higher revenue/lower gross margin turnkey revenue at the Chihuahua facility, the underutilization of our fixed costs in the Chihuahua facility due to delays in the transition of certain customers to that facility and change in customer mix. We continue to seek to improve our overall profit margins by offering our customers a wider range of services, better utilizing our fixed manufacturing costs and by pursuing acquisitions of businesses that provide value-added services.

Pro Forma Selling, General & Administrative Expenses

Pro forma selling, general and administrative expenses increased \$3.2 million, or 8.6%, from \$37.1 million for the year ended December 31, 1999 to \$40.3 million for the year ended December 31, 2000. As a percentage of pro forma revenue, pro forma selling, general and administrative expenses decreased from 7.0% to 4.8% because of the higher pro forma revenue base. Pro forma selling, general and administrative expenses for the year ended December 31, 1999 included management fees of \$0.7 million, one time payments of \$0.6 million as compensation to former W.F. Wood and Pensar shareholders and \$2.6 million as acquisition related bonuses paid to management and employees of W.F. Wood. We expect pro forma selling, general and administrative expenses to continue to decline as a percentage of pro forma revenue as we continue to grow

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our revenue base.

Pro Forma Amortization

Pro forma amortization of intangible assets increased \$0.5 million, or 5.7%, from \$8.7 million for the year ended December 31, 1999 to \$9.2 million for the year ended December 31, 2000. Pro forma amortization for the year ended December 31, 1999 included amortization of \$2.4 million of goodwill related to the combination of Surface Mount and HTM, amortization of \$1.7 million of goodwill related to the acquisition of W.F. Wood, amortization of \$2.7 million of goodwill related to the acquisition of Pensar, amortization of \$1.8 million of goodwill related to the acquisition of Qualtron and amortization of \$0.1 million of deferred finance costs related to the establishment of our senior credit facility in July 1999.

Pro forma amortization for the year ended December 31, 2000 included amortization of \$2.4 million of goodwill related to the combination of Surface Mount and HTM, amortization of \$1.7 million of goodwill related to the acquisition of W.F. Wood, amortization of \$2.7 million of goodwill related to the acquisition

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of Pensar, amortization of \$1.8 million of goodwill related to the acquisition of Qualtron, amortization of \$0.3 million of deferred finance costs related to our amended and restated senior credit facility of July 2000 and amortization of \$0.3 million of deferred equipment lease costs.

Pro Forma Interest Expense

Pro forma interest expense increased \$7.6 million from \$0.1 million for the year ended December 31, 1999 to \$7.7 million for the year ended December 31, 2000 due to the interest expense related to debt incurred to meet increased working capital requirements to fund the growth of our business.

Pro Forma Income Tax Expense

For the year ended December 31, 2000, we had a pro forma income tax expense of \$10.5 million on pro forma income before taxes of \$21.1 million, producing an effective pro forma tax rate of 49.8%. The effective rate of tax was higher than the statutory rate as we were not able to claim a recovery of losses of \$1.1 million incurred by our subsidiary, SMTC Manufacturing Corporation of Ireland Limited, or deduct \$4.2 million of goodwill related to the combination of Surface Mount and HTM and the acquisition of Qualtron.

For the year ended December 31, 1999, we had a pro forma income tax expense of \$5.4 million on pro forma income before taxes of \$12.2 million, producing an effective pro forma tax rate of 44.3%. The effective rate of tax was higher than the statutory rate as we were not able to claim a recovery of losses of \$0.5 million incurred by our subsidiary, SMTC Manufacturing Corporation of Ireland Limited, or to deduct \$4.2 million of goodwill related to the combination of Surface Mount and HTM and the acquisition of Qualtron.

SMTC Corporation (formerly HTM Holdings, Inc.)

Results of Operations

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

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	December 31, 1998	December 31, 1999	December 31, 2000
Revenue.....	100.0 %	100.0 %	100.0 %
Cost of sales.....	92.0	91.6	91.3
Gross profit.....	8.0	8.4	8.7
Selling, general and administrative expenses.....	3.7	5.2	4.4
Amortization of intangible assets.....	0.2	0.8	0.8
Recapitalization expenses.....	2.5	--	--
Operating income.....	1.6	2.4	3.5
Interest.....	2.2	2.7	1.8
Earnings (loss) before income taxes....	(0.6)	(0.3)	1.7
Income taxes (recovery).....	(0.2)	--	0.9
Earnings (loss) before extraordinary loss.....	(0.4)	(0.3)	0.8
Extraordinary loss.....	--	(0.5)	(0.3)
Net earnings (loss).....	(0.4)%	(0.8)%	0.5 %

Year ended December 31, 2000 compared to the year ended December 31, 1999

Revenue increased \$524.7 million, or 203.4%, from \$258.0 million for the year ended December 31, 1999 to \$782.7 million for the year ended December 31, 2000. This increase resulted from both organic growth and

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from the combination of Surface Mount and HTM, the acquisition of our Chihuahua facility in July 1999, our acquisition of W.F. Wood in September 1999, the acquisition of Pensar in July 2000 and the acquisition of Qualtron in November 2000. Acquisition revenue contributed \$226.5 million, or 43.2%, of the increase. Organic revenue from both existing customers and new customers increased \$298.2 million, or 61.5%, during 2000.

Revenue from Dell of \$124.0 million and from Alcatel of \$79.8 million for the year ended December 31, 2000 was 15.8% and 10.2%, respectively, of total revenue. Revenue from Dell of \$76.3 million, from Carrier Access of \$27.1 million and from IBM of \$25.7 million was 29.6%, 10.5% and 10.0%, respectively, of total revenue for the year ended December 31, 1999. Alcatel was not a customer of ours in 1999. No other customer represented more than 10% of revenue in the years ended December 31, 1999 and December 31, 2000.

For the year ended December 31, 2000, 79.8% of our revenue was generated from operations in the United States, 9.5% from Canada, 2.3% from Europe and 8.4% from Mexico. For the year ended December 31, 1999, 85.9% of our revenue was generated from operations in the United States, 7.4% from Canada, 2.9% from Europe and 3.8% from Mexico. We intend to enhance our position as a leading EMS provider by expanding our global presence in strategic markets with the addition of facilities in new cost effective regions and geographic locations, and through the expansion of our international sales efforts.

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Gross Profit

Gross profit increased \$46.6 million from \$21.7 million for the year ended December 31, 1999 to \$68.3 million for the year ended December 31, 2000. Our gross profit margin improved from 8.4% for the year ended December 31, 1999 to 8.7% for the year ended December 31, 2000. The improvement in gross profit was due to both organic growth and the combination of Surface Mount and HTM and the acquisitions we completed in 1999 and 2000. The increase in the gross margin was due to the positive impact of the acquisitions. Gross profit from acquisitions contributed \$25.0 million at a gross margin of 11.0% to the increase. Organic growth contributed \$21.6 million to the increase at a gross margin of 7.2%.

Selling, General & Administrative Expenses

Selling, general and administrative expenses increased \$21.3 million from \$13.3 million for the year ended December 31, 1999 to \$34.6 million for the year ended December 31, 2000. As a percentage of revenue, selling, general and administrative expenses decreased from 5.2% to 4.4%. The combination of Surface Mount and HTM and the subsequent acquisitions contributed \$21.3 million to the increase in selling, general and administrative expenses. At our Denver facility, selling, general, and administrative expenses increased \$0.4 million from \$3.3 million for the year ended December 31, 1999 to \$3.7 million for the year ended December 31, 2000 but declined as a percentage of that site's revenue from 3.2% to 2.0%.

Amortization

Amortization of intangible assets for the year ended December 31, 2000 of \$6.2 million included the amortization of \$2.4 million of goodwill related to the combination of Surface Mount and HTM, \$1.7 million of goodwill related to the acquisition of W.F. Wood, \$1.1 million related to the acquisition of Pensar and \$0.1 million related to the acquisition of Qualtron. We are amortizing goodwill of \$24.9 million resulting from the combination of Surface Mount and HTM, \$17.4 million resulting from the acquisition of W.F. Wood, \$26.6 million resulting from the acquisition of Pensar and \$18.1 million resulting from the acquisition of Qualtron, over a period of ten years. Amortization of intangible assets for the year ended December 31, 2000 also included the amortization of \$0.6 million of deferred finance costs related to the establishment of our amended and restated senior credit facility in July 2000 and \$0.3 million of deferred equipment lease costs. The costs associated with our amended and restated senior credit facility are being amortized over the four year remaining term of the debt.

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Amortization of \$2.0 million for the year ended December 31, 1999 included the amortization of \$0.9 million of goodwill related to the combination of Surface Mount and HTM, \$0.6 million of goodwill related to the acquisition of W.F. Wood, \$0.3 million of deferred finance costs related to the establishment of our senior credit facility in July 1999 and \$0.2 million of deferred financing costs related to HTM's credit facility prior to the refinancing.

Interest Expense

Interest expense increased \$6.7 million from \$7.1 million for the year ended December 31, 1999 to \$13.8 million for the year ended December 31, 2000 due to interest expense related to debt incurred in connection with the combination of Surface Mount and HTM, debt incurred to purchase our Chihuahua facility and W.F. Wood and debt incurred to meet increased working capital requirements to

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fund the growth of our business. The weighted average interest rates with respect to the debt for the years ended December 31, 1999 and 2000 were 9.5% and 9.9%, respectively.

Income Tax Expense

For the year ended December 31, 2000, we recorded an income tax expense of \$7.4 million on pre-tax income of \$13.7 million, which produced an effective tax rate of 54.0% as we were not able to claim a recovery on losses of \$1.1 million by our subsidiary, SMTC Manufacturing Corporation of Ireland Limited, or deduct \$2.4 million of goodwill related to the combination of Surface Mount and HTM.

For the year ended December 31, 1999, an income tax expense of \$0.1 million was recorded on a loss before taxes of \$0.7 million as we were not able to claim a recovery of losses of \$0.5 million by our subsidiary, SMTC Manufacturing Corporation of Ireland Limited, or deduct \$0.9 million of goodwill related to the combination of Surface Mount and HTM.

Extraordinary Loss

Approximately \$143.7 million of the proceeds of the initial public offering were used to reduce our indebtedness under our credit facility. In connection with the initial public offering, we entered into an amended and restated credit agreement with our lenders. As a result, an extraordinary loss of \$2.7 million (\$4.3 million before tax), related to early payment penalties, the write-off of a portion of the unamortized deferred financing fees and the write-off of the value of the warrants issued in excess of the proceeds received, was recorded for the year ended December 31, 2000. The \$2.7 million charge would not be presented as an extraordinary loss in accordance with Canadian GAAP. Rather, the \$4.3 million pre-tax expense would be reported in income before taxes and the tax benefit of \$1.6 million would be reported as tax recovery.

As a result of the early payment of the senior notes payable and subordinated notes that occurred concurrent with the business combination of Surface Mount and HTM, an extraordinary charge of \$1.3 million (\$2.1 million before tax), related to early payment penalties, the write-off of unamortized deferred financing fees, and the write-off of the unamortized debt discount, was recorded for the year ended December 31, 1999. The \$1.3 million charge would not be presented as an extraordinary loss in accordance with Canadian GAAP. Rather, the \$2.1 million pre-tax expense would be reported in loss before taxes and the tax benefit of \$0.8 million would be reported as tax recovery.

Year ended December 31, 1999 compared to the year ended December 31, 1998

Revenue

Revenue increased \$168.3 million, or 187.6% from \$89.7 million in 1998 to \$258.0 million in 1999. This increase resulted largely from the combination of Surface Mount and HTM, the acquisition of our Chihuahua facility in July 1999 and our acquisition of W.F. Wood in September 1999. Surface Mount, W.F. Wood and our

Chihuahua facility contributed \$134.5 million, \$11.0 million and \$9.9 million, respectively, to the increase in revenue. Surface Mount's largest customer was Dell. Revenue from Dell for the five month period from the date of the combination of Surface Mount and HTM to December 31, 1999 was \$76.3 million, or 29.6% of total revenue for 1999. Revenue generated by our Denver facility,

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formerly HTM, increased \$12.9 million, or 14.4%, from \$89.7 million in 1998 to \$102.6 million in 1999. In 1999, revenue from Carrier Access of \$27.1 million and revenue from IBM of \$25.7 million represented 10.5% and 10.0% of total revenue, respectively. No other customer represented more than 10.0% of our revenue in 1999.

In 1999, 85.9% of our revenue was generated from operations in the United States, 7.4% from Canada, 3.8% from Mexico and 2.9% from Europe. Revenue generated from outside the United States increased from zero in 1998 to \$36.4 million or 14.1% of revenue in 1999. The increase was due to the combination of Surface Mount and HTM and the acquisition of our Chihuahua facility.

Gross Profit

Gross profit increased \$14.5 million from \$7.2 million in 1998 to \$21.7 million in 1999. Our gross margin improved from 8.0% in 1998 to 8.4% in 1999. The improvements in gross profit and gross margin were due to the acquisitions completed in 1999 as well as the combination of Surface Mount and HTM. The combination of Surface Mount and HTM added \$11.1 million of gross profit at a gross margin of 8.3%, our Chihuahua facility contributed \$1.1 million of gross profit at a gross margin of 11.1% and our W.F. Wood business added \$1.8 million of gross profit at a gross margin of 16.4%

Our Chihuahua facility provided us with higher gross margins because it had a higher percentage of consignment sales, which typically result in lower revenue and higher gross profit margins but lower gross profit compared to turnkey services.

Our W.F. Wood business contributes higher gross margins because the high precision enclosure products manufactured by that business have higher profit margins than the products we have historically manufactured.

At our Denver facility, formerly HTM, gross profit increased \$0.5 million, from \$7.2 million in 1998 to \$7.7 million in 1999, but the gross margin declined from 8.0% to 7.5% due to a change in our business at that facility toward manufacturing products with higher volumes and lower profit margins.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$10.0 million from \$3.3 million in 1998 to \$13.3 million in 1999. As a percentage of revenue, selling, general and administrative expenses increased from 3.7% in 1998 to 5.2% in 1999 because the facilities added through our acquisitions and the combination of Surface Mount and HTM were operating at a lower rate of capacity than our Denver facility. Included in selling general and administrative expense in 1999 were management fees of \$0.7 million paid to our principal stockholders. In 1998, \$0.1 million of management fees were paid to the principal stockholders of HTM. Selling, general and administrative expenses were unchanged from 1998 to 1999 at our Denver facility

Amortization

Amortization of intangible assets in 1999 includes the amortization of \$0.9 million of goodwill related to the combination of Surface Mount and HTM and \$0.6 million of goodwill related to the acquisition of W.F. Wood. There were no intangible items amortized in 1998. Also included in the amortization of intangible assets is the amortization of \$0.3 million of deferred finance costs related to the establishment of our \$155.0 million senior credit facility in July 1999 and \$0.2 million of deferred finance costs related to HTM's credit facility prior to refinancing. In 1998, amortization of deferred finance costs was \$0.2 million.

Interest Expense

Interest expense increased \$5.1 million from \$2.0 million in 1998 to \$7.1 million in 1999, primarily as a result of the increase in debt incurred in connection with the combination of Surface Mount and HTM and the debt incurred to purchase our Chihuahua facility and W.F. Wood. Debt of \$35.5 million and \$134.0 million was outstanding at December 31, 1998 and December 31, 1999, respectively. The weighted average interest rates with respect to such debt for 1998 and 1999 were 10.1% and 9.5%, respectively.

Income Tax Expense

Income tax expense in 1999 amounted to \$0.1 million on a loss before tax of \$0.7 million, at an effective rate of 14.1%, as we were not able to claim a recovery on losses of \$0.5 million incurred by our subsidiary SMTC Manufacturing Corporation of Ireland Limited, and we were not able to deduct \$0.9 million of goodwill expense related to the combination of Surface Mount and HTM. We were able to reduce our tax expense by \$0.4 million by applying \$1.0 million of net operating tax losses available to our subsidiaries in the United States. Income tax expense in 1998 amounted to a recovery of \$0.2 million on a loss before tax of \$0.5 million, at an effective tax rate of 37.0%.

Extraordinary Loss

The extraordinary loss of \$1.3 million in 1999, net of the tax benefit of \$0.8 million, arose from early payment penalties of \$0.8 million, the write-off of \$1.0 million of unamortized deferred financing fees and the write-off of the unamortized debt discount of \$0.3 million associated with the repayment of senior and subordinated notes which were refinanced under the \$155.0 million senior credit facility entered into in connection with the July 1999 combination of Surface Mount and HTM. There were no extraordinary gains or losses in 1998. The \$1.3 million charge would not be presented as an extraordinary loss in accordance with Canadian GAAP. Rather, the \$2.1 million pre-tax expense would be reported in loss before taxes and the tax benefit of \$0.8 million would be reported as tax recovery.

Liquidity and Capital Resources

Our principal sources of liquidity are cash provided from borrowings under our senior credit facility and our access to the capital markets. Our principal uses of cash have been to finance mergers and acquisitions, to meet debt service requirements and to finance capital expenditures and working capital requirements. We anticipate that these will continue to be our principal uses of cash in the future.

Net cash used for operating activities for the year ended December 31, 1999 was \$6.6 million compared to net cash used for operating activities of \$104.9 million for the year ended December 31, 2000. The growth of both existing and new customers during 2000 led to our increased working capital needs.

Net cash provided by financing activities for the year ended December 31, 1999 was \$49.6 million due to the net increase of borrowings of \$55.1 million, which was offset by capital lease payments of \$1.6 million and debt issuance costs of \$4.0 million. Net cash provided by financing activities for year ended December 31, 2000 was \$159.1 million due to the net proceeds from issuance of capital stock of \$179.2 million, and proceeds from the issue of warrants of \$2.5 million, which was offset by repayment of long-term debt and capital

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leases and debt issuance costs of \$19.7 million, \$1.4 million and \$1.5 million respectively.

Net cash used in investing activities for the year ended December 31, 1999 was \$41.4 million due to the net purchase of capital and other assets of \$4.1 million, the combination of SMTC and HTM and the acquisitions of W.F. Wood and the Chihuahua facility for a total of \$31.6 million and cash held in escrow related to the acquisition of the Chihuahua facility of \$5.7 million. Net cash used in investing activities for the year ended December 31, 2000 was \$53.6 million due to net purchases of capital and other assets of \$25.9 million and the acquisitions of Pensar and Qualtron for a total of \$27.7 million.

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In May 2000, we issued senior subordinated notes to certain shareholders for proceeds of \$5.0 million, which were repaid, with proceeds from the initial public offering. In conjunction with the subordinated notes, on May 18, 2000 we issued 41,667 warrants for cash consideration of \$2.5 million which were converted into warrants to purchase 477,049 shares upon our initial public offering.

On July 3, 2000, in order to provide us with additional working capital and to finance the growth of our business, certain of our stockholders purchased demand notes from us in the amount of \$9.9 million. These notes were paid on July 27, 2000 with proceeds from our initial public offering.

On July 27, 2000, we entered into an amended and restated credit agreement with our lenders, which provided for an initial term loan of \$50.0 million and revolving credit loans, swing line loans and letters of credit up to \$100.0 million. As of December 31, 2000, we had borrowings of \$115.8 million under our senior credit facility.

On July 27, 2000, we completed an initial public offering of our shares of common stock in the United States and exchangeable shares of our subsidiary, SMTC Manufacturing Corporation of Canada, in Canada. The offering consisted of 6,625,000 shares of common stock at a price of \$16.00 per share and 4,375,000 exchangeable shares at a price of Canadian \$23.60 per share. The net proceeds from the offering (not including proceeds from the sale of shares upon the exercise of the underwriters' over-allotment option) of approximately \$157.1 million were used to reduce our indebtedness under the senior credit facility, to repay outstanding notes, to repay debt of Pensar and to finance the cash portion of the purchase price of Pensar, which closed simultaneously with the initial public offering. On August 18, 2000, an additional 1,650,000 of shares of our common stock were issued at a price of \$16.00 upon the exercise of the underwriters' over-allotment option. The net proceeds of \$24.6 million from the sale of shares upon the exercise of the underwriters' over-allotment option were used to reduce our indebtedness under the senior credit facility.

Our management believes that cash generated from operations, available cash and amounts available under our senior credit facility will be adequate to meet the debt service requirements, capital expenditures and working capital needs at our current level of operations and organic growth, although no assurance can be given in this regard. If we experience unusually strong growth or pursue significant acquisition, we will likely require additional capital. 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.

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Impact of Inflation

We believe that our results of operations will not be significantly affected by moderate changes in the inflation rate.

Recently Issued Accounting Standards

In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") 101 and in March 2000 issued SAB 101A "Revenue Recognition," which provide guidelines in applying U.S. generally accepted accounting principles to revenue recognition in financial statements. As a consequence of the issuance of SAB 101B in June 2000, we were required to implement SAB 101 as of the fourth quarter of 2000. We believe that our revenue recognition practices are consistent with the guidelines.

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. SFAS No. 133 requires all derivatives to be recognized either as assets or liabilities and measured at fair value. SFAS No. 137 delays the effective date of SFAS No. 133 to fiscal years beginning after June 15,

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2000. We will implement SFAS No. 133 for our first quarter ended March 31, 2001. In accordance with the new standard, we will account for our existing interest rate swaps as cash flow hedges. If we applied the new standard at December 31, 2000 we would record a \$0.1 million liability on our balance sheet and a \$0.1 million charge to other comprehensive income as a cumulative effect type adjustment to reflect the initial mark to market on the interest rate swaps.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires that entities capitalize certain costs related to internal-use software once certain criteria have been met. As required, we implemented this standard in 1999. The implementation did not have a material impact on our financial position, results of operations or cash flows.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires that all start-up costs related to the new operations must be expenses as incurred. In addition, all start-up costs that were capitalized in the past must be written off when SOP 98-5 is adopted. As required, we implemented this standard in 1999. The implementation did not have a material impact on our financial position, results of operations or cash flows.

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BUSINESS

Overview

SMTC Corporation ("We" or "SMTC" or the "Company") is a leading provider of advanced electronics manufacturing services, or EMS, to electronics industry original equipment manufacturers, or OEMs, worldwide. We service our customers through eleven manufacturing and technology centers strategically located in

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key technology corridors in the United States, Canada, Europe and a cost-effective region of Mexico. Our full range of value-added services include product design, procurement, prototyping, assembly, enclosures, interconnect, test, final system build, comprehensive supply chain management, packaging, global distribution and after-sales support. Our business is focused on the fast-growing fixed and wireless communications, networking and computing sectors. Based upon our comparison of our 2000 pro forma revenue of approximately \$842.6 million with 2000 EMS industry revenue data provided by Technology Forecasters, Inc., or TFI, we are among the 15 largest public EMS companies worldwide. We believe we are well-positioned to capitalize on the significant and growing market opportunity to provide advanced EMS solutions to OEMs on a global basis.

We have customer relationships with over 50 OEMs, many of which date back more than five years. Our customers include industry leading OEMs such as Dell, Alcatel, Motorola, IBM, EMC and Lucent Technologies. We developed these relationships by capitalizing on the continuing trend of OEMs to outsource manufacturing services to consolidate their supply base and to form long-term strategic partnerships with selected high quality EMS providers. We also have relationships with a number of emerging companies in the high-growth communications and networking sectors, including Cobalt Networks (now part of Sun Microsystems), Netopia and Sycamore Networks. In 2000, approximately 79% of our pro forma revenue was generated from the communications and networking sectors. We expect to continue to grow our business through the addition of new, high quality customers and the expansion of our relationships with existing customers.

We believe that our key competitive advantages include our global manufacturing capabilities, customer focused team-based approach, global supply chain management capabilities and leading edge equipment and processes that are consistent from site to site. In addition, we have introduced advanced web-based collaborative planning tools that electronically link us with our customers and suppliers in real time, enhancing our supply chain management capabilities.

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

Industry Background

The EMS industry provides manufacturing services to OEMs in the electronics marketplace. The EMS market is large and continues to grow rapidly. According to TFI, global EMS industry revenue is forecasted to grow at a compounded annual growth rate of approximately 27%, from \$78 billion in 1999 to \$260 billion in 2004. TFI forecasts that larger EMS companies with revenue of approximately \$500 million or greater are expected to grow more rapidly during the same period. We believe that the growth for larger EMS companies is

projected to be greater than the industry average because OEMs are increasingly outsourcing production to larger manufacturers that have the ability to provide a total service solution across multiple geographies. EMS industry growth is being fueled by the overall growth of the electronics industry, the increased outsourcing of manufacturing by OEMs, and the divestiture of OEM manufacturing assets to EMS businesses. We believe that OEMs decide to outsource manufacturing in order to take advantage of the technology and manufacturing expertise of EMS companies, eliminate manufacturing overhead, reduce time-to-market of products, and improve supply chain efficiency. TFI estimates that the percentage of total cost of goods sold in the electronics industry which is outsourced for manufacturing by OEMs will increase from 11% in 1999 to 26% by 2004.

In addition, according to TFI, the EMS industry is highly fragmented with over 3,000 independent EMS companies in existence and the 15 largest companies accounting for approximately 45% of the worldwide market in 1999. The EMS industry has experienced, and is anticipated to continue to experience, significant consolidation. We believe that the fragmented nature of the industry will allow us to take advantage of further acquisition opportunities to increase our scale and geographic scope as well as to expand our customer relationships and service offerings.

Revenues generated by the EMS industry are relatively concentrated among the computing and fixed and wireless communications sectors. TFI reports that the \$78 billion in revenues generated by the EMS industry in 1999 is attributable to the following sectors: 13% to wireless telecom, 20% to wired telecom/networking, 23% to computer peripheral, 20% to computer systems, 2% to consumer, 7% to industrial and 15% to other. TFI forecasts that a projected \$260 billion in revenues generated by the EMS industry in 2004 will be attributable to the following sectors: 19% to wireless telecom, 25% to wired telecom/networking, 17% to computer peripheral, 18% to computer systems, 8% to consumer, 4% to industrial and 9% to other.

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

By using EMS providers, OEMs are able to focus on their core competencies, including product development, sales and marketing, while leveraging the manufacturing efficiency and capital investment of EMS providers. OEMs use EMS providers to enhance their competitive position by:

- . Reducing Time-to-Market. Electronics products are experiencing

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increasingly shorter product life cycles, requiring OEMs to continually reduce the time required to bring new products to market. OEMs can significantly improve product development cycles and enhance time-to-market by benefiting from the expertise and infrastructure of EMS providers. This expertise includes capabilities relating to design, quick-turn prototype development and rapid ramp-up of new products to high volume production, with the critical support of worldwide supply chain management.

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

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- . Accessing Advanced Manufacturing Capabilities and Process Technologies. Electronics products and electronics manufacturing technology have become increasingly sophisticated and complex, making it difficult for many OEMs to maintain the necessary technology expertise and focus required to efficiently manufacture products internally. By working closely with EMS providers, OEMs gain access to high quality manufacturing expertise and capabilities in the areas of advanced process, interconnect and test technologies.
- . Improving Access to Global Markets. OEMs are generally increasing their international activities in an effort to expand sales through access to foreign markets. EMS companies with worldwide capabilities are able to offer such OEMs global manufacturing solutions enabling them to meet local content requirements to distribute products efficiently around the world at lower costs.

The SMTC Customer Solution

We believe that the key competitive advantages of our solution include our customer-focused team based approach, comprehensive supply chain management capabilities and fully integrated worldwide facilities. Our customers benefit from the following components of the SMTC solution:

Customer-focused Team Oriented Production System, or T.O.P.S. Our cross-functional teams work as customer-focused business units without departmental barriers, which allows for faster and more direct communication between our customers and the team responsible for their products. The removal of departmental barriers minimizes time wasted by internal communication between departments. Our teams provide the customer with the entire range of services from prototype to production to distribution. In addition, our cross-functional team structure enables us to tailor each team to specific custom requirements. In some cases we have employees on-site at customer locations. The result is a manufacturing process tailored to each customer, which we believe accelerates time-to-market for our customers.

Comprehensive Supply Chain Management; Web-based System. The systems and processes we employ in supply chain management enable us to rapidly scale operations to meet customer needs, shift capacity in response to product demand fluctuations, reduce material costs and effectively distribute products to our customers or their end-customers. We have available and are implementing web-based systems through which we communicate, collaborate and plan with our customers and suppliers in real time. This web-based system enhances inventory

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management through information sharing and access and is a valuable tool for managing inventory risk and exposure. In addition, our customers can commit to delivering products to their customers knowing that the materials and capacity are available because they can monitor the status of our materials and capacity in real time through use of our web-based collaborative planning system.

Fully Integrated Worldwide Factories. Our global reach enables us to provide OEMs with the flexibility to manufacture products locally in several regions of the world. All of our assembly locations operate under the same model and with the same systems allowing customers to seamlessly transfer their production from one of our facilities to another. This gives our customers greater flexibility and the opportunity to reduce their costs by transferring production to the facility that suits their needs. The fact that each assembly facility operates similarly also enhances communications among facilities, allows our employees to work effectively at any of our sites, improves quality control, allows us to acquire equipment at volume discounts and promotes adoption of best practices at each of our facilities. These factors reduce inefficiencies, improve product quality and ultimately reduce costs.

The SMTC Strategy

Our objective is to enhance our position as a leading EMS provider to OEMs worldwide. We intend to achieve this objective by pursuing the following business strategies:

Expand our Global Presence in Strategic Markets. In order to enhance our existing high standards of service to our global customers, we intend to continue to expand our global presence. We expect to tailor each

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assembly facility we acquire to the same high standards of excellence and to a similar plant layout as our current assembly facilities. This will allow us to continue to enjoy the benefits of fully integrated factories. Since 1995, we have expanded from our first facility located in Toronto, Ontario to eleven facilities located in the United States, Canada, Europe and Mexico. We intend to continue to expand our global infrastructure and are currently targeting Asia as an area for future expansion.

Continue to Provide Leading Edge Supply Chain Management Capabilities. We remain fully committed to maintaining our leadership position in supply chain management through the use of innovative management strategies. We believe the introduction of our web-based collaborative planning system is enabling us to rapidly scale operations to meet customer needs, shift capacity in response to product demand fluctuations, reduce material costs and effectively distribute products to our customers or their end-customers.

Strengthen our Relationships with Leading and Emerging Global OEMs in Attractive EMS Segments. We plan to continue to focus on providing advanced electronic manufacturing services to industry leaders, particularly in the high growth, high value-added communications and networking sectors. Communications and networking companies, in particular, are dramatically increasing the amount of manufacturing they are outsourcing, and we believe our technological capabilities and global manufacturing platform are well suited to capitalize on this opportunity. In addition to our industry leading customers such as Dell, Alcatel, Motorola, IBM, EMC and Lucent Technologies, we have relationships with a number of emerging companies in the communications and networking sectors including Cobalt Networks (now part of Sun Microsystems), Netopia and Sycamore Networks.

Provide Advanced Technological Capabilities and Comprehensive Service

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Offerings. We remain committed to enhancing our capabilities and value-added services to meet the ongoing needs of our customers. Through our continuing investment in leading-edge assembly and logistics technologies, as well as our investment in design, engineering and test capabilities, we are able to offer our customers a variety of advanced design and manufacturing solutions. These capabilities include micro ball grid arrays, complex circuitry layouts, manufacturing and testing of wireless products and manufacturing of ethernet cards, among others. Additionally, building on our integrated engineering and manufacturing capabilities, we provide our customers with services ranging from initial product design and prototype production to final product assembly, test and distribution directly to our customers. We believe that this provides greater control over quality, delivery and costs and enables us to offer our customers a complete cost effective solution.

Pursue Selective Acquisition Opportunities, including Asset Divestitures by OEMs. We intend to continue to target strategic acquisitions that will enable us to expand our geographic reach, add manufacturing capacity, secure key new customers, diversify into complementary product markets or broaden our technological capabilities and value-added service offerings. We have successfully completed eight acquisitions since 1995. As a result, we have developed and deployed a comprehensive integration strategy which includes establishing our team-oriented production system at all locations with broad-based workforce participation, utilizing similar manufacturing equipment and processes, deploying common information technology platforms, transferring best practices among operations company wide and leveraging wide-scale procurement.

Our Services

Our full range of advanced value-added electronics manufacturing services include:

New Product Development and Introduction. The key to our new product approach is the cross-functionality of our teams. We integrate our design group, materials group and manufacturing group into a new product development team which works with our customers and suppliers throughout the development process to ensure that new designs are efficiently transitioned into production. We use advanced design tools to enable new product ideas to progress from design, to simulation and physical layout, to design for manufacturability. We work with our customers' product developers in the early stages of new product development. Our new product development team also coordinates the prototyping of new product designs, a critical stage in the

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development of new products. Our prototyping and new product introduction centers are strategically located, and we use electronic communications with our customers and suppliers in order to provide a quick response to customer demands and to facilitate greater collaboration between our new product development team, our customers and our suppliers.

Supply Chain Management. We use our integrated resource planning and supply chain management systems to optimize efficient materials management from supplier to end-customer. We provide our customers with a complete supply chain management solution, using advanced electronic schedule sharing methods with our customers and suppliers to plan, purchase, expedite and warehouse components and materials. We believe our inventory management and volume procurement capabilities reduce costs and shorten total cycle time. Effective management of the supply chain is critical to the success of OEMs because it reduces the time required to deliver products to market and the capital requirements associated with carrying inventory. The introduction of our web-based collaborative planning system will further link our suppliers and

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customers in a real time environment.

Assembly and Integration. We use state-of-the-art technology in the assembly process, and continually focus, together with our customers and suppliers, on developing assembly techniques, improving quality, improving time-to-market of our customers' products and reducing costs. We are able to apply a broad range of assembly techniques, from pin-through-hole and surface mount to micro ball grid array assemblies. Our extensive test capabilities allow us to identify the cause of defects and determine the most appropriate corrective action. Our engineers work proactively with our customers and suppliers to implement solutions to defects before products are shipped. We also design and test packaging of products for bulk shipment or single end-customer use. We provide fully-integrated system build services to our customers. These services capitalize on our sophisticated logistical capabilities to rapidly acquire and assemble source components, perform complex testing and deliver products to our customers around the world. Our complete system integration capabilities, coupled with our strength in supply chain management, position us to meet our customers' growing demand for build-to-order system solutions.

Global Distribution and After-sales Support. We have a sophisticated integrated system for managing complex international distribution, allowing us to efficiently ship worldwide and, in many cases, directly to the OEMs' end-customers. We also offer a wide range of after-sales support services including field failure analyses, product upgrades and repair services. We also assist our customers in improving design for manufacture.

Our Customers

We target industry leading OEMs primarily in the high growth networking and fixed and wireless communications sectors. Pro forma 2000 revenue from customers was allocated by industry as follows: 45% from networking, 34% from communications and 21% from industrial, consumer and other.

We have customer relationships with over 50 OEMs, many of which date back more than five years. Our customers include industry leading OEMs such as Dell, Alcatel, Motorola, IBM, EMC and Lucent Technologies. We also have relationships with a number of emerging companies in the high-growth communications and networking sectors, including Cobalt Networks (now part of Sun Microsystems), Netopia and Sycamore Networks. The electronic products we assemble and manufacture can be found in a wide array of end-products including:

- | | | |
|--|--------------------------|-------------------------------|
| . PBX switches | .Routers | .Personal computers |
| . Wireless base stations | .Hubs | .Multimedia peripherals |
| . Wireless loop systems | .Communications switches | .Video broadcasting |
| . Modems | .Mass storage devices | .Ethernet PCMCIA cards |
| . Fax machines | .Data servers | .Semiconductor test equipment |
| . Components for T1 and T3 broadband equipment | .Workstations | |

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Marketing and Sales

We market our services through a focused strategy that emphasizes our team based approach to servicing our customers. In addition to developing relationships with established industry leading OEMs, we also target selected emerging companies in high growth market segments. We target prospective customers in the networking, fixed and wireless communications, computing and peripheral and other industries which are leaders in their markets. We are

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focused on building relationships with customers that require a volume of production that complements our customer-focused team-based approach and supply chain offerings. In all cases, our goal is to allocate our program management, engineering and manufacturing resources, business systems and assets on a customer-by-customer basis, enabling each of our customers to have a dedicated environment that operates as a virtual extension of its business.

We have a direct sales force with a global presence that focuses on new and existing customers to take advantage of our worldwide capabilities. We also have a mix of established direct sales representatives and manufacturer representative companies throughout Canada, the United States and Europe. Our sales offices are located within our manufacturing facilities. In addition, we have a sales office in Boston, Massachusetts. When a customer opportunity is identified by our direct or outside sales force, we dedicate a team to the potential customer that becomes part of our marketing effort and will continue to service the customer throughout our relationship.

Supply Chain Management

We believe that the basis of true collaboration is seamless integration across the enterprise-wide system, encompassing the customers' worldwide facilities, our global manufacturing sites, and our suppliers. We provide our customers with a complete supply chain management solution, using advanced electronic schedule sharing methods with our customers and suppliers to plan, purchase, expedite and warehouse components and materials. The systems and processes we currently employ in supply chain management enable us to rapidly scale operations to meet customer needs, shift capacity in response to product demand fluctuations, reduce material costs and effectively distribute products to our customers or their end-customers.

In April 1999, we launched a major new initiative with the development of our web-based collaborative planning systems. These systems were initially used to enhance our manufacturing execution capabilities through the use of web-based master scheduling, real time materials requirement planning and factory scheduling software. In conjunction with our enhanced manufacturing execution processes, during 2000, we introduced our web-based collaborative planning tools for customer demand management and supplier management.

We believe that in order to continue to offer our customers leading services, we and our customers and suppliers must create virtual enterprises, sharing information and making joint decisions to ensure a fast and cost-effective response to the market. Our web-based collaborative planning tools feature a "capable to promise" ability that we expect will improve flexibility and reduce cycle times in the supply chain for our customers. Through a web-based user interface, our customers and suppliers have direct access to our supply chain management database. Customers are able to monitor the availability and supply of component parts in real time. Simulation features allow customers to explore "what-if" scenarios, enhancing our customers' forecasting and planning efficiency. Communication is streamlined throughout the supply chain, allowing our customers to receive timely feedback from us and allowing us to receive real time input from our suppliers.

Our goal is to gauge and optimize performance in real time. As our web-based tools are further deployed and enhanced, they enable all activities in the supply chain to be synchronized, and enable us and our trading partners to rapidly analyze, revise and fine-tune plans based on the latest customer information. WebPLAN and Lotus Notes are the foundation for our e-business solution.

Our web-based collaborative planning system is currently operating at all of our locations. In the first half of 2000, we introduced the system to our customers and suppliers. Because our customers and suppliers require

only standard, low-cost web access capabilities to access our collaborative planning tool, and because the system represents a major advance over traditional electronic data interchange systems, we believe our customers and suppliers will continue to readily adopt our leading-edge e-business solution to supply chain management.

Technology, Processes and Development

We use advanced technology in the assembly and testing of the products we manufacture. We believe that our processes and skills are among the most sophisticated in the industry.

Surface mount technology is the principal technology for the assembly of printed circuit boards. Our customer-focused factories include predominantly surface mount technology lines, which are highly flexible and are continually reconfigured to meet customer-specific product requirements. In addition to expertise in conventional surface mount technology, we have extensive capabilities utilizing a broad range of technologies, including:

- . chip scale packaging, which is a method of using integrated circuits (chips) without encapsulating them in epoxy, thereby utilizing less space on the circuit board;
- . flip chips, which are structures that house interconnected circuits and are utilized to minimize printed circuit board surface area when compact packaging is required;
- . tape automated bonding, which is a specialized assembly-process technology that involves the application of components onto a circuit board using temperature and pressure;
- . multichip module-laminates, which are a type of printed circuit board design that allows for the placement of multiple integrated circuits or other components in a limited surface area; and
- . micro ball grid array, which is a method of mounting an integrated circuit or other component to a printed circuit board. Rather than using pins, the component is attached with small balls of solder at each contact. This method allows for greater component density and is used in printed circuit boards with higher layer counts.

We also work with a wide range of substrate types from thin flexible printed circuit boards to highly complex, dense multilayer boards.

Our assembly capabilities are complemented by advanced test capabilities. These technologies include:

- . high speed functional testing, a method of testing products by simulating actual use modes in high volume;
- . burn-in testing, a test method where products are powered on for 24 hours to ensure product functionality;
- . vibration testing, a method that tests whether products can withstand forces encountered under normal use;
- . in-circuit testing, an automated test for workmanship defects; and

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- . in-situ dynamic thermal cycling stress testing, a test method of exposing products from high to low temperature extremes for several cycles, which identifies any early product failures.

We believe that our inspection technology is among the most sophisticated in the EMS industry. Our inspection technology includes:

- . x-ray laminograph, a method that utilizes an x-ray to view thin layers of a circuit board;
- . three-dimensional laser paste, a volumetric inspection method that utilizes a microscope with lasers; and
- . scanning electron microscopy, a scanning method that utilizes a microscope with 200 times magnification or greater.

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Our ongoing research and development activities include the development of processes and test technologies as well as some focused product development. We are proactive in developing manufacturing techniques which take advantage of the latest component and product designs and packaging.

Our Suppliers

We currently use electronic data interchange with our key suppliers, and ensure speed of supply through the use of automated receiving and full-service distribution capabilities. With the implementation of our web-based collaborative planning systems, our customers' needs are integrated with our suppliers in a more efficient and cost effective manner than is achievable through traditional electronic data interchange. In pro forma 2000 we purchased approximately \$685 million in materials. We believe this volume of procurement enhances our ability to obtain better pricing, influence component packaging and design and obtain supply of components in constrained markets.

We generally order materials and components under our agreements with customers only to the extent necessary to satisfy existing customer orders or forecasts. We have implemented specific inventory management strategies with certain suppliers such as "line-side stocking" (pulling inventory at the production line on an as needed basis) and other SMTC supply chain velocity and flexibility programs. Fluctuations in material costs are typically 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. Ultimately, however, our customers are generally responsible for all goods manufactured on their behalf.

During pro forma 2000, we did not rely significantly on any one supplier, with no supplier representing more than 10.0% of total purchases, with the exception of Arrow Electronics, Inc., which represented 10.9% of total purchases.

Competition

The EMS industry is highly fragmented and comprised of a large number of domestic and foreign companies. The intense competition we face is provided by many independent companies as well as in-house manufacturing capabilities of current and potential customers who evaluate our capabilities against the merit of manufacturing products internally. We compete with different companies depending on the type of service or geographic area. Our competitors include Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., SCI Systems, Inc. and Solectron Corporation as well as numerous other smaller

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EMS providers. Certain of our competitors may have greater manufacturing, financial, research and development and marketing resources than we do. We believe that we are a leading EMS provider and that we are well positioned to compete against these larger competitors due to our product quality, flexibility and timeliness in responding to design and schedule changes, reliability in meeting product delivery schedules, pricing, technological sophistication, the provision of value-added services and geographic locations.

Governmental Regulation

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

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

Recent Developments

On July 27, 2000, simultaneously with the closing of our initial public offering, we acquired Pensar Corporation, an EMS company specializing in design services and located in Appleton, Wisconsin. The

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purchase consideration consisted of \$18 million in cash and the balance in shares of our common stock. We issued 1,188,682 shares of common stock at a valuation of \$16 per share to finance the share portion of the purchase price of the Pensar acquisition. The cash portion of the acquisition was financed with a portion of the proceeds from the initial public offering. The total purchase price, including transaction costs, was approximately \$37 million.

On November 22, 2000, we acquired Qualtron Teoranta, a provider of specialized custom-made cable harnesses and fiber optic assemblies located in Donegal, Ireland, together with its subsidiary, Haverhill, Massachusetts based Qualtron, Inc. The purchase consideration consisted of approximately \$14.4 million in cash and the balance in exchangeable shares. Our subsidiary, SMTC Manufacturing Corporation of Canada, issued 547,114 exchangeable shares valued at Cdn. \$22.93 per share to finance the share portion of the Qualtron Teoranta acquisition. The total purchase price, including transaction costs, was approximately \$26.9 million.

We announced in a press release on March 30, 2001 that we will close our assembly facility in Denver, Colorado, leaving in place a sales and marketing presence to service the Rocky Mountain Region. Production at the Denver facility, one of the last remaining SMTC sites not recently refurbished, will be migrated to SMTC facilities closer to customer locations and to our recently retrofitted and expanded lower cost Chihuahua, Mexico facility. We expect to take a one-time pre-tax charge of approximately \$15 million associated with our facility rationalization.

Employees

As of December 31, 2000, we employed approximately 5,000 full time employees worldwide. In addition, we employ varying levels of temporary employees as our

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production demands. Given the variable nature of our project flow and the quick response time required by our customers, it is critical that we be able to quickly ramp-up and ramp-down our production to maximize efficiency. To achieve this, our strategy has been to employ skilled temporary labor force, as required. We use outside contractors to qualify our temporary employees on a site-by-site basis. Our production level temporary employees are compensated by the hour. We do not have any permanent leased employees. We believe we are team-oriented, dynamic and results-oriented with an emphasis on customer service and quality at all levels. We believe this environment is a critical factor for us to be able to fully utilize the intellectual capital of our employees. From time to time we relocate our management level employees as needed to fill open positions at our sites. Because of our training programs, we have not experienced difficulty in adequately staffing skilled employees.

With the exception of approximately 500 of our employees in Mexico and 250 of our employees in Ireland, none of our employees is unionized. We have never experienced a work stoppage or strike and believe that our employee relations are good.

Our Structure and Our History

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

- SMTC Corporation (Delaware)
- HTM Holdings, Inc. (Delaware)
- SMTC de Chihuahua S.A. de C.V. (Mexico)
- SMTC Manufacturing Corporation of California (California)
- SMTC Manufacturing Corporation of Canada (Ontario)
- SMTC Manufacturing Corporation of Colorado (Delaware)
- SMTC Manufacturing Corporation of Ireland Limited (Ireland)
- SMTC Manufacturing Corporation of Massachusetts (Massachusetts)

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- SMTC Manufacturing Corporation of North Carolina (North Carolina)
- SMTC Manufacturing Corporation of Texas (Texas)
- SMTC Manufacturing Corporation of Wisconsin (Wisconsin)
- SMTC Mex Holdings, Inc. (Delaware)
- SMTC Nova Scotia Company (Nova Scotia)
- Qualtron, Inc. (Massachusetts)
- Qualtron Teoranta (Ireland)

SMTC Corporation

Our company's present corporate structure resulted from the July 1999 combination of Surface Mount and HTM in a transaction accounted for under the purchase method of accounting as the acquisition of Surface Mount by HTM. The transaction provided us with increased strategic and operating scale, as well as greater geographic breadth. Subsequent to the combination, all of Surface Mount's operating subsidiaries, other than SMTC Canada, SMTC Manufacturing Corporation of Ireland Limited, Qualtron Teoranta and Qualtron, Inc., have become subsidiaries of HTM.

Since the combination, we acquired Zenith's facility in Chihuahua, Mexico, a transaction which expanded our cost-effective manufacturing capabilities in an important geographic region. In September 1999, we acquired the Boston, Massachusetts based systems integration and precision enclosures business of W.F. Wood, which expanded our operations into the Northeastern United States. In July 2000, we acquired Appleton, Wisconsin based Pensar Corporation, which provided us with an enhanced design engineering and test capability, additional

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partnerships with leading technology suppliers, a diversification of our customer base and an expanded geographic presence in the Midwestern United States. In November 2000, we acquired Haverhill, Massachusetts based Qualtron, Inc. in connection with the acquisition of its parent company, Qualtron Teoranta, by SMTC Canada, as described below. We plan to continue to capitalize on attractive acquisitions and internal growth opportunities in the EMS marketplace and are presently targeting Asia as an area for future expansion.

SMTC Canada

SMTC Canada was incorporated in Canada in 1985 as The Surface Mount Technology Centre Inc., or SMTCI, and continued as an Ontario company in 1994. Prior to the July 1999 combination, SMTCI and its wholly-owned U.S. subsidiary, Surface Mount, completed a reorganization as a result of which Surface Mount became the parent of a group of companies which included SMTCI. In connection with the July 1999 reorganization, SMTC Nova Scotia Company, a wholly-owned subsidiary of SMTC, acquired all of the outstanding voting shares of SMTCI. On October 29, 1999, SMTCI changed its name to SMTC Manufacturing Corporation of Canada. On June 1, 2000, SMTCI adopted a French form of its name and eliminated several classes of unissued shares from its authorized capital. In November 2000, SMTC Canada acquired Ireland based Qualtron Teoranta, a provider of specialized cable and harness assemblies.

HTM Holdings, Inc.

In June 1998, Hi-Tech Manufacturing Inc., or Hi-Tech Manufacturing, was recapitalized by investors led by Bain Capital and Celerity Partners, Inc., and HTM, a Delaware corporation, was organized such that Hi-Tech Manufacturing became a wholly owned subsidiary of HTM. Organized in 1990, Thornton, Colorado based Hi-Tech Manufacturing was a turnkey contract manufacturer which focused on the assembly of completed printed circuit boards. Hi-Tech Manufacturing has changed its name to SMTC Manufacturing Corporation of Colorado.

Legal Proceedings

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

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Backlog

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

Facilities

We conduct our operations within approximately 1,070,000 square feet of building space. We believe our facilities are currently adequate for our operating needs. Our principal service at all locations is assembly of electronic components, with the exception of the Boston facility where we manufacture precision enclosures and Donegal, Ireland and Haverhill, Massachusetts where we manufacture cable and harness interconnect assemblies. We expect to transition our Denver facility from component production to sales and marketing during the second or third quarter of 2001. Our facilities are as follows:

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Location -----	Approx. Square Footage	Leased/Owned -----
Toronto, Ontario.....	100,000	Leased
San Jose, California.....	75,000	Leased
Denver, Colorado.....	100,000	Leased
Boston, Massachusetts.....	150,000	Leased
Haverhill, Massachusetts.....	20,000	Leased
Charlotte, North Carolina.....	125,000	Leased
Austin, Texas.....	75,000	Leased
Appleton, Wisconsin.....	75,000	Owned
Chihuahua, Mexico.....	250,000	Owned
Cork, Ireland.....	50,000	Leased
Donegal, Ireland.....	50,000	Leased

We have exercised an option under our Austin, Texas lease to purchase 20 acres adjacent to our existing facility. We are in the process of selling the property back to the developer.

We also are in the process of purchasing additional land and a facility situated in Austin, Texas. We expect to move our Austin operations to the new building and for that facility to be operational in the second or third quarter of 2001. This sale and leaseback arrangement will require the approval of our lenders under our senior credit facility.

All of our principal facilities are ISO certified to ISO 9001 or ISO 9002 standards. ISO 9001 and ISO 9002 are commonly recognized standards in the EMS industry that are published by the International Standardization Organization and relate to quality management systems. ISO 9001 contains requirements for quality assurance in design, development, production, installation and servicing. ISO 9002 contains requirements for quality assurance in production, installation and servicing.

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

MANAGEMENT

Directors, Executive Officers and Key Employees

The following table sets forth our directors and executive officers, their ages as of March 31, 2001, the positions currently held by each person and their place of residence. All of the directors and executives have been with us since Surface Mount combined with HTM in July 1999, except Stanley Plzak and Ian Loring.

Name and Municipality of Residence -----	Age ---	Office -----
Paul Walker..... Unionville, Ontario	43	President, Chief Executive Officer and Director (1) (2) (5)

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Philip Woodard..... Newmarket, Ontario	46 Executive Vice President, Assembly Operations(2)
Gary Walker..... Monte Sereno, California	40 Executive Vice President, Business Programs Management and Director
Derrick D'Andrade..... Richmond Hill, Ontario	47 Executive Vice President, Engineering and Quality(2)
Stanley Plzak..... Appleton, Wisconsin	53 Executive Vice President, Design and Sub-Assembly Operations
Gary Itenson..... Los Altos, California	41 Senior Vice President, Business Development and Supplier Strategy
Richard Smith..... Toronto, Ontario	41 Vice President, Chief Financial Officer(2)
David Dominik..... Belvedere, California	44 Director(3)
Prescott Ashe..... San Francisco, California	33 Director(1) (4)
Ian Loring..... San Francisco, California	34 Director(5)
Stephen Adamson..... Los Angeles, California	44 Director(4) (5)
Mark Benham..... Woodside, California	49 Director
Michael Griffiths..... Toronto, Ontario	49 Director(1) (3)
Anthony Sigel..... Toronto, Ontario	37 Director(3) (4) (5)

- (1) Also a member of the board of directors of SMTC Canada.
- (2) Also an officer of SMTC Canada.
- (3) Member of the Audit Committee.
- (4) Member of the Compensation Committee.
- (5) Member of the Nominating Committee.

Paul Walker has served as President and Chief Executive Officer and as a director of SMTC since its inception in 1998. He is also an officer and director of SMTC Canada. He co-founded Surface Mount, a predecessor to SMTC Corporation, in 1985. Previously he was employed at Brock Electronics, a manufacturer and distributor of production equipment for the electronics industry, as Director of Business Management from 1982 to 1985 and at Motorola Canada, an integrated communications and embedded electronics solutions provider, as Program Director from 1979 to 1982. Paul Walker is Gary Walker's brother.

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Philip Woodard joined Surface Mount in 1992 as Vice President, Materials. Previously he was employed at Motorola Canada, an integrated communications and embedded electronics solutions provider, from 1977 to 1992 where he progressed through various positions to Director of Materials.

Gary Walker currently serves as Executive Vice President, Business Programs Management. He has been a director of SMTC since its inception in 1998. He is also an officer of SMTC Canada. He co-founded Surface Mount, a predecessor to SMTC Corporation, in 1985. Previously he was employed at Brock Electronics, a manufacturer and distributor of production equipment for the electronics industry, as a Manufacturers Representative from 1982 to 1985 and at Motorola Canada, an integrated communications and embedded electronics solutions provider, from 1980 to 1982. Gary Walker is the brother of SMTC's President and Chief Executive Officer, Paul Walker.

Derrick D'Andrade co-founded Surface Mount in 1985. Formerly Vice President, Engineering, he was previously employed at Motorola Canada as Manufacturing Engineering Manager from 1979 to 1985 and at Sunbeam Canada, a manufacturer of home appliances, as Manufacturing Manager from 1975 to 1979.

Stanley Plzak has been with us since the acquisition of Pensar Corporation in July 2000. Mr. Plzak was a founder and director of Pensar and served as its President and Chief Executive Officer since its inception in 1983. His career includes various technical, managerial, and executive positions in industrial controls, medical, marine propulsion and electronics manufacturing services industries, and he has served as a member of the adjunct faculty of the University of Wisconsin. He is currently a director and the chair-elect of the IPC (Association Connecting the Electronics Industries).

Gary Itenson joined Surface Mount in April 1996. Previously, he was employed at Future Electronics, an electronics components distributor, from 1981 to 1996 where his career progressed from field sales to sales management to strategic account/multi-region sales management to division general management.

Richard Smith joined Surface Mount in August 1998. Previously, he was employed as Chief Financial Officer of Wolf Group Integrated Communications, an advertising and public relations company, from 1997 to 1998; Vice President Finance of Green Forest Lumber Corporation, a Toronto Stock Exchange listed forest products manufacturer from 1988 to 1997; Account Manager at the Bank of Nova Scotia from 1985 to 1988; and auditor, Price Waterhouse, a public accounting firm, from 1982 to 1985.

David Dominik has served as a director since July 1999. Mr. Dominik is a co-founder and managing director of Golden Gate Capital. He is also a special limited partner of Bain Capital, Inc., a private equity investment firm. He was a managing director of Bain Capital, Inc. from 1990 to March 2000. Previously, Mr. Dominik was a general partner of Zero State Capital, a venture capital firm focused on early-stage companies, and assistant to the chairman of Genzyme Corporation, a biotechnology firm. From 1982 to 1984, he worked as a management consultant at Bain & Company, a consulting firm. Mr. Dominik also serves as a director of ChipPAC, Inc., Integrated Circuit Systems, Inc., DDi Corp. and OneSource.

Prescott Ashe has served as a director since July 1999. Mr. Ashe is a co-founder and managing director of Golden Gate Capital. Mr. Ashe was a principal at Bain Capital, Inc., a private equity investment firm, from June 1998 to March 2000 and was an associate at Bain Capital, Inc. from December 1992 to June 1998. Prior to that, he was an analyst at Bain Capital, Inc. and a consultant at Bain & Company, a consulting firm. Mr. Ashe also serves as a director of ChipPAC, Inc., Integrated Circuit Systems, Inc. and DDi Corp.

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Ian Loring has served as a director since June 2000. Mr. Loring joined Bain Capital, Inc., a private equity investment firm, in 1996. He has been a managing director at Bain Capital since January 2001 and was a principal there from 1997 to 2000. From 1993 to 1996, Mr. Loring was a Vice President at Berkshire Partners, where he worked in the speciality manufacturing, technology and retail industries. Mr. Loring also serves as a director of Therma-Wave, Inc.

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Stephen Adamson has served as a director since July 1999. Mr. Adamson is a Partner of Celerity Partners, Inc. Prior to joining Celerity Partners, Inc., he was a Managing Director of W.E. Myers & Co., a merchant banking firm. Prior to W. E. Myers & Co., Mr. Adamson was Managing Director with KD Equities, a private partnership specializing in middle market leveraged buyouts. Mr. Adamson is a director of Financial Pacific Insurance Group, Inc., Rapid Design Service, Inc., and Starcom Holdings, Inc.

Mark Benham has served as a director since July 1999. Mr. Benham was a co-founder of Celerity Partners, Inc., a private equity investment firm, and has been a Partner since 1992. Previously he was a Senior Investment Officer of Citicorp Venture Capital, Ltd., and prior to that he was an advisor to Yamaichi UniVen Co., Ltd., the venture capital subsidiary of Yamaichi Securities International. Mr. Benham is a director of DDi Corp., Rapid Design Service, Inc., and Starcom Holdings, Inc.

Michael Griffiths has served as a director since July 1999. Mr. Griffiths has been President of Kilmer Van Nostrand Co. Limited, or KVN, a private investment holding company, since 2000 and has served there in various other capacities since 1979. Previously, Mr. Griffiths was a manager with Clarkson Gordon Chartered Accountants (now Ernst & Young), a public accounting firm, with responsibility for the audit, tax and related management matters of a variety of public clients.

Anthony Sigel has served as a director since July 1999. Mr. Sigel has been Managing Partner of Kilmer Capital Partners, a private investment holding company, since 2000. Previously, Mr. Sigel was Vice President Corporate Development of Kilmer Van Nostrand Co. Limited, a position he held since 1991. Prior to joining KVN, Mr. Sigel was an Associate within Bankers Trust Company's Merchant Bank, Toronto, Canada.

Board Composition

Each of our directors is elected and serves until a successor is duly elected and qualified or until the earlier of his death, resignation or removal. All members of our board of directors set forth herein were elected by class vote pursuant to our certificate of incorporation. Paul Walker and Gary Walker are representatives of management, Messrs. Dominik, Loring and Ashe are representatives of the Bain funds, Messrs. Adamson and Benham are representatives of the Celerity funds and Messrs. Griffiths and Sigel are representatives of Kilmer Electronics Group Limited. Our executive officers are elected by and serve at the discretion of the board of directors.

Our board is divided into three classes, as nearly equal in number as possible, with each director serving a three-year term and one class being elected at each year's annual meeting of stockholders. Paul Walker, Gary Walker and Mr. Dominik are in the class of directors whose term expires at the 2001 annual meeting of our stockholders. Messrs. Ashe, Benham and Sigel are in the class of directors whose term expires at the 2002 annual meeting of our stockholders. Messrs. Loring, Adamson and Griffiths are in the class of directors whose term expires at the 2003 annual meeting of our stockholders. At

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each annual meeting of our stockholders, successors to the class of directors whose term expires at such meeting will be elected to serve for three-year terms or until their respective successors are elected and qualified.

Board Committees

Our board of directors has three committees: the audit committee, the compensation committee and the nominating committee. The board may also establish other committees to assist in the discharge of its responsibilities.

The audit committee makes recommendations to the board of directors regarding the independent auditors to be nominated for appointment by the stockholders and reviews the independence of such auditors, approves the scope of the annual audit activities of the independent auditors, approves the audit fee payable to the independent auditors and reviews such audit results with the independent auditors. The audit committee is currently comprised of Messrs. Dominik, Griffiths and Sigel. KPMG LLP presently serves as our independent auditors.

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The compensation committee provides a general review of our compensation and benefit plans to ensure that they meet corporate objectives. In addition, the compensation committee reviews the chief executive officer's recommendations on compensation of all our officers and adopting and changing major compensation policies and practices, and reports its recommendations to the whole board of directors for approval and authorization. The compensation committee is comprised of Messrs. Loring, Adamson and Sigel.

The nominating committee identifies, screens and recommends qualified candidates to fill vacancies on the board of directors and is comprised of Paul Walker and Messrs. Loring, Adamson and Sigel.

Compensation of Directors

We currently pay no compensation to our non-employee directors, and pay no additional remuneration to our employees or to our executives for serving as directors.

Compensation Committee Interlocks and Insider Participation

No interlocking relationship exists between our board of directors or our compensation committee and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

Executive Compensation

The following table sets forth information concerning the compensation for the years ended December 31, 2000, 1999 and 1998 on a pro forma basis for our chief executive officer and four other most highly compensated executive officers at the end of our last fiscal year. For ease of reference, we collectively refer to these executive officers throughout this section as our "named executive officers."

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EXECUTIVE COMPENSATION

The following table sets forth information concerning the compensation for the years ended December 31, 2000, 1999 and 1998 on a pro forma basis for our

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chief executive officer and four other most highly compensated executive officers at the end of our last fiscal year. We have also included information for Edward Johnson, who resigned from his position as an officer and director of SMTC in October 2000. For ease of reference, we collectively refer to these executive officers throughout this section and elsewhere in this prospectus as our "named executive officers."

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation(1)		Long Term Compensation		All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Restricted Stock Awards (\$)	Securities Underlying Options (#)	
Paul Walker(2).....	2000	284,339(3)	--	--	150,000 (4)	--
President and Chief Executive Officer	1999	168,612	--	--	--	--
	1998	167,853	16,458	--	--	--
Edward Johnson(2) (5) (19).....	2000	171,986	69,374	--	--	58,600 (10)
Executive Vice President, Business Development	1999	164,408	53,437	--	37,884 (6)	113,591 (11)
					19,517 (7)	9,235 (12)
	1998	123,950	49,185	--	5,060 (8)	164,909 (13)
Philip Woodard(2).....	2000	227,471 (14)	--	--	50,000 (4)	--
Executive Vice President, Assembly Operations	1999	134,889	--	--	26,640 (15)	--
	1998	134,282	2,596	--	--	--
Gary Walker(2).....	2000	200,000	--	--	50,000 (4)	--
Executive Vice President, Business Programs Management	1999	200,000	--	--	--	--
	1998	200,000	153,873	--	--	--
Derrick D'Andrade(2)....	2000	227,471 (16)	--	--	50,000 (4)	--
Executive Vice President, Engineering and Quality	1999	134,889	--	--	--	--
	1998	134,282	16,458	--	--	--
Richard Smith.....	2000	108,751	--	--	10,000 (17)	--
Vice President, Chief Financial Officer	1999	93,566	--	--	11,024 (15)	--
	1998	30,856 (18)	--	--	--	--

(1) Excludes perquisites and other personal benefits because such compensation did not exceed the lesser of \$50,000 or 10% of the total annual salary and bonus for any of the named executive officers.

(2) Compensation information for Messrs. Walker, Woodard, Walker and D'Andrade includes compensation paid by Surface Mount during periods prior to the July 30, 1999 combination of Surface Mount and HTM, and by SMTC during periods after the combination. Compensation information for Mr. Johnson includes compensation paid by HTM during periods prior to the combination, and by SMTC during periods after the combination.

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- (3) Includes deferred compensation of \$116,034, which represents compensation earned by Mr. Walker in 1999 (\$34,339) and 2000 (\$81,695).
- (4) Represents options to purchase shares of our common stock at an exercise price of \$16.00 per share.
- (5) During the year ended December 31, 1998 and from January 1, 1999 until the July 30, 1999 combination of Surface Mount and HTM, Mr. Johnson served as President and Chief Executive Officer of HTM.
- (6) Represents options to purchase shares of our common stock at an exercise price equal to \$0.50 per share issued in connection with the combination of Surface Mount and HTM in July 1999 to replace options to purchase shares of HTM common stock.
- (7) Represents options to purchase shares of our common stock at an exercise price equal to \$9.07 per share issued in connection with the combination of Surface Mount and HTM in July 1999 to replace options to purchase shares of HTM common stock.
- (8) Represents options to purchase shares of common stock of HTM at an exercise price of \$5.13 per share, which options were replaced by the options to purchase shares of our common stock in connection with the combination of Surface Mount and HTM in July 1999.
- (9) Represents options to purchase shares of common stock of HTM at an exercise price of \$5.13 per share issued in connection with the recapitalization of HTM in June 1998 to replace options to purchase shares of HTM common stock. These options were replaced by the options to purchase shares of our common stock in connection with the combination of Surface Mount and HTM in July 1999.
- (10) Represents amounts paid to Mr. Johnson in respect of accrued vacation up to the date of his resignation.
- (11) Represents amounts paid to Mr. Johnson as severance payments subsequent to his resignation.
- (12) Represents amounts paid to Mr. Johnson in respect of the cancellation of vested stock options exercisable for HTM common stock in connection with the June 1998 recapitalization of HTM.
- (13) Represents amounts paid to Mr. Johnson in respect of the cancellation of vested stock options exercisable for HTM common stock in connection with the June 1998 recapitalization of HTM, which amounts were held in escrow for one year following the date of the recapitalization and were subsequently paid to Mr. Johnson.
- (14) Includes deferred compensation of \$92,827, which represents compensation earned by Mr. Woodard in 1999 (\$27,471) and 2000 (\$65,356).
- (15) Represents options to purchase shares of our common stock at an exercise price of \$5.36 per share.
- (16) Includes deferred compensation of \$92,827, which represents compensation earned by Mr. D'Andrade in 1999 (\$27,471) and 2000 (\$65,356).
- (17) Represents options to purchase shares of our common stock at an exercise price of \$19.88 per share.
- (18) Mr. Smith joined Surface Mount in August 1998.
- (19) Mr. Johnson resigned from his position as an officer and director of SMTC in October 2000.

EMPLOYMENT ARRANGEMENTS

Paul Walker is currently employed as our President and Chief Executive Officer pursuant to an employment agreement dated July 30, 1999, which is effective until December 31, 2001 and will automatically renew for successive one-year terms unless it is terminated by the parties in accordance with its terms. Under the employment agreement, Mr. Walker receives an annual salary of \$250,000 per year and is eligible for an annual bonus based upon our achievement of certain EBITDA (earnings before interest expense, income taxes, depreciation and amortization) targets. Mr. Walker's employment agreement

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contains customary confidentiality provisions and a non-compete clause which is effective during the term of the agreement, for one year following termination of his employment if he is terminated for cause, and, under certain other circumstances, for two years following the termination of his employment. In the event Mr. Walker's employment is terminated by us without cause, or by Mr. Walker for good reason, the employment agreement provides that we will pay Mr. Walker his base salary for two years following such termination.

Philip Woodard is currently employed as our Executive Vice President, Assembly Operations, pursuant to an employment agreement dated July 30, 1999, which is effective until December 31, 2001 and will automatically renew for successive one-year terms unless it is terminated by the parties in accordance with its terms. Under the employment agreement, Mr. Woodard receives an annual salary of \$200,000 per year and is eligible for an annual bonus based upon our achievement of certain EBITDA targets. Mr. Woodard's employment agreement contains customary confidentiality provisions and a non-compete clause which is effective during the term of the agreement, for one year following termination of his employment if he is terminated for cause, and, under certain other circumstances, for two years following the termination of his employment. In the event Mr. Woodard's employment is terminated by us without cause, or by Mr. Woodard for good reason, the employment agreement provides that we will pay Mr. Woodard his base salary for two years following such termination.

Gary Walker is currently employed as our Executive Vice President, Business Programs Management pursuant to an employment agreement dated July 30, 1999, which is effective until December 31, 2001 and will automatically renew for successive one-year terms unless it is terminated by the parties in accordance with its terms. Under the employment agreement, Mr. Walker receives an annual salary of \$200,000 per year and is eligible for an annual bonus based upon our achievement of certain EBITDA targets. Mr. Walker's employment agreement contains customary confidentiality provisions and a non-compete clause which is effective during the term of the agreement, for one year following termination of his employment if he is terminated for cause, and, under certain other circumstances, for two years following the termination of his employment. In the event Mr. Walker's employment is terminated without cause, or by Mr. Walker for good reason, the employment agreement provides that we will pay Mr. Walker his base salary for two years following such termination.

Derrick D'Andrade is currently employed as our Executive Vice President, Engineering and Quality pursuant to an employment agreement dated July 30, 1999, which is effective until December 31, 2001 and will automatically renew for successive one year terms unless it is terminated by the parties in accordance with its terms. Under the employment agreement, Mr. D'Andrade receives an annual salary of \$200,000 per year and is eligible for an annual bonus based upon our achievement of certain EBITDA targets. Mr. D'Andrade's employment agreement contains customary confidentiality provisions and a non-compete clause which is effective during the term of the agreement, for one year following termination of his employment if he is terminated for cause and, under certain other circumstances, for two years following the termination of his employment. In the event Mr. D'Andrade's employment is terminated by us without cause, or by Mr. D'Andrade for good reason, the employment agreement provides that we will pay Mr. D'Andrade his base salary for two years following such termination.

Stanley Plzak is currently employed as our Executive Vice President, Design and Sub-Assembly Operations, pursuant to an employment agreement dated July 27, 2000, which is effective until December 31, 2001 and will automatically renew for successive one-year terms unless it is terminated by the parties in accordance with its terms. Under the employment agreement, Mr. Plzak receives an annual salary of \$275,000

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per year. Mr. Plzak's employment agreement contains customary confidentiality provisions and a non-compete clause which is effective during the term of the agreement, for one year following termination of his employment if he is terminated for cause, and, under certain other circumstances, for the period during which he continues to receive his base salary following the termination of his employment. In the event Mr. Plzak's employment is terminated by us without cause, or by Mr. Plzak for good reason, the employment agreement provides that we will pay Mr. Plzak his base salary for one year following such termination.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information concerning grants of options to purchase shares of our common stock made to the named executive officers during the fiscal year ended December 31, 2000.

OPTION GRANTS IN FISCAL 2000

Individual Grants						
Name	Number of Securities Underlying Options Granted (#) (1)	Percent of Total Options Granted to Employees in Fiscal 2000 (%)	Exercise Price Per Share (\$)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
-----	-----	-----	-----	-----	5% (\$)	10% (\$)
Paul Walker.....	150,000 (2)	10.7	16.00	7/20/2010	1,509,347	3,824,982
Edward Johnson*.....	--	--	--	--	--	--
Philip Woodard.....	50,000 (2)	3.6	16.00	7/20/2010	503,116	1,274,994
Gary Walker.....	50,000 (2)	3.6	16.00	7/20/2010	503,116	1,274,994
Derrick D'Andrade.....	50,000 (2)	3.6	16.00	7/20/2010	503,116	1,274,994
Richard Smith.....	10,000 (3)	#	19.88	8/30/2010	125,024	316,836

(1) None of such options was vested at December 31, 2000.

(2) Options will vest in four annual installments beginning July 20, 2001.

(3) Options will vest in four annual installments beginning August 30, 2001.

Represents less than 1%.

* Mr. Johnson resigned from his position as an officer and director of SMTC in October 2000.

OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information for the named executive officers concerning stock option exercises during out last fiscal year.

AGGREGATED OPTION EXERCISES IN FISCAL 2000

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AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired On Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options At Fiscal Year-End (Exercisable/Unexercisable) (#)	Value of Unexercised In-The-Money Options At Fiscal Year-End (Exercisable/Unexercisable) (\$)(1)
Paul Walker.....	--	--	0/150,000	0/
Edward Johnson*.....	--	--	19,442/0	88,558/
Philip Woodard.....	--	--	6,660/69,980	55,045/165,13
Gary Walker.....	--	--	0/50,000	0/
Derrick D'Andrade.....	--	--	0/50,000	0/
Richard Smith.....	--	--	2,756/18,268	22,778/68,33

(1) The closing price of SMTC's common stock on December 29, 2000, the last trading day of fiscal 2000, was \$13.625.

* Mr. Johnson resigned from his position as an officer and director of SMTC in October 2000.

Stock Plans

Amended and Restated 1998 Equity Incentive Plan

On September 30, 1999, the board of directors adopted, and our stockholders approved, our Amended and Restated 1998 Equity Incentive Plan, or the 1998 Plan, which amended and restated in its entirety our 1998 Equity Incentive Plan. The 1998 Plan authorizes the granting of stock options to our executives or other key employees. Under the 1998 Plan, our board of directors is authorized to grant stock purchase options exercisable for up to 671,378 shares of our common stock, subject to adjustment upon the occurrence of certain events to prevent any dilution or expansion of the rights of participants that might otherwise result from the occurrence of such events, which grants may be made to such executives or key employees, in such quantities, at such exercise price and on such other terms and conditions as may be established by the board of directors. Currently there are options exercisable for [54,271] shares of common stock, available for issue under the 1998 Plan. A total of 184,511 options exercisable for common stock under the 1998 Plan were granted in connection with the July 1999 combination of Surface Mount and HTM in substitution of stock options previously granted by HTM to certain of its executives and key employees. Those options expire in April 2009 or June 2008, subject to earlier expiration in connection with the termination of the optionholder's employment. A total of 121,774 of the substituted options exercisable for common stock were immediately exercisable upon grant, but the shares of common stock acquired upon exercise are subject to certain transfer restrictions which lapse over the four year period beginning on the date of grant. The remainder of the substituted options exercisable for common stock vest over the four year period beginning on the date of grant. On May 18, 2000, the terms of the options held by four former HTM executives were amended to provide for the restrictions to lapse with respect to 88,912 shares of common stock held by such optionholders on June 8, 2000, and for options exercisable for 45,800 shares of common stock to become fully vested on June 8, 2000. An additional 428,304 options exercisable for our common stock under the 1998 Plan were granted by the board of directors on September 30, 1999. Those options expire in September 2009, subject to earlier termination in connection with the termination of the optionholder's employment. Those options become exercisable in four equal annual installments beginning on September 30, 2000. The vesting of an optionholder's unvested options is dependent upon continued employment

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with us. Upon termination of employment, all unexercised and unvested options expire and are forfeited. In the event of the acquisition of a majority or more of our voting securities by any

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person or "group" as defined under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, (other than our stockholders as of the date of the 1998 Plan and their affiliates), the compensation committee of the board of directors may provide for the automatic vesting of all unvested options, for the termination of unvested options, or for the receipt by holders of such options of the consideration offered per share of common stock less the exercise price of their options.

2000 Equity Incentive Plan

The SMTC/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan, or the 2000 Plan, was adopted by our board of directors and approved by our stockholders prior to the completion of our initial public offering. We granted to some of our executive officers and employees options to purchase a total of approximately 300,000 shares of our common stock and exchangeable shares with an exercise price equal to the initial public offering price at the closing of our initial public offering.

The 2000 Plan provides for the grant of options to all employees, officers, directors and consultants of SMTC and its affiliates worldwide. In the United States, incentive stock options may be granted to our employees (including officers and employee directors) and nonstatutory stock options may be granted to our employees, directors and consultants. A nonstatutory stock option is a stock option that is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code. The holder of a nonstatutory stock option generally is taxed on the difference between the exercise price and the fair market value when exercised. The 2000 Plan also provides for the grant of stock appreciation rights, restricted stock, unrestricted stock, deferred stock, and securities (other than stock options) which are convertible into or exchangeable for common stock, including options exercisable for SMTC Canada exchangeable shares, on such terms and conditions as our board determines.

A total of (1) 1,727,052 shares of common stock, (2) any shares returned to existing plans as a result of the termination of options and (3) annual increases of 1.0% of our outstanding common stock to be added on the date of each annual meeting of our stockholders commencing in 2001, or such lesser amounts as may be determined by the board of directors, will be reserved for issuance pursuant to the 2000 Plan. For purposes of the preceding sentence, the following will not be considered to have been delivered under the 2000 Plan:

- . shares remaining under an award that terminates without having been exercised in full;
- . shares subject to an award, where cash is delivered to a participant in lieu of such shares;
- . shares of restricted stock that have been forfeited in accordance with the terms of the applicable award; and
- . shares held back, in satisfaction of the exercise price or tax withholding requirements, from shares that would otherwise have been delivered pursuant to an award.

The number of shares of stock delivered under an award shall be determined net of any previously acquired shares tendered by the participant in payment of

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the exercise price or of withholding taxes. The maximum number of incentive stock options that may be issued pursuant to the 2000 Plan is 3,000,000. The maximum number of options exercisable for exchangeable shares that may be issued pursuant to the 2000 Plan is 1,000,000.

The administrator of the 2000 Plan has the power to determine the terms of the options granted, including the exercise price of the option, the number of shares subject to each option, the exercisability thereof, and the form of consideration payable upon such exercise. In addition, our board of directors has the authority to amend, suspend or terminate the 2000 Plan, provided that no such action may affect any shares previously issued and sold or any option previously granted under the 2000 Plan. Cash performance grants, intended to qualify as "performance-based compensation," may be issued under the plan, subject to shareholder approval as required by Section 162(m) of the Internal Revenue Code.

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Options granted under the 2000 Plan are generally not transferable by the optionee, and each option is exercisable during the lifetime of the optionee and only by such optionee. Options granted under the 2000 Plan must generally be exercised within three months after the end of an optionee's status as an employee, director or consultant of SMTC, or within 12 months after such optionee's termination by death or disability, but in no event later than the expiration of the option term.

The exercise price of all incentive stock options granted under the 2000 Plan must be at least equal to the fair market value of the underlying common stock or exchangeable shares on the date of the grant. The exercise price of nonstatutory stock options granted under the 2000 Plan is determined by the administrator, but with respect to nonstatutory stock options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code, the exercise price must be at least equal to the fair market value of the common stock on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive stock option granted must be at least equal to 110% of the fair market value on the grant date. The term of all other options granted under the 2000 Plan shall be determined by the administrator, provided that the term of certain options must not exceed 10 years.

The 2000 Plan provides that in the event of our merger with or into another corporation, or a sale of substantially all of our assets, each option shall be assumed or an equivalent option substituted for by the successor corporation. If the outstanding options are not assumed or substituted for by the successor corporation, the administrator shall provide for the optionee to have the right to exercise the option as to all of the optioned stock, including shares as to which it would not otherwise be exercisable. This may have the effect of discouraging a potential acquiror from making a tender offer or otherwise attempting to gain control of us because our employees might have a reduced incentive to remain with us following a merger or sale.

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RELATED PARTY TRANSACTIONS

Stockholders Agreement

Certain of our current stockholders and optionholders are parties to a

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stockholders agreement that, among other things, provides for registration rights and restrictions on the transfer of shares.

Termination of Management Agreement

A management agreement was entered into on July 30, 1999 among SMTC, Bain Capital Partners VI, L.P., or Bain, Celerity Partners, Inc., or Celerity, and Kilmer Electronics Group Limited, or Kilmer. Investment funds affiliated with Bain and Celerity are our largest stockholders. Our directors Messrs. Dominik, Loring and Ashe are, or were during fiscal 2000, affiliated with the Bain funds, our directors Messrs. Benham and Adamson are affiliated with the Celerity funds, and our directors Messrs. Griffiths and Sigel are affiliated with Kilmer. Amounts paid under the management agreement during fiscal 2000 to Bain, Celerity and Kilmer totaled \$74,000 in the aggregate. This management agreement was terminated in connection with our initial public offering for a termination fee of \$1.8 million that was paid using a portion of the gross proceeds of the offering, with \$720,000 paid to each of Bain and Celerity, and \$360,000 paid to Kilmer.

Certain Loans from Major Stockholders

On April 26, 2000, Celerity Partners III, L.P., Kilmer, Paul Walker, Derrick D'Andrade, Gary Walker and Philip Woodard purchased demand notes from us for a purchase price equal to the principal amount of the notes in the amounts of \$1,400,000, \$910,000, \$1,000,000, \$677,874, \$600,000 and \$150,000, respectively. The demand notes bore interest at 15% per year, had a fee of 2% of the principal amount that was due upon repayment and were payable to the holders of the notes upon demand. The demand notes were repaid to Celerity Partners III, L.P., Kilmer, Paul Walker, Derrick D'Andrade, Gary Walker and Philip Woodard in the aggregate amounts of \$1,441,233, \$936,801, \$1,029,452, \$697,839, \$617,671 and \$154,418, respectively, on May 18, 2000. The demand notes were repaid with cash proceeds from the sale of notes and warrants pursuant to a senior subordinated loan agreement and a warrant subscription agreement, each dated May 18, 2000. We repaid the demand notes and then sold such notes and warrants in order to raise more capital than was originally provided by our sale of the demand notes to finance our growth and our working capital needs.

Under a senior subordinated loan agreement dated May 18, 2000, some of our stockholders or their affiliates, including some of the Bain funds, Celerity Partners III, L.P., Kilmer, Paul Walker, Derrick D'Andrade, Philip Woodard and General Electric Capital Corporation, purchased notes from us in the amounts of \$1,589,782, \$1,268,381, \$909,605, \$529,190, \$529,190, \$101,694 and \$72,155, respectively. The notes bore interest at 15% per year. These notes were repaid with the proceeds of our initial public offering to the Bain funds, Celerity Partners III, L.P., Kilmer, Paul Walker, Derrick D'Andrade, Philip Woodard and General Electric Capital Corporation in the aggregate amounts of \$1,635,488, \$1,304,847, \$935,757, \$544,405, \$544,405, \$104,619 and \$74,229, respectively.

In connection with the sale of notes under the senior subordinated loan agreement dated May 18, 2000 described above, under a warrant subscription agreement dated May 18, 2000, we sold warrants for \$2,500,000, exercisable for an aggregate of 477,049 shares of common stock. Upon exercising these warrants immediately prior to the consummation of our initial public offering, some of our stockholders or their affiliates, including some of the Bain funds, Celerity Partners III, L.P., Kilmer, Paul Walker, Derrick D'Andrade, Philip Woodard and General Electric Capital Corporation received 151,681, 121,016, 86,785, 50,490, 50,490, 9,703 and 6,884 shares, respectively.

On July 3, 2000, Kilmer and an affiliate of the Bain funds purchased demand notes from us for a purchase price equal to the principal amount of the notes in the amounts of \$4,188,292 and \$5,736,708, respectively. The demand notes

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bore interest of 3% of the principal amount accruing on the date of issuance and 13.75% per year

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and were payable to the holders of the notes upon demand. These notes were repaid with the proceeds of our initial public offering to Kilmer and an affiliate of the Bain funds in the amounts of \$4,352,334 and \$5,961,395, respectively.

The sale of the subordinated notes and warrants and the demand notes provided us with additional working capital to finance the growth of our business.

Directors' Relationships with Major Stockholders

All of our current directors are affiliated with our major stockholders. Paul Walker and Gary Walker are executive officers, stockholders and directors. David Dominik, Ian Loring and Prescott Ashe are, or were during fiscal 2000, affiliated with Bain. Stephen Adamson and Mark Benham are affiliated with Celerity. Michael Griffiths and Anthony Sigel are affiliated with Kilmer.

Purchases from an Affiliate of a Major Stockholder

Investment funds affiliated with Bain and Celerity are also stockholders of DDi Corp., one of our suppliers. Our transactions with DDi Corp., which totaled approximately \$5.0 million in 2000, are on equivalent terms as those with our other suppliers.

Certain Loans and Payments Made to Executive Officers

In connection with the exchange and reclassification of certain of Gary Walker's shares of stock of SMTC Canada into common stock of SMTC in July 2000, we agreed to fund any tax liability incurred by Mr. Walker as a result of the exchange by making an interest-free loan to him and to compensate him for any tax payable by him on any imputed interest on such loan. As of December 31, 2000, we had lent \$690,000 to Mr. Walker under this arrangement. We expect to lend approximately \$2.0 million in the aggregate to Mr. Walker pursuant to this arrangement. The loan will be secured by a first priority security interest over all of Mr. Walker's shares of capital stock of SMTC and will be repayable at such time and to the extent that Mr. Walker receives after-tax cash proceeds in respect of such shares.

In connection with the acquisition of Pensar, we requested that the former stockholders of Pensar file an election that allows us to deduct for income tax purposes the goodwill related to the acquisition. We agreed to lend, on an interest-free basis, approximately \$4.5 million to the former stockholders of Pensar, including Stanley Plzak, to fund any tax liability incurred as a result of the election. No amounts have been lent pursuant to this arrangement thus far. The loans will be secured by a first priority security interest over all of the shares of capital stock of SMTC held by the stockholders and will be repayable at such time and to the extent that the stockholders receive after-tax cash proceeds in respect of such shares.

The options granted in fiscal 2000 to each of the named executive officers named in the Summary Compensation Table are indicated in the Long-Term Compensation Awards column.

The Company and each of Paul Walker, Philip Woodard, Gary Walker, Derrick D'Andrade and Stanley Plzak have entered into employment agreements as more fully described under "Employment Arrangements".

PRINCIPAL STOCKHOLDERS

The following table sets forth, as of March 16, 2001, information regarding beneficial ownership. The table sets forth the number of shares beneficially owned, and the percentage ownership for:

- . each person who is known by us to own beneficially more than 5% of our outstanding shares of common stock;
- . each executive officer named in our summary compensation table and each director; and
- . all executive officers and directors as a group.

As of March 16, 2001, our outstanding equity securities consisted of 28,689,779 shares.

Unless otherwise indicated below, to our knowledge, all persons listed below have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law. Unless otherwise indicated below, each entity or person listed below maintains a mailing address of c/o SMTC Corporation, 635 Hood Road, Markham, Ontario, Canada, L3R 4N6.

The number of shares beneficially owned by each stockholder is determined under rules promulgated by the Securities and Exchange Commission. The information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which the individual or entity has sole or shared voting or investment power and any shares as to which the individual or entity has the right to acquire beneficial ownership within 60 days after March 16, 2001 through the exercise of any stock option, warrant or other right. The inclusion in the following table of those shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner.

Name and Address	Shares Beneficially Owned (*)			Percentage of Shares Beneficially Owned
	Shares	Options	Total	
Principal Stockholders:				
Bain Capital Funds(1) (2)..... c/o Bain Capital, Inc. Two Copley Place Boston, Massachusetts 02116	3,686,455	--	3,686,455	12.9
Celerity EMSIcon, L.L.C.(1)..... c/o Celerity Partners 11111 Santa Monica Boulevard Suite 1127 Los Angeles, California 90025 Kilmer Electronics Group,	3,480,927	--	3,480,927	12.1

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Limited.....	2,045,263	--	2,045,263	7.1
Scotia Plaza, Suite 2700 P.O. Box 127 40 King Street West Toronto, Ontario, Canada M5H 3Y2				
Directors and Executive Officers:				
Paul Walker(3).....	1,189,894	--	1,189,894	4.2
Gary Walker.....	1,139,404	--	1,139,404	4.0
Derrick D'Andrade(4).....	1,189,894	--	1,189,894	4.2
Philip Woodard.....	228,663	6,660	235,323	0.8
Richard Smith.....	--	2,756	2,756	#
David Dominik(1)(5).....	896,816	--	896,816	3.1
Prescott Ashe(1)(6).....	133,034	--	133,034	0.5
Ian Loring(1)(7).....	133,034	--	133,034	0.5
Mark Benham(8).....	3,480,927	--	3,480,927	12.1
Stephen Adamson(8).....	3,480,927	--	3,480,927	12.1
Michael Griffiths.....	--	--	--	--
Anthony Sigel.....	--	--	--	--
All Directors and executive officers as a group				
(14 persons).....	8,532,746	16,076	8,548,822	29.8

 * The number of shares of common stock deemed outstanding on March 16, 2001 with respect to a person or group includes (a) 28,689,779 shares outstanding on such date and (b) all options that are currently exercisable or will be exercisable within 60 days of March 16, 2001 by the person or group in question.

Represents an amount less than 0.5% of shares outstanding.

- (1) The shares of common stock included in the table include shares held through investment in EMSIcon Investments, LLC. Each member of EMSIcon Investments, LLC has sole voting and investment power as to shares held on such member's behalf by EMSIcon Investments, LLC.
- (2) Includes shares of common stock held by Bain Capital Fund VI, L.P., ("Fund VI"); BCIP Associates II ("BCIP II"), BCIP Associates II-B ("BCIP II-B"), BCIP Associates II-C ("BCIP II-C"); Sankaty High Yield Asset Partners, L.P. ("Sankaty"); Bain Capital V Mezzanine Fund, L.P. ("Mezzanine"); BCM Capital Partners, L.P. ("BCM"); and BCIP Trust Associates II ("BCIP Trust II") and collectively with Fund VI, BCIP II, BCIP II-B, BCIP II-C, Sankaty, Mezzanine and BCM, the "Bain Capital Funds". Does not include shares owned by other stockholders that are subject to the Stockholders Agreement.
- (3) Consists of shares owned by P.N. Walker Consulting Inc. Paul Walker is the sole stockholder of P.N. Walker Consulting Inc. and may be deemed to beneficially own shares owned by P.N. Walker Consulting Inc.
- (4) Consists of shares owned by Nichal, Inc. Derrick D'Andrade is the sole stockholder of Nichal, Inc. and may be deemed to beneficially own shares owned by Nichal, Inc.
- (5) The shares of common stock included in the table represent shares held by BCIP II, BCIP II-C and BCIP Trust II. Mr. Dominik is a former managing director of Bain Capital, Inc. and is a former general partner of BCIP II, BCIP II-C and BCIP Trust II and accordingly may be deemed to beneficially own shares owned by such funds. Mr. Dominik disclaims beneficial ownership of any such shares in which he does not have a pecuniary interest. The address of Mr. Dominik is c/o Golden Gate Capital, One Embarcadero Center, Suite 3300, San Francisco, California 94111.
- (6) The shares of common stock included in the table represent shares held by BCIP-II. Mr. Ashe is a former principal of Bain Capital, Inc. and is a former partner of BCIP II-B and accordingly may be deemed to beneficially own shares owned by such funds. Mr. Ashe disclaims beneficial ownership of any such shares in which he does not have a pecuniary interest. The address

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of Mr. Ashe is c/o Golden Gate Capital, One Embarcadero Center, Suite 3300, San Francisco, California 94111.

- (7) The shares of common stock included in the table represent shares held by BCIP II-B. Mr. Loring is a managing director of Bain Capital, Inc. and is a partner of BCIP II-B and accordingly may be deemed to beneficially own shares owned by such funds. Mr. Loring disclaims beneficial ownership of any such shares in which he does not have a pecuniary interest. The address of Mr. Loring is c/o Bain Capital, Inc., Two Copley Plaza, Boston, Massachusetts 02116.
- (8) Mr. Benham and Mr. Adamson are both managing members of Celerity EMSIcon, LLC and accordingly may be deemed to beneficially own shares owned by Celerity EMSIcon, LLC. Mr. Benham and Mr. Adamson disclaim beneficial ownership of any such shares in which they do not have a pecuniary interest. The address for Mr. Benham and Mr. Adamson is c/o Celerity Partners, 11111 Santa Monica Boulevard, Suite 1127, Los Angeles, California 90025.

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DESCRIPTION OF INDEBTEDNESS

We and our subsidiaries have outstanding debt under our senior credit facility.

Senior Credit Facility

We, together with our subsidiaries HTM Holdings Inc. and SMTC Manufacturing Corporation of Canada, have entered into an agreement with various banks and financial institutions, including Lehman Commercial Paper Inc. as a lender and as general administrative agent for the other lenders, providing for our senior credit facilities. We amended our senior credit facilities concurrently with consummation of our initial public offering on July 27, 2000. Following such amendment, the senior credit facilities consisted of:

- . a US Tranche A facility of \$50,000,000 as an initial term loan;
- . a US revolving credit facility of up to \$91,562,500 in revolving credit loans, swing line loans and letters of credit; and
- . a Canadian revolving credit facility of up to US \$8,437,500 in revolving credit loans, swing line loans, letters of credit, depository notes and bills of exchange.

The indebtedness under our senior credit facility was approximately \$115.8 million as of December 31, 2000.

The senior credit facility is jointly and severally guaranteed by and secured by the assets and capital stock of our subsidiaries other than certain foreign subsidiaries, and our future subsidiaries, other than certain foreign subsidiaries, will guarantee the senior credit facility and secure that guarantee with their assets. The capital stock of our future subsidiaries, other than certain foreign subsidiaries, will also be pledged to secure the senior credit facility. The senior credit facility requires us to meet financial ratios and benchmarks and requires us and our subsidiaries to comply with other restrictive covenants. The senior credit facility contains customary restrictions on our ability to incur additional indebtedness or guarantee the indebtedness of others, create liens on our assets, enter into business combinations, liquidate or dissolve, dispose of assets other than in the ordinary course of business, declare or pay cash dividends, make capital expenditures in excess of established limits, make investments in third parties, modify or prepay debt instruments, engage in transactions with our

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affiliates, enter into sale and leaseback arrangements with respect to real property, change our fiscal year, enter into agreements that restrict our ability to create liens to secure the senior credit facility, restrict the ability of our subsidiaries to make distributions to us, engage in unrelated lines of business, conduct operating activities at SMTC or enter into hedging agreements other than in the ordinary course of business.

The US revolving credit facility terminates in July 2004. The Canadian revolving credit facility terminates in July 2004.

Our borrowings under the US senior credit facility bear interest at varying rates based, at our option, on either the Eurodollar base rate plus an applicable margin ranging from 200 to 300 basis points or the US base rate plus an applicable margin ranging from 25 to 125 basis points. The amount of the applicable margin is based on our leverage ratio.

Our borrowings under the Canadian senior credit facility bear interest at varying rates based, at our option, on either the Eurodollar base rate plus an applicable margin ranging from 200 to 300 basis points or the Canadian base rate plus an applicable margin ranging from 25 to 125 basis points. The amount of the applicable margin is based on our leverage ratio.

The overall effective interest rate at December 31, 2000 was 9.6%. We are required to pay to the lenders under the senior credit facility a commitment fee on the average unused portion of our US and Canadian revolving credit facility and a letter of credit fee on any letters of credit outstanding. We are required to pay to the lenders under the Canadian portion of the senior credit facility a stamping fee on depository notes and bills

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of exchange outstanding. We must apply proceeds of sales of debt, equity or material assets to prepayment of the senior credit facility, subject to some exceptions, and must also, in some circumstances, pay excess cash flow to the lenders under the senior credit facility.

The above summaries of the material provisions of the senior credit facility and the senior subordinated loan agreement are qualified in their entirety by reference to all of the provisions of the senior credit facility and the senior subordinated loan agreement, which have been filed as exhibits to the registration statement of which this prospectus forms a part. See "Additional Information."

DESCRIPTION OF CAPITAL STOCK

General Matters

The total amount of our authorized capital stock consists of 60,000,000 shares of common stock and 5,000,000 shares of one or more series of preferred stock.

As of March 16, 2001, we have 28,689,779 shares of common stock outstanding (consisting of our common stock and exchangeable shares issued by SMTC Canada that may be exchangeable into our common stock). We will have no shares of any series of preferred stock outstanding, other than the one share of special voting stock described below. The following summary of provisions of our capital stock describes all material provisions of, but does not purport to be complete and is subject to, and qualified in its entirety by, our certificate of incorporation and our by-laws, and by the provisions of applicable law.

The certificate and by-laws contain provisions that are intended to enhance

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the likelihood of continuity and stability in the composition of the board of directors and which may have the effect of delaying, deferring or preventing a future takeover or change in control of our company unless such takeover or change in control is approved by our board of directors.

Common Stock

The issued and outstanding shares of common stock are validly issued, fully paid and nonassessable. Subject to the prior rights of the holders of any series of preferred stock, the holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available therefor at such time and in such amounts as the board of directors may from time to time determine. Please see "Dividend Policy." The shares of common stock are not convertible and the holders thereof have no preemptive or subscription rights to purchase any of our securities. Upon liquidation, dissolution or winding up of our company, the holders of common stock are entitled to receive pro rata our assets which are legally available for distribution, after payment of all debts and other liabilities and subject to the prior rights of any holders of any series of preferred stock then outstanding. Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. There is no cumulative voting. Except as otherwise required by law or the restated certificate, the holders of common stock vote together as a single class on all matters submitted to a vote of stockholders.

Our common stock is listed for quotation on the Nasdaq National Market under the symbol "SMTX."

Preferred Stock

Our board of directors may, without further action by our stockholders, from time to time, direct the issuance of shares of preferred stock in a series and may, at the time of issuance, determine the rights, preferences and limitations of each series. Satisfaction of any dividend preferences of outstanding shares of preferred stock would reduce the amount of funds available for the payment of dividends on shares of common

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stock. Holders of shares of preferred stock may be entitled to receive a preference payment in the event of any liquidation, dissolution or winding-up of our company before any payment is made to the holders of shares of common stock. The issuance of shares of preferred stock may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of our securities or the removal of incumbent management. Upon the affirmative vote of a majority of the total number of directors then in office, the board of directors, without stockholder approval, may issue shares of preferred stock with voting and conversion rights which could adversely affect the holders of shares of common stock.

There are no shares of preferred stock outstanding, and we have no current intention to issue any of our unissued, authorized shares of preferred stock, other than the one share of special voting stock described below. However, the issuance of any shares of preferred stock in the future could adversely affect the rights of the holders of common stock.

SMTC Canada Share Capital

Each of the exchangeable shares issued in our initial public offering is exchangeable, at the option of the holder, at any time for one share of our common stock. Holders of the exchangeable shares are entitled to dividend and liquidation rights that are, as nearly as practicable, economically equivalent

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to those of holders of shares of our common stock. However, the exchangeable shares generally do not have any voting rights in respect of SMTC Canada. Holders of exchangeable shares have certain rights to receive common stock in the event of any liquidation, dissolution or winding-up of SMTC Canada or SMTC or any other distribution of the assets of SMTC Canada or SMTC for the purpose of winding-up its respective affairs.

On closing of our initial public offering, we entered into a voting and exchange trust agreement and issued one share of SMTC special voting stock to a trustee to be held for the benefit of the holders of exchangeable shares, other than companies with which we are affiliated. By furnishing instructions to the trustee, 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 our common stock.

On closing of our initial public offering, we also entered into a support agreement under which we agreed to maintain the economic equivalency of the exchangeable shares and the common stock by, among other things, not declaring and paying dividends on the common stock unless SMTC Canada is able to declare and pay economically equivalent dividends on the SMTC Canada exchangeable shares in accordance with the terms of those shares. SMTC Canada may also declare stock dividends from time to time as necessary to maintain the one-for-one economic equivalence between SMTC Canada exchangeable shares and shares of common stock. The SMTC Canada exchangeable shares do not carry any other right to receive dividends from SMTC Canada.

The support agreement provides that, in the event that a tender offer, share exchange offer, issuer bid, take-over bid or similar transaction with respect to the common stock is proposed by SMTC or is proposed to SMTC or its stockholders and is recommended by the board of directors of SMTC, or is otherwise effected or to be effected with the consent or approval of the board of directors of SMTC, and the exchangeable shares are not otherwise redeemed by SMTC Canada or SMTC Nova Scotia Company, SMTC will use its reasonable efforts to enable and permit holders of exchangeable shares to participate in such an offer to the same extent and on an economically equivalent basis as the holders of SMTC common stock. Without limiting the generality of the foregoing, SMTC will use its reasonable efforts to ensure that holders of exchangeable shares may participate in all such offers without being required to exercise their right to retract their exchangeable shares or, if so required, to ensure that any such retraction shall be effective only upon, and shall be conditional upon, the closing of the offer and only to the extent necessary to tender to or deposit under the offer.

The exchangeable shares are subject to adjustment or modification in the event of a stock split or other change to our capital structure so as to maintain the initial one-to-one relationship between the exchangeable shares and our common stock. On or after July 27, 2015, subject to acceleration in certain circumstances, the board of directors of SMTC Canada may redeem all of the outstanding exchangeable shares by delivering to the holders one share of our common stock for each exchangeable share held.

The exchangeable shares of SMTC Canada issued in our initial public offering may not be resold or otherwise transferred in the United States except pursuant to an effective registration statement under the Securities Act or an exemption from registration under the Act. This prospectus is included in the registration statement that we have filed with respect to the issuance of the shares of our common stock issuable upon the exercise of the exchange rights granted to the holders of the exchangeable shares of SMTC Canada.

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SMTC Nova Scotia Company owns all of the 9,477,847 common shares and 6,331,517 Class C preferred shares that have been issued by SMTC Canada. Gary Walker holds all the 23,092 Class Y shares that have been issued by SMTC Canada. In connection with the reclassification, SMTC Nova Scotia Company has agreed to purchase all his Class Y shares in exchange for an equivalent number of Class L common shares. The Class Y shares entitle the holder to dividends based on the dividends payable on the exchangeable shares. Holders of Class Y shares are also entitled to receive, on a liquidation, dissolution or winding up of SMTC Canada, an amount based on the value of the exchangeable shares, as determined by our board of directors. The terms of the SMTC Canada common shares are substantially the same as the terms of our common stock. The Class C preferred shares are redeemable at any time at the option of SMTC Canada and entitle the holder to receive fixed preferential non-cumulative cash dividends of C\$0.06 per share per year in priority to the holders of Class L exchangeable shares, Class Y shares and common shares. Holders of Class C preferred shares are also entitled to a preference payment of C\$1.00 per share in the event of any liquidation, dissolution or winding-up of SMTC Canada, before any payment is made to the holders of SMTC Canada Class L exchangeable shares, Class Y shares and common shares. The common shares, the Class C preferred shares and the Class Y shares were not changed in the reclassification and remain outstanding after completion of our initial public offering.

The Toronto Stock Exchange has approved the listing of the exchangeable shares under the symbol "SMX."

Registration Rights

Under the stockholders agreement dated July 30, 1999, as amended, between us and our current stockholders, some of our stockholders will be entitled to rights with respect to the registration under the Securities Act of some or all of their shares as described below.

Majority Stockholders Demand Registration Rights. At any time after 180 days following the effective date of any registration statement filed with our initial public offering, the holders of a majority of the aggregate number of shares of common stock held by our stockholders who are parties to the stockholders agreement can request that we register all or a portion of their shares. We will only be required to file up to three registration statements on forms other than Form S-3 in response to such demand registration rights.

Other Demand Registration Rights. At any time after July 30, 2003, stockholders holding a majority of the shares of common stock held by the Bain Capital Funds and their affiliates, by Celerity EMSIcon, LLC and its affiliates, and by P. N. Walker Consulting, Inc., Paul Walker, Nichal Inc., Derek D'Andrade, Gary Walker, Philip Woodard and Kilmer Electronics Group Limited, taken as a group, in each case holding at least 15% of our common stock then held by the parties to our stockholders agreement, can request that we register all or a portion of their shares. We will only be required to file up to three registration statements on forms other than Form S-3 in response to such demand registration rights. We will not be required to file a registration statement in response to their demand registration rights within 180 days following the effective date of any registration statement filed by us with respect to an underwritten public offering of our securities for our own account.

Piggyback Registration Rights. If we register any securities for public sale after our initial public offering, the holders of shares of our common stock who are parties to the stockholders agreement will have the right to include their shares in the registration statement. This right does not apply to a registration statement relating to any of our employee benefit plans, a corporate reorganization or qualified public offerings unless such public offering has been initiated pursuant to the majority demand registration rights

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or other demand

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registration rights described above. The managing underwriter of any underwritten offering will have the right to limit the number of shares registered by these holders for marketing reasons.

All shares covered by the stockholders agreement, as amended, could potentially be required to be registered in connection with the exercise of any of the registration rights described above.

We will pay all expenses incurred in connection with the registrations described above, except for underwriters' and brokers' discounts and commissions, which will be paid by the selling stockholders.

Holders of these registration rights have waived the exercise of these registration rights for 180 days following the date of this prospectus.

Other Provisions of the Certificate of Incorporation and By-laws

Our certificate of incorporation provides for the board to be divided into three classes, as nearly equal in number as possible, serving staggered terms. Approximately one-third of the board will be elected each year. Please see "Management." Under the Delaware General Corporation Law, directors serving on a classified board can only be removed for cause. The provision for a classified board could prevent a party who acquires control of a majority of the outstanding voting stock from obtaining control of the board until the second annual stockholders meeting following the date the acquiror obtains the controlling stock interest. The classified board provision could have the effect of discouraging a potential acquiror from making a tender offer or otherwise attempting to obtain control of SMTC and could increase the likelihood that incumbent directors will retain their positions.

Our certificate of incorporation provides that stockholder action can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting. The certificate of incorporation and the by-laws provide that, except as otherwise required by law, special meetings of the stockholders can only be called by the chairman of the board, the chief executive officer or pursuant to a resolution adopted by a majority of the board of directors. Stockholders will not be permitted to call a special meeting or to require the board to call a special meeting.

The by-laws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to the board. Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board or by a stockholder who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given to our secretary timely written notice, in proper form, of such stockholder's intention to bring that business before the meeting. Although the by-laws do not give the board the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting, the by-laws may have the effect of precluding the conduct of business at a meeting if the proper procedures are not followed or may discourage or defer a potential acquiror from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of SMTC.

The certificate of incorporation and by-laws provide that the affirmative

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vote of holders of at least 75% of the total votes eligible to be cast in the election of directors is required to amend, alter, change or repeal some of their provisions, unless such amendment or change has been approved by a majority of the directors not affiliated or associated with any person or entity holding 10% or more of the voting power of our outstanding capital stock. For purposes of calculating the votes of directors in such circumstances, neither the Bain Capital Funds, Celerity Partners nor Kilmer Electronics Group shall be deemed at any time to be an entity holding 10% or more of the voting power of SMTC's outstanding capital stock, without regard to the actual percentage of the voting power SMTC's capital stock held from time to time by any of them. This requirement of a super-majority vote to approve amendments to the certificate of incorporation and by-laws could enable a minority of our stockholders to exercise veto power over any such amendments.

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Provisions of Delaware Law Governing Business Combinations

We are subject to the "business combination" provisions of the Delaware General Corporation Law. In general, such provisions prohibit a publicly held Delaware corporation from engaging in various "business combination" transactions with any "interested stockholder" for a period of three years after the date of the transaction in which the person became an "interested stockholder," unless:

- . the transaction is approved by the board of directors prior to the date the "interested stockholder" obtained such status;
- . upon consummation of the transaction which resulted in the stockholder becoming an "interested stockholder," the "interested stockholder" owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by (a) persons who are directors and also officers and (b) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- . on or subsequent to such date the "business combination" is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the "interested stockholder."

A "business combination" is defined to include mergers, asset sales and other transactions resulting in financial benefit to a stockholder. In general, an "interested stockholder" is a person who, together with affiliates and associates, owns 15% or more of a corporation's voting stock or within three years did own 15% or more of a corporation's voting stock. However, our Certificate of Incorporation provides that a stockholder affiliated or associated with the Bain Capital Funds, Celerity Partners or Kilmer Electronics Group Limited will not be considered an "interested stockholder," notwithstanding that stockholder's percentage of our voting stock. None of such stockholders has a present intention to engage in any transaction which would constitute a "business combination." The statute could prohibit or delay mergers or other takeover or change in control attempts with respect to SMTC and, accordingly, may discourage attempts to acquire SMTC.

Limitations on Liability and Indemnification of Officers and Directors

Our certificate of incorporation limits the liability of directors to the

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fullest extent permitted by the Delaware General Corporation Law. In addition, our certificate of incorporation provides that we will indemnify our directors and officers to the fullest extent permitted by such law. We entered into indemnification agreements with our current directors and executive officers prior to the completion of our initial public offering and expect to enter into a similar agreement with any new directors or executive officers.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is Mellon Investor Services, L.L.C. The transfer agent and registrar for the exchangeable shares is CIBC Mellon Trust Company.

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DETAILS OF THE EXCHANGEABLE SHARES

The following is a summary of the exchangeable share provisions and certain provisions of the Voting and Exchange Trust Agreement and the Exchangeable Share Support Agreement. This summary is qualified in its entirety by reference to the full text of the exchangeable share provisions, the Voting and Exchange Trust Agreement and the Exchangeable Share Support Agreement.

General

The exchangeable shares are intended to be functionally and economically equivalent to the shares of our common stock and are exchangeable at any time at the option of the holder on a one-for-one basis for shares of common stock. SMTC Canada, SMTC and CIBC Mellon Trust Company, as trustee, have entered into a voting and exchange trust agreement pursuant to which SMTC issued one share of special voting stock, or special voting share, to the trustee to be held by the trustee for the benefit of the holders of exchangeable shares (other than SMTC and its affiliates). By furnishing instructions to the trustee under the Voting and Exchange Trust Agreement, holders of exchangeable shares will have the functionally equivalent voting rights with respect to SMTC as they would have upon an exchange of exchangeable shares for common stock. Holders of exchangeable shares will also be entitled to receive from SMTC Canada (i) cash dividends payable in U.S. dollars or Canadian dollars that are economically equivalent to cash dividends, if any, paid by SMTC on its common stock, and (ii) stock dividends consisting of the same number of exchangeable shares as is equal to the number of shares of common stock, if any, paid by SMTC as a stock dividend on its common stock. The exchangeable shares are subject to adjustment or modification in the event of a stock split or other change to the capital structure of SMTC so as to maintain the initial one-to-one relationship between the exchangeable shares and the common stock.

Voting, Dividend and Liquidation Rights

Voting Rights with Respect to SMTC Canada

Except as required by law or under the Exchangeable Share Support Agreement, the terms of the exchangeable share provisions with respect to the amendment thereof or the Voting and Exchange Trust Agreement, the holders of exchangeable shares will not be entitled as such to receive notice of or attend any meeting of shareholders of SMTC Canada or to vote at any such meeting.

In accordance with the terms of the Exchangeable Share Support Agreement, neither SMTC nor any of its affiliates will exercise any voting rights with respect to any exchangeable shares held by it, although it will appoint proxyholders with respect to such exchangeable shares for the sole purpose of attending meetings of the holders of exchangeable shares in order to be counted

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as part of the quorum for such meetings.

Voting Rights with Respect to SMTC

The special voting share held by the trustee for the benefit of the registered holders of the exchangeable shares (other than SMTC and its affiliates) will have attached thereto that number of votes, which may be cast at any meeting at which SMTC Stockholders are entitled to vote, equal to the number of exchangeable shares outstanding from time to time (other than exchangeable shares held by SMTC and its affiliates).

Each registered holder of an exchangeable share (other than SMTC and its affiliates) on the record date for any meeting at which SMTC stockholders are entitled to vote will be entitled to instruct the trustee to exercise one of the votes attached to the special voting share for each exchangeable share held by such holder. The trustee will exercise each vote attached to the special voting share only as directed by the relevant holder and, in the absence of instructions from a registered holder as to voting, will not exercise such votes. A registered holder may, upon instructing the trustee, obtain a proxy from the trustee entitling the holder to vote directly at the relevant meeting the votes attached to the special voting share to which the holder is entitled. In connection with each meeting, to the extent that the trustee has not, upon such instructions, signed and delivered to

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registered holders proxies as aforesaid, the trustee shall exercise its voting rights as holder of the special voting share either by proxy or in person.

The trustee will send to the registered holders of the exchangeable shares the notice of each meeting at which the SMTC stockholders are entitled to vote, together with the related meeting materials and a statement as to the manner in which the holder may instruct the trustee to exercise the votes attached to the special voting share. Such sending by the trustee shall commence on the same day as SMTC sends such notice and materials to the SMTC stockholders. The trustee will also send to the registered holders of exchangeable shares copies of all information statements, interim and annual financial statements, reports and other materials sent by SMTC to the SMTC stockholders at the same time as such materials are sent to the SMTC stockholders. If such materials are provided to the trustee by SMTC, the trustee will also send to the registered holders of the exchangeable shares all materials sent by third parties to SMTC stockholders, including dissident proxy circulars and tender and exchange offer circulars, as soon as reasonably practicable after such materials are delivered to the trustee.

All rights of a registered holder of exchangeable shares to instruct the trustee to exercise votes attached to the special voting share will cease upon the exchange (whether by redemption, retraction or liquidation, or through the exercise of the related call rights) of all of such holder's exchangeable shares for common stock. In addition, the trust governing the rights of registered holders of exchangeable shares to instruct the trustee to exercise votes attaching to the special voting share may be terminated or amended with the approval of the holders of the exchangeable shares as set forth below under the heading "Amendment and Approval".

Dividend Rights

Holders of exchangeable shares will be entitled to receive, subject to applicable law and to the next paragraph, dividends (i) in the case of a cash dividend declared on the common stock, in an amount in cash for each exchangeable share corresponding to the cash dividend declared on each share of

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common stock; (ii) in the case of a stock dividend declared on the common stock to be paid in common stock, in such number of exchangeable shares for each exchangeable share as is equal to the number of shares of common stock to be paid on each share of common stock; or (iii) in the case of a dividend declared on the common stock in property other than cash or common stock, in such type and amount of property as is the same as, or economically equivalent to the type and amount of property declared as a dividend on each share of common stock (as determined by SMTC Canada's board of directors in good faith and in its sole discretion). Cash dividends on the exchangeable shares are payable in U.S. dollars or the Canadian Dollar Equivalent thereof, at the option of SMTC Canada. The declaration date, record date and payment date for dividends on the exchangeable shares will be the same as those for the corresponding dividends on the common stock.

In the case of a stock dividend declared on the common stock to be paid in common stock, in lieu of declaring a corresponding stock dividend on the exchangeable shares, the board of directors of SMTC Canada may, in its discretion and subject to applicable law, subdivide, redivide or change (each a "subdivision") each issued and unissued exchangeable share on the basis that each exchangeable share before the subdivision becomes that number of exchangeable shares as is equal to the sum of (i) one; and (ii) the number of shares of common stock to be paid as a stock dividend on each share of common stock. In such instance, such subdivision shall become effective on the effective date for the dividend declared on the common stock without any further act or formality on the part of the board of directors of SMTC Canada or of the holders of exchangeable shares. No approval of the holders of exchangeable shares to an amendment to the articles of SMTC Canada shall be required to give effect to such subdivision. The record date for the determination of the holders of exchangeable shares entitled to receive exchangeable shares in connection with any subdivision of exchangeable shares and the effective date of such subdivision shall be the same dates as the record date and payment date, respectively, for the corresponding stock dividend declared on common stock.

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Liquidation Rights with Respect to SMTC Canada

In the event of the liquidation, dissolution or winding-up of SMTC Canada or any other distribution of the assets of SMTC Canada among its shareholders for the purpose of winding-up its affairs, holders of exchangeable shares will have, subject to applicable law, preferential rights to receive from SMTC Canada the Company Liquidation Amount for each exchangeable share held. Upon the occurrence of such liquidation, dissolution or winding-up, SMTC Nova Scotia will have an overriding liquidation call right to purchase all of the outstanding exchangeable shares (other than exchangeable shares held by SMTC and its affiliates) from the holders thereof on the effective date of the liquidation, dissolution or winding-up of SMTC Canada for a purchase price per share equal to the Company Liquidation Amount. If SMTC Nova Scotia exercises the liquidation call right in respect of a holder's exchangeable shares and pays all amounts payable by it to such holder in connection with such exercise, SMTC Canada shall no longer be obligated to pay to the holder any declared and unpaid dividends on such exchangeable shares.

Upon the occurrence and during the continuance of a Company Insolvency Event, each registered holder of exchangeable shares (other than SMTC and its affiliates) will be entitled to instruct the trustee to exercise the exchange right with respect to any or all of the exchangeable shares held by such holder, thereby requiring SMTC to purchase such exchangeable shares from the holder. As soon as practicable following the occurrence of a Company Insolvency Event or any event which may, with the passage of time and/or the giving of

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notice, become a Company Insolvency Event, SMTC Canada or SMTC will give written notice thereof to the trustee. As soon as practicable thereafter, the trustee will notify each registered holder of exchangeable shares of such event or potential event and will advise the holder of its rights with respect to the exchange right. The purchase price payable by SMTC for each exchangeable share purchased under the exchange right will be the Company Liquidation Amount. If SMTC purchases a holder's exchangeable shares under the exchange right, SMTC Canada shall no longer be obligated to pay to the holder any declared and unpaid dividends on such exchangeable shares.

Liquidation Rights with Respect to SMTC

In order for the holders of the exchangeable shares to participate on a pro rata basis with the holders of common stock, on the fifth business day prior to the effective date of an SMTC Liquidation Event, each exchangeable share (other than those held by SMTC and its affiliates) will, pursuant to an automatic exchange right, automatically be exchanged for the SMTC Liquidation Amount pursuant to the Voting and Exchange Trust Agreement. Upon a holder's request and surrender of exchangeable share certificates, duly endorsed in blank and accompanied by such instruments of transfer as SMTC may reasonably require, SMTC will deliver or cause the transfer agent to deliver (i) certificates representing the aggregate number of shares of common stock due in respect of the SMTC Liquidation Amount, registered in the name of the holder or in such name as the holder may request; and (ii) if applicable, a check for the aggregate amount of declared and unpaid dividends to the holder at the address recorded in the securities register, in each case less any amounts withheld on account of tax required to be deducted and withheld therefrom. For a description of certain SMTC obligations with respect to the dividend and liquidation rights of the holders of exchangeable shares, see "- Support Obligation" below.

Retraction

Subject to the exercise by SMTC Nova Scotia of its retraction call right, holders of exchangeable shares will be entitled to retract (that is, to require SMTC Canada to redeem) any or all of the exchangeable shares held by such holder for a retraction price per exchangeable share equal to one share of common stock plus any declared and unpaid dividends on such exchangeable share. Holders of the exchangeable shares may effect such retraction by presenting to SMTC Canada or to the trustee (i) a certificate or certificates representing the number of exchangeable shares the holder desires to retract; (ii) a duly executed retraction request indicating the number of exchangeable shares the holder desires to retract and the retraction date; and (iii) such other

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documents as may be required to effect the retraction of the retracted exchangeable shares. A holder wishing to exercise the retraction right must present the foregoing documents to SMTC Canada or to the trustee at least 10 business days prior to the retraction date specified in the retraction request.

When a holder requests SMTC Canada to redeem retracted exchangeable shares, SMTC Nova Scotia will have an overriding retraction call right to purchase on the retraction date all but not less than all of the retracted exchangeable shares, at a purchase price per share equal to one share of common stock plus any declared and unpaid dividends on such exchangeable share for each retracted exchangeable share. Upon receipt of a retraction request, SMTC Canada will immediately notify SMTC Nova Scotia of the retraction request. SMTC Nova Scotia must then advise SMTC Canada within five business days as to whether the retraction call right will be exercised. If SMTC Nova Scotia does not so advise

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SMTC Canada, SMTC Canada will notify the holder as soon as possible thereafter that SMTC Nova Scotia will not exercise the retraction call right. If, within such five business day period, SMTC Nova Scotia advises SMTC Canada that SMTC Nova Scotia will exercise the retraction call right, then provided the retraction request is not revoked by the holder as described below, the retraction request shall thereupon be considered only to be an offer by the holder to sell the retracted exchangeable shares to SMTC Nova Scotia in accordance with the retraction call right. If SMTC Nova Scotia exercises the retraction call right in respect of a holder's retracted exchangeable shares and pays all amounts payable by it to such holder in connection with such exercise, SMTC Canada shall no longer be obligated to pay to the holder any declared and unpaid dividends on such retracted exchangeable shares.

A holder may revoke its retraction request, in writing, at any time prior to the close of business on the business day preceding the retraction date, in which case the retracted exchangeable shares will neither be purchased by SMTC Nova Scotia nor be redeemed by SMTC Canada. If a holder does not revoke its retraction request, the retracted exchangeable shares will, on the retraction date, be purchased by SMTC Nova Scotia or redeemed by SMTC Canada, as the case may be, in each case as set out above. SMTC Canada or SMTC Nova Scotia, as the case may be, will deliver or cause the transfer agent to deliver (i) certificates, representing the aggregate number of shares of common stock due, registered in the name of the holder or in such other name as the holder may request; and (ii) if applicable, a check for the aggregate amount of declared and unpaid dividends to the holder at the address recorded in the securities register or at the address specified in the holder's retraction request or by holding the same for pick up by the holder at the registered office of SMTC Canada or the office of the transfer agent as specified by SMTC Canada, in each case less any amounts withheld on account of tax required to be deducted and withheld therefrom.

If, as a result of solvency requirements or applicable law, SMTC Canada is not permitted to redeem all retracted exchangeable shares tendered by a retracting holder, and provided that SMTC Nova Scotia has not exercised the retraction call right with respect to such retracted exchangeable shares, SMTC Canada will redeem only those retracted exchangeable shares tendered by the holder (rounded down to the nearest whole number of shares) as would not be contrary to such provisions of applicable law. The trustee, on behalf of the holder of any retracted exchangeable shares not so redeemed by SMTC Canada, will, pursuant to the exchange right, require SMTC to purchase the retracted exchangeable shares not redeemed on the retraction date.

Redemption

Subject to applicable law and the redemption call right, SMTC Canada will, on the redemption date, redeem all but not less than all of the then outstanding exchangeable shares for a redemption price per exchangeable share equal to one share of common stock plus any declared and unpaid dividends on the exchangeable share. SMTC Canada will, at least 60 days prior to the redemption date, or such number of days as the board of directors of SMTC Canada may determine to be reasonably practicable under the circumstances in respect of a redemption date arising in connection with, among other events, an SMTC Control Transaction, an Exchangeable Share Voting Event or an Exempt Exchangeable Share Voting Event, provide the registered holders of the exchangeable shares with written notice of the proposed redemption of the exchangeable shares by SMTC Canada or of the purchase of the exchangeable shares by SMTC Nova Scotia pursuant to the redemption call right described below.

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SMTC Nova Scotia will have an overriding redemption call right to purchase on the redemption date all but not less than all of the exchangeable shares then outstanding (other than exchangeable shares held by SMTC and its affiliates) for a purchase price per exchangeable share equal to one share of common stock plus any declared and unpaid dividends on the exchangeable shares. Upon the exercise of the redemption call right, holders will be obligated to sell their exchangeable shares to SMTC Nova Scotia. If SMTC Nova Scotia exercises the redemption call right in respect of a holder's exchangeable shares and pays all amounts payable by it to such holder in connection with such exercise, SMTC Canada's right and obligation to redeem the exchangeable shares on such redemption date will terminate and it shall not be obligated to pay to the holder any declared and unpaid dividends on such exchangeable shares.

The "redemption date" will be the date, if any, established by the board of directors of SMTC Canada for the redemption by SMTC Canada of all but not less than all of the outstanding exchangeable shares pursuant to the exchangeable share provisions, which date shall be no earlier than July 27, 2015, unless:

- (i) there are fewer than 500,000 exchangeable shares outstanding (other than exchangeable shares held by SMTC and its affiliates), as such number of shares may be adjusted by the board of directors of SMTC Canada to give effect to any subdivision or consolidation of or stock dividend on the exchangeable shares, any issue or distribution of rights to acquire exchangeable shares or securities exchangeable for or convertible into exchangeable shares, any issue or distribution of other securities or rights or evidences of indebtedness, or assets, or any other capital reorganization or other transaction affecting the exchangeable shares, in which case the board of directors of SMTC Canada may accelerate such redemption date to such date prior to July 27, 2015, as it may determine, upon at least 60 days' prior written notice to the registered holders of the exchangeable shares and the trustee;
- (ii) an SMTC Control Transaction occurs, in which case, provided that the board of directors of SMTC Canada determines, in good faith and in its sole discretion, that it is not reasonably practicable to substantially replicate the terms and conditions of the exchangeable shares in connection with such SMTC Control Transaction and that the redemption of all but not less than all of the outstanding exchangeable shares is necessary to enable the completion of such SMTC Control Transaction in accordance with its terms, the board of directors of SMTC Canada may accelerate such redemption date to such date prior to July 27, 2015 as it may determine upon such number of days' prior written notice to the registered holders of the exchangeable shares and the trustee as the board of directors of SMTC Canada may determine to be reasonably practicable in such circumstances;
- (iii) an Exchangeable Share Voting Event is proposed, in which case, provided that the board of directors of SMTC Canada has determined, in good faith and in its sole discretion, that it is not reasonably practicable to accomplish the business purpose intended by the Exchangeable Share Voting Event, which business purpose must be bona fide and not for the primary purpose of causing the occurrence of a redemption date, in any other commercially reasonable manner that does not result in an Exchangeable Share Voting Event, the redemption date shall be the business day prior to the record date for any meeting or vote of the holders of the exchangeable shares to consider the Exchangeable Share Voting Event, and the board of directors of SMTC Canada shall give such number of days' prior written notice of

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such redemption to the registered holders of the exchangeable shares and the trustee as it may determine to be reasonably practicable in such circumstances; or

- (iv) an Exempt Exchangeable Share Voting Event is proposed and the holders of the exchangeable shares fail to take the necessary action at a meeting or other vote of holders of exchangeable shares to approve or disapprove, as applicable, the Exempt Exchangeable Share Voting Event, in which case the redemption date shall be the business day following the day on which the holders of the exchangeable shares failed to take such action, and the board of directors of SMTC Canada shall give such number of days' prior written notice of such redemption to the registered holders of the exchangeable shares and the trustee as it may determine to be reasonably practicable in such circumstances,

provided, however, that the accidental failure or omission to give any notice of redemption under clause (i), (ii), (iii) or (iv) above to less than 10% of such holders of exchangeable shares shall not affect the validity of any such redemption.

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Tender Offers

The Exchangeable Share Support Agreement provides that, in the event that a tender offer, share exchange offer, issuer bid, take-over bid or similar transaction with respect to the SMTC common stock is proposed by SMTC or is proposed to SMTC or its stockholders and is recommended by the board of directors of SMTC, or is otherwise effected or to be effected with the consent or approval of the board of directors of SMTC, and the exchangeable shares are not otherwise redeemed or repurchased by SMTC Canada or SMTC Nova Scotia, SMTC will use its reasonable efforts to enable and permit holders of exchangeable shares to participate in such offer to the same extent and on an economically equivalent basis as the holders of SMTC common stock. Without limiting the generality of the foregoing, SMTC will use its reasonable efforts to ensure that holders of exchangeable shares may participate in all offers without being required to exercise their right to retract their exchangeable shares as described under "- Retraction" or, if so required, to ensure that any such retraction shall be effective only upon, and shall be conditional upon, the closing of the offer and only to the extent necessary to tender to or deposit under the offer.

Certain Restrictions

Without the approval of the holders of the exchangeable shares as set forth below under the heading"- Amendment and Approval", SMTC Canada will not:

- (a) pay any dividends on the common shares of SMTC Canada, or any other shares ranking junior to the exchangeable shares, other than stock dividends payable in common shares of SMTC Canada, or any such other shares ranking junior to the exchangeable shares, as the case may be;
- (b) redeem, purchase or make any capital distribution in respect of common shares of SMTC Canada, or any other shares ranking junior to the exchangeable shares;
- (c) redeem or purchase any other shares of SMTC Canada ranking equally with the exchangeable shares with respect to the payment of dividends or on any liquidation distribution;
- (d) issue any exchangeable shares; provided that SMTC Canada may at any

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time, with or without such approval, issue exchangeable shares (A) pursuant to any shareholder rights plan or equity incentive plan adopted by SMTC Canada; (B) by way of stock dividend to the holders of exchangeable shares; or (C) by way of any subdivision of exchangeable shares described above under the heading "- Voting, Dividend and Liquidation Rights"; or

- (e) issue any shares of SMTC Canada ranking equally with, or superior to, the exchangeable shares other than by way of stock dividends to the holders of such exchangeable shares.

The restrictions in clauses (a), (b), (c) and (d) above will not apply at any time when the dividends on the outstanding exchangeable shares corresponding to dividends declared and paid on the common stock have been declared and paid in full.

Amendment and Approval

The exchangeable share provisions may be added to, changed or removed only with the approval of the holders thereof. Any such approval or any other approval or consent to be given by the holders of the exchangeable shares will be deemed to have been sufficiently given if given in accordance with applicable law, subject to a minimum requirement that such approval or consent be evidenced by a resolution passed by not less than two-thirds of the votes cast on such resolution at a meeting of the holders of exchangeable shares duly called and held at which holders of at least 25% of the then-outstanding exchangeable shares are present or represented by proxy. If no such quorum is present at such meeting within one-half hour after the time appointed therefor, then the meeting will be adjourned to such place and time (not less than five days later) as may be designated by the chairman of such meeting. At such adjourned meeting, the holders of exchangeable shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by the affirmative vote of not less than two-thirds of the votes cast on such resolution will constitute the approval or consent of the holders of the exchangeable shares.

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In accordance with the terms of the Exchangeable Share Support Agreement, neither SMTC nor any of its Affiliates will exercise any voting rights with respect to any exchangeable shares held by it, although it will appoint proxyholders with respect to such exchangeable shares for the sole purpose of attending meetings of the holders of exchangeable shares in order to be counted as part of the quorum for such meetings.

Support Obligation

Pursuant to an exchangeable share support agreement to be entered into by SMTC, SMTC Canada and SMTC Nova Scotia on closing of this offering, the Exchangeable Share Support Agreement, SMTC will make the following covenants for so long as any exchangeable shares (other than exchangeable shares owned by SMTC or its affiliates) remain outstanding:

- . SMTC will not declare or pay dividends on its common stock unless SMTC Canada is able to (A) declare and pay and simultaneously declares or pays, as the case may be, an equivalent dividend on the exchangeable shares; or (B) subdivide and simultaneously subdivides the exchangeable shares in lieu of a stock dividend (as provided for in the exchangeable share provisions);
- . SMTC will advise SMTC Canada in advance of the declaration of any

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dividend on the common stock and ensure that (A) the declaration date, record date and payment date for dividends on the exchangeable shares are the same as those for the corresponding dividend on the common stock; or (B) the record date and effective date for a subdivision of the exchangeable shares in lieu of a stock dividend (as provided for in the exchangeable share provisions) are the same as the record date and payment date for the corresponding stock dividend on the common stock;

- . SMTC will ensure that the record date for any dividend declared on the common stock is not less than 10 business days after the declaration date of such dividend;
- . SMTC will take all actions and do all things reasonably necessary or desirable to enable and permit SMTC Canada, in accordance with applicable law, to pay to the holders of the exchangeable shares and otherwise perform its obligations with respect to the satisfaction of the applicable Company Liquidation Amount in the event of a liquidation, dissolution or winding-up of SMTC Canada, or the exchange of exchangeable shares for common stock plus any declared and unpaid dividends on such exchangeable shares in the event of a retraction request by a holder of exchangeable shares or a redemption of exchangeable shares by SMTC Canada;
- . SMTC will take all actions and do all things reasonably necessary or desirable to enable and permit SMTC Nova Scotia, in accordance with applicable law, to perform its obligations arising upon the exercise by it of the call rights, including the delivery of common stock to holders of exchangeable shares in accordance with the provisions of the applicable call right; and
- . if SMTC becomes a "specified financial institution" (as such term is defined in the Tax Act) or does not deal at arm's length with such a person, SMTC will take all such actions and do all such things as are reasonably necessary or desirable to cause SMTC Nova Scotia to exercise the retraction call right if requested to do so by a holder of exchangeable shares making a retraction request.

The Exchangeable Share Support Agreement and the exchangeable share provisions will provide that, without the prior approval of SMTC Canada and the holders of the exchangeable shares given in the manner set forth above under the heading "- Amendment and Approval", SMTC will not issue or distribute additional common stock, securities exchangeable for or convertible into or carrying rights to acquire common stock, rights, options or warrants to subscribe therefor, evidences of indebtedness or other assets, to all or substantially all holders of common stock, nor shall SMTC subdivide, redivide, reduce, combine, reclassify or otherwise change the common stock, unless the same or an economically equivalent distribution on or change to the exchangeable shares (or in the rights of the holders thereof) is made simultaneously. SMTC Canada's board of directors will be conclusively empowered to determine in good faith and in its sole discretion whether any corresponding distribution on or change to the exchangeable shares is the same as or economically equivalent to any proposed distribution on or change to the common stock. In the event of any proposed tender offer, share

exchange offer, issuer bid, take-over bid or similar transaction with respect to the common stock which is recommended by the SMTC board of directors and in connection with which the exchangeable shares are not redeemed by SMTC Canada or purchased by SMTC Nova Scotia pursuant to the redemption call right, SMTC will use reasonable efforts to take all actions necessary or desirable to

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enable holders of exchangeable shares to participate in such transaction to the same extent and on an economically equivalent basis as the holders of common stock.

In order to assist SMTC in complying with its obligations under the Exchangeable Share Support Agreement and to permit SMTC Nova Scotia to exercise the call rights, SMTC Canada will be required to notify SMTC and SMTC Nova Scotia of the occurrence of certain events, such as the liquidation, dissolution or winding-up of SMTC Canada whether on a voluntary or involuntary basis, SMTC Canada's receipt of a retraction request from a holder of exchangeable shares, and the issuance by SMTC Canada of any exchangeable shares, rights, options or warrants to acquire exchangeable shares or other securities exchangeable for or convertible into exchangeable shares.

Under the Exchangeable Share Support Agreement, SMTC will agree that it will not, and will cause its affiliates not to, exercise any voting rights attached to the exchangeable shares owned by it or them on any matter considered at meetings of holders of exchangeable shares. SMTC has also agreed to use its reasonable best efforts to enable SMTC Canada to maintain a listing for the exchangeable shares on a Canadian stock exchange.

With the exception of administrative changes for the purpose of adding covenants of any or all parties, making certain necessary amendments or curing ambiguities or clerical errors (in each case, provided that the board of directors of each of SMTC, SMTC Canada and SMTC Nova Scotia are of the opinion that such amendments are not prejudicial to the interests of the holders of exchangeable shares), the Exchangeable Share Support Agreement may not be amended without the approval of the holders of exchangeable shares given in the manner set forth above under the heading "- Amendment and Approval".

Ranking

The exchangeable shares will be entitled to a preference over SMTC Canada's common shares and any other shares ranking junior to the exchangeable shares with respect to the payment of dividends and the distribution of assets in the event of a liquidation, dissolution or winding-up of SMTC Canada, whether voluntary or involuntary, or any other distribution of the assets of SMTC Canada among its shareholders for the purpose of winding-up its affairs. The exchangeable shares will rank junior to the Class C preferred shares of SMTC Canada that are held by SMTC Nova Scotia and any other shares ranking prior to the exchangeable shares.

Withholding Rights

SMTC Canada, SMTC Nova Scotia, SMTC and the transfer agents will be entitled to deduct and withhold from any dividends or consideration otherwise payable to any holder of exchangeable shares or common stock such amounts as SMTC Canada, SMTC Nova Scotia, SMTC or the transfer agents are required to deduct and withhold with respect to such payment under the Tax Act, the United States Internal Revenue Code of 1986, as amended, or any provision of provincial, state, local or foreign tax law. Any amounts withheld will be treated for all purposes as having been paid to the holder of the shares in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. If the amount so required to be deducted or withheld from any payment to a holder exceeds the cash portion of the amount otherwise payable to the holder, SMTC Canada, SMTC Nova Scotia, SMTC or the transfer agents may sell or otherwise dispose of such portion of the consideration as is necessary to provide sufficient funds to SMTC Canada, SMTC Nova Scotia, SMTC or the transfer agents, as the case may be, to enable it to comply with such deduction or withholding requirement. SMTC Canada, SMTC Nova Scotia, SMTC or the transfer agents, as the case may be, must notify the holder of any such sale and remit to such holder any unapplied

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balance of the net proceeds of such sale.

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Appraisal Rights

In the event of a merger or consolidation of SMTC, holders of exchangeable shares would not have any appraisal rights under Section 262 of the General Corporation Law of Delaware. Holders of exchangeable shares who wish to exercise appraisal rights in connection with a proposed transaction could exchange their exchangeable shares into common stock prior to the record date for the determination of shareholders entitled to exercise appraisal rights.

Certain Canadian Federal Income Tax Considerations

The following is a summary of the principal Canadian federal income tax considerations generally applicable to the redemption or exchange of exchangeable shares by holders who, for purposes of the Income Tax Act (Canada) (the "Tax Act"), are resident in Canada, hold their exchangeable shares, and will hold their shares of common stock, as capital property and deal at arm's length with SMTC Corporation, SMTC Nova Scotia and SMTC Canada. This summary does not apply to a holder with respect to whom SMTC Corporation is or will be a foreign affiliate within the meaning of the Tax Act.

Exchangeable shares and shares of common stock will generally be considered to be capital property to a holder unless the shares are held in the course of carrying on a business or are acquired in a transaction considered to be an adventure in the nature of trade. Holders whose exchangeable shares might not otherwise qualify as capital property may be entitled to make an irrevocable election under subsection 39(4) of the Tax Act to have all their Canadian securities, including their exchangeable shares, treated as capital property in the taxation year in which the election is made and in all subsequent years. In addition, exchangeable shares and shares of common stock held by a financial institution, as defined for the purposes of the mark-to-market rules in the Tax Act, will generally not be considered to be capital property. Holders that are financial institutions should consult their own tax advisors to determine the tax consequences to them of the application of these rules.

This summary is based on the current provisions of the Tax Act, the regulations thereunder and the current published administrative policies and assessment practices of the Canada Customs and Revenue Agency. This summary also takes into account all proposed amendments to the Tax Act and the regulations announced by the Minister of Finance before the date hereof. This summary does not otherwise take into account or anticipate changes in the law, whether by judicial, governmental or legislative action or decision, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations described herein.

THIS SUMMARY IS OF A GENERAL NATURE ONLY AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSTRUED AS, LEGAL OR TAX ADVICE TO ANY PARTICULAR HOLDER OF EXCHANGEABLE SHARES. ACCORDINGLY, HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THE REDEMPTION OR EXCHANGE OF EXCHANGEABLE SHARES HAVING REGARD TO THEIR PARTICULAR CIRCUMSTANCES.

For the purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of shares of common stock must be expressed in Canadian dollars; amounts denominated in U.S. dollars must be converted into Canadian dollars based on the Canadian/US dollar exchange rate at the time the amounts arise.

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Redemption or Exchange of Exchangeable Shares

On the redemption (including a retraction) of an exchangeable share by SMTC Canada, the holder will be deemed to have received a dividend equal to the amount, if any, by which the redemption proceeds (the fair market value at that time of the shares of common stock plus the amount of any cash received on the redemption) exceeds the paid-up capital for purposes of the Tax Act of the exchangeable share at the time of the redemption.

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Any deemed dividend received on a redemption by a holder who is an individual will be included in computing the holder's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from a corporation resident in Canada.

Any deemed dividend received on a redemption by a holder that is a corporation, other than a specified financial institution, as defined in the Tax Act, will be included in computing the holder's income and, subject to the discussion below respecting the denial of the inter-corporate dividend deduction, will generally be deductible in computing its taxable income.

Any deemed dividend received on a redemption by a holder that is a specified financial institution will be deductible in computing its taxable income only if (i) the holder did not acquire the exchangeable shares in the ordinary course of its business, or (ii) at the time the deemed dividend is received, the exchangeable shares are listed on a prescribed stock exchange in Canada (which currently includes the TSE) and the holder, alone or together with persons with whom it does not deal at arm's length, does not receive and is not deemed to receive dividends in respect of more than 10% of the outstanding exchangeable shares either directly or through a partnership or, in certain cases, through a trust.

If SMTC Corporation, or any other person with whom SMTC Corporation does not deal at arm's length, is a specified financial institution at the time of a redemption, then subject to the exemption described below, a holder that is a corporation will not be entitled to deduct the deemed dividend received on the redemption in computing its taxable income. In general, a corporation is a specified financial institution if it is a bank, a trust company, a credit union, an insurance corporation or a corporation whose principal business is lending money to, or purchasing debt obligations issued by, persons with whom the corporation is dealing at arm's length or a combination of these activities, or a corporation that is controlled by, or related to, one or more of such entities. SMTC Corporation is of the view that neither it nor any person with whom it does not deal at arm's length is a specified financial institution at the present time. There can be no assurance, however, that this status will not change before exchangeable shares are redeemed. In any event, this rule will not apply if, at the time a deemed dividend is received on a redemption, SMTC Corporation is related to SMTC Canada for purposes of the Tax Act and the exchangeable shares are listed on a prescribed stock exchange in Canada, unless deemed dividends in respect of more than 10% of the outstanding exchangeable shares are, or are deemed to be, paid to the holder or to the holder and persons with whom the holder does not deal at arm's length or any partnership or trust of which the holder or non-arm's length person is a member or beneficiary.

A holder that is a private corporation, as defined in the Tax Act, or any other corporation resident in Canada and controlled or deemed to be controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) may be liable to pay a refundable tax under Part IV of the Tax Act of 33 1/3% of any deemed dividend received on the

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redemption of exchangeable shares to the extent that such deemed dividend is deductible in computing the holder's taxable income. A holder that is a Canadian-controlled private corporation, as defined in the Tax Act, may be liable to pay an additional refundable tax of 6 2/3% on any deemed dividend that is not deductible in computing taxable income.

On the redemption (including a retraction) of an exchangeable share by SMTC Canada, the holder will also be considered to have disposed of the exchangeable share for proceeds of disposition equal to the redemption proceeds less the amount of any deemed dividend received on the redemption and will generally realize a capital gain (or a capital loss) equal to the amount by which such proceeds of disposition exceed (or are less than) the holder's adjusted cost base of the exchangeable share. See "- Taxation of Capital Gains or Capital Losses" below. In some circumstances, the amount of any deemed dividend received on a redemption by a holder that is a corporation may be treated as proceeds of disposition and not as a dividend.

Where an exchangeable share is exchanged with SMTC Corporation or SMTC Nova Scotia for shares of common stock, the holder will generally realize a capital gain (or a capital loss) to the extent the proceeds of disposition of the exchangeable share exceed (or are less than) the holder's adjusted cost base of the exchangeable share and any reasonable costs of disposition. For this purpose, the proceeds of disposition will

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be the aggregate of the fair market value at the time of the exchange of the shares of common stock received on the exchange and the amount of any cash received by the holder as part of the exchange consideration. See "- Taxation of Capital Gains or Capital Losses" below.

Because of the existence of the call rights, the exchange right and the automatic exchange right, a holder of exchangeable shares cannot control whether such holder will receive shares of common stock by way of redemption of the exchangeable shares by SMTC Canada or by way of exchange of the exchangeable shares with SMTC Corporation or SMTC Nova Scotia. As described above, the Canadian federal income tax consequences of a redemption differ from those of an exchange.

Acquisition, Holding and Disposition of Common Stock

The cost of the shares of common stock received on the redemption or exchange of an exchangeable share will be equal to the fair market value of such shares at the time of redemption or exchange and will be averaged with the adjusted cost base of other shares of common stock held by the holder as capital property at that time.

Dividends received on shares of common stock will be included in the holder's income for the purposes of the Tax Act. Such dividends received by a holder who is an individual will not be subject to the gross-up and dividend tax credit rules in the Tax Act. A holder that is a corporation will not be entitled to deduct the amount of such dividends in computing its taxable income. A holder that is a Canadian-controlled private corporation may be liable to pay an additional refundable tax of 6 2/3% on such dividends. Subject to the detailed rules in the Tax Act, a holder may be entitled to a foreign tax credit or deduction for any United States non-resident withholding tax paid on dividends received on shares of common stock.

A disposition or deemed disposition of common stock by a holder will generally result in a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are less than) the holder's adjusted cost

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base to the shareholder of common stock and any reasonable costs of disposition. See -"Taxation of Capital Gains or Capital Losses" below.

Taxation of Capital Gains or Capital Losses

Under proposed amendments to the Tax Act, one-half of any capital gain (a "taxable capital gain") will generally be included in the holder's income in the taxation year in which the disposition occurs and one-half of any capital loss (an "allowable capital loss") may be deducted against taxable capital gains in the taxation year in which the disposition occurs in accordance with the rules in the Tax Act and the proposed amendments. Allowable capital losses which cannot be deducted from taxable capital gains in the year of disposition may generally be carried back three years and forward indefinitely to offset taxable capital gains in the years to the extent and in the circumstances set out in the Tax Act and the proposed amendments.

Capital gains realized by individuals and certain trusts may give rise to alternative minimum tax under the Tax Act. A holder that is a Canadian-controlled private corporation may be liable to pay an additional refundable tax of 6 2/3% on taxable capital gains.

If the holder of an exchangeable share is a corporation, the amount of any capital loss arising on a disposition or deemed disposition of an exchangeable share may be reduced by the amount of dividends received or deemed to have been received by it on the share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns exchangeable shares or where a trust or partnership of which a corporation is a beneficiary or a member is a member of a partnership or a beneficiary of a trust that owns any such shares.

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Qualified Investments

Shares of common stock will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and deferred income plans, provided such shares are listed on a prescribed stock exchange. Shares of common stock will be foreign property under the Tax Act.

Foreign Property Investment Entity Status

On June 22, 2000, the Minister of Finance introduced draft legislation (the "proposed rules") relating to the income tax treatment of investments by Canadian residents in foreign investment entities ("FIEs"). If the proposed rules are enacted in the form contained in the draft legislation, holders of exchangeable shares will be subject to special anti-deferral rules in each taxation year that begins after 2000, if SMTC Corporation is a FIE at the end of its last taxation year ended at or before the end of the relevant taxation year. If these rules applied, the tax consequences of a redemption or an exchange would differ from those described above. In simplified terms, a foreign corporation, like SMTC Corporation, will be an FIE within the meaning of the proposed rules at the end of a taxation year if, at that time, the "carrying value" of its "investment property" represents more than 50% of the "carrying value" of all of its property.

The draft legislation has not been tabled in the House of Commons and its release was accompanied by an invitation from the Minister of Finance for comments from interested parties. Accordingly, it is impossible to predict whether the proposed rules will be enacted in the form contained in the draft legislation or what changes to the proposed rules might be made before they

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are enacted. However, SMTC Corporation believes that, if the proposed rules applied on the date hereof, it would not be a FIE and expects to conduct its affairs in such a manner that, if the proposed rules are enacted in the form contained in the draft legislation, it would not be a FIE at any relevant time in the foreseeable future.

Definitions

Unless the context otherwise requires, the following terms shall have the meanings set forth below when used in the "Details of Exchangeables Shares" section.

"Canadian Dollar Equivalent" means in respect of an amount expressed in a currency other than Canadian dollars at any date, the product obtained by multiplying:

- (i) the foreign currency amount; and
- (ii) the noon spot exchange rate on such date for such foreign currency expressed in Canadian dollars as reported by the Bank of Canada or, if such noon spot exchange rate is not available, such spot exchange rate on such date for such foreign currency expressed in Canadian dollars as may be deemed by the board of directors of SMTC Canada to be appropriate for such purpose.

"Company Insolvency Event" means the consent of SMTC Canada to the institution of bankruptcy, insolvency or winding-up proceedings against it, or the filing of a petition, answer or consent seeking dissolution or winding-up under any bankruptcy, insolvency or analogous laws, including without limitation, the Companies Creditors' Arrangement Act (Canada) and the Bankruptcy and Insolvency Act (Canada), where SMTC Canada fails to contest in good faith any such proceedings commenced in respect of it within 30 days of becoming aware thereof, or the consent by SMTC Canada to the filing of any such petition or to the appointment of a receiver, or the institution by SMTC Canada of any such proceeding, or the making by SMTC Canada of a general assignment for the benefit of creditors, or the admission in writing by SMTC Canada of its inability to pay its debts generally as they become due, or SMTC Canada not being permitted, pursuant to solvency requirements of applicable law, to redeem any retracted exchangeable shares.

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"Company Liquidation Amount" means, with respect to each exchangeable share, an amount equal to the current market price of a share of common stock on the last business day prior to the effective date of the liquidation, dissolution or winding-up of SMTC Canada, to be satisfied by the delivery of one share of common stock plus the full amount of all dividends, if any, declared and unpaid on each such exchangeable share held by a holder on any dividend record date occurring prior to such time.

"Exchangeable Share Voting Event" means any matter in respect of which holders of exchangeable shares are entitled to vote as shareholders of SMTC Canada, other than an Exempt Exchangeable Share Voting Event, and, for greater certainty, excluding any matter in respect of which holders of exchangeable shares are entitled to vote (or instruct the trustee to vote) in their capacity as beneficiaries under the Voting and Exchange Trust Agreement.

"Exempt Exchangeable Share Voting Event" means any matter in respect of which holders of exchangeable shares are entitled to vote as shareholders of SMTC Canada in order to approve or disapprove, as applicable, any change to, or in the rights of the holders of, the exchangeable shares, where the approval or

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disapproval, as applicable, of such change would be required to maintain the equivalence of the exchangeable shares and the common stock.

"SMTC Control Transaction" means any merger, amalgamation, tender offer, material sale of shares or rights or interests therein or thereto or similar transactions involving, for or by SMTC, or any proposal to take any such action.

"SMTC Liquidation Amount" means, with respect to each exchangeable share, an amount equal to the current market price of a share of common stock on the fifth business day prior to the effective date of an SMTC Liquidation Event, to be satisfied by delivery of one share of common stock plus any declared and unpaid dividends.

"SMTC Liquidation Event" means (i) any determination by the SMTC board of directors to institute voluntary liquidation, dissolution, or winding-up proceedings with respect to SMTC or to effect any other distribution of its assets among its shareholders for the purpose of winding-up its affairs; or (ii) the earlier of (A) receipt by SMTC of notice of, and (B) SMTC becoming aware of, any threatened or instituted claim, suit, petition or other proceedings with respect to the involuntary liquidation, dissolution or winding-up of SMTC or to effect any other distribution of assets of SMTC among its shareholders for the purpose of winding-up its affairs, in each case of (A) or (B) above where SMTC has failed to contest in good faith any such proceeding commenced in respect of SMTC within 30 days of becoming aware thereof.

"SMTC Nova Scotia" means SMTC Nova Scotia Company, a wholly-owned subsidiary of SMTC.

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SHARES ELIGIBLE FOR FUTURE SALE

The sale of a substantial amount of our shares in the public market could adversely affect the prevailing market price of our shares. Furthermore, the sale of a substantial amount of shares in the public market after the contractual and legal restrictions on resale described below lapse could adversely affect the prevailing market price of our shares and our ability to raise equity capital in the future.

We had a total of 28,689,779 shares outstanding on March 16, 2001. Of these shares, all of the shares sold in our initial public offering are freely tradable without restriction or further registration under the Securities Act, unless the shares are purchased by "affiliates" as that term is defined in Rule 144 under the Securities Act. Any shares purchased by an affiliate may not be resold except pursuant to an effective registration statement or an applicable exemption from registration, including an exemption under Rule 144 of the Securities Act. The remaining shares of common stock held by existing stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act. These restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act. These rules are summarized below.

Subject to the provisions of Rule 144 and Rule 701, restricted shares totaling 15,013,679 became available for sale in the public market 180 days after the date of our initial public offering. The sale of these restricted securities is subject to the volume restrictions contained in those rules.

Rule 144

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In general, under Rule 144 as currently in effect, a person who has beneficially owned shares of our common stock for at least one year from the later of the date those shares of common stock were acquired from us or from an affiliate of ours would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- . one percent of the number of shares of common stock then outstanding, which was equal to approximately 220,000 shares on March 16, 2001; or
- . the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale of any shares of common stock.

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The sales of any shares of common stock under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

Under Rule 144(k), a person who is not one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years from the later of the date such shares of common stock were acquired from us or from an affiliate of ours, including the holding period of any prior owner other than an affiliate, is entitled to sell those shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. As of March 16, 2001, no shares are eligible for sale under Rule 144(k).

Rule 701

In general, under Rule 701 of the Securities Act as currently in effect, each of our employees, consultants or advisors who purchased shares from us in connection with a compensatory stock plan or other written agreement is eligible to resell those shares 90 days after the effective date our initial public offering in reliance on Rule 144, but without compliance with some of the restrictions, including the holding period, contained in Rule 144.

No precise prediction can be made as to the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price of our common stock prevailing from time to time. We are unable to estimate the number of our shares that may be sold in the public market pursuant to Rule 144 or Rule 701 because this will depend on the market price of our common stock, the personal circumstances of the sellers and other factors. After our initial public offering, there were 54,271 shares available for sale under Rule 701. Nevertheless, sales of significant amounts of our common stock in the public market could adversely affect the market price of our common stock.

Stock Plans

We have filed a registration statement under the Securities Act covering 2,213,499 shares of common stock reserved for issuance under our 1998 Plan and our 2000 Plan. This registration statement is expected to be filed as soon as practicable after the effective date of our initial public offering.

There are options to purchase 466,395 shares of our common stock outstanding under our 1998 Plan. In addition, we granted options to purchase approximately 300,000 shares of common stock under our 2000 Plan prior to the completion of

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our initial public offering. All of these shares are eligible for sale in the public market from time to time, subject to vesting provisions, Rule 144 volume limitations applicable to our affiliates and, in the case of some of the options, the expiration of lock-up agreements.

Registration Rights under Stockholders Agreement

Some of our stockholders, under some circumstances, have the right to require us to register their shares for future sale. See "Description of Capital Stock--Registration Rights."

Sales in Canada--Exchangeable Shares

Canadian residents hold 6,370,959 exchangeable shares and no options to purchase exchangeable shares as of March 16, 2001. All of the outstanding exchangeable shares are freely tradeable in Canada without restriction except for shares that may be held by controlling persons of SMTC Canada (generally, persons or companies, who alone or in combination with others hold a sufficient number of securities to affect materially the control of SMTC Canada or SMTC).

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Exchangeable shares issuable upon exercise of such options may not be sold or otherwise disposed of for value in Canada, except pursuant to a prospectus, a discretionary exemption or a statutory exemption available only in specific limited circumstances, for 12 months from the date that the Ontario Securities Commission issues a receipt for the prospectus to be used by SMTC Canada in connection with the concurrent offering of exchangeable shares.

All of the exchangeable shares are freely exchangeable into common stock on a one-for-one basis and freely tradeable in the United States as such common stock, subject to compliance with applicable securities laws.

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PLAN OF DISTRIBUTION

We have offered an aggregate of 11,000,000 shares of common stock pursuant to this offering and an underwritten public offering. 4,375,000 of such shares were initially offered by our subsidiary, SMTC Canada, as exchangeable shares of its capital stock. The exchangeable shares of SMTC Canada may be exchanged at any time at the option of the holder on a one-for-one basis for shares of our common stock. The issuance of such shares of common stock in exchange for exchangeable shares is being registered by this prospectus. We have agreed to bear the expenses of registration of the shares in this prospectus.

Holders of exchangeable shares may exchange their exchangeable shares for common stock by exercising their retraction rights, which are described under "Details of Exchangeable Shares--Retraction." A description of the tax effects of such exchange is also included under "Details of Exchangeable Shares."

The exchangeable shares are intended to be functionally and economically equivalent to the shares of common stock, accordingly there are no material differences in the rights of the holders of common stock and the holders of exchangeable shares. Additional information on the rights of the holders of exchangeable shares is included under "Details of Exchangeable Shares."

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LEGAL MATTERS

The validity of the shares to be issued in this offering has been passed upon for us by Ropes & Gray, Boston, Massachusetts. Some partners of Ropes & Gray are members in RGIP LLC, which beneficially owns 27,971 shares of common stock. RGIP LLC is also an investor in certain of the Bain Capital Funds. The "Details of Exchangeable Shares--Certain Canadian Federal Income Tax Considerations" has been passed upon for us by McMillan Binch, Toronto, Ontario.

EXPERTS

Our consolidated financial statements and financial statement schedule as of December 31, 1999 and 2000 and for the years then ended and the consolidated financial statements of SMTC Corporation, or Surface Mount, as of July 29, 1999 and August 31, 1998 and for the period from September 1, 1998 to July 29, 1999 and each of the years in the two year period ended August 31, 1998 included in this prospectus and elsewhere in the registration statement have been so included in reliance on the reports of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

The audited consolidated financial statements and financial statement schedule of SMTC Corporation (formerly HTM Holdings, Inc.) as of and for the year ended December 31, 1998 included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

The financial statements of W.F. Wood, Incorporated as of September 3, 1999 and December 31, 1998 and 1997, and for the period from January 1, 1999 to September 3, 1999 and each of the three years in the period ended December 31, 1998 included in this prospectus have been so included in reliance on the report of Canby, Maloney & Co., Inc., independent accountants, appearing elsewhere herein, and upon the authority of such firm as experts in auditing and accounting.

The financial statements of Pensar as of December 31, 1998 and 1999 and for each of the years in the three-year period ended December 31, 1999 included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the report of KPMG LLP, independent certified public accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

The financial statements of Qualtron as of September 30, 2000 and 1999 and for each of the years in the three-year period ended September 30, 2000 included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the report of KPMG, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

On September 20, 1999, we notified KPMG LLP that it would be engaged as our independent auditors, replacing Arthur Andersen LLP, who were dismissed as our independent auditors on September 20, 1999. KPMG LLP was the independent auditor for Surface Mount prior to the July 1999 combination of Surface Mount and HTM. The decision to change independent auditors was approved by our board of directors on September 17, 1999. During their engagement, Arthur Andersen LLP issued no audit report which was qualified or modified as to uncertainty, audit scope or accounting principles, no adverse opinions or disclaimers of opinion on any of our financial statements, and there were no disagreements with Arthur Andersen LLP on any matter of accounting principles or practices,

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financial statement disclosure, or auditing scope or procedures.

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ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, including exhibits and schedules, under the Securities Act with respect to the common stock to be sold in this offering. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement. For further information about us and our common stock, you should refer to the registration statement. Any statements made in this prospectus as to the contents of any contract, agreement or other document are necessarily incomplete. With respect to each such contract, agreement or other document filed as an exhibit to the registration statement we refer you to the exhibit for a more complete description of the matter involved, and each statement in this prospectus shall be deemed qualified in its entirety by this reference.

You may read and copy all or any portion of the registration statement or any reports, statements or other information in the files at the public reference facilities of the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C., 20549 and at the regional offices of the SEC located at Seven World Trade Center, 13th Floor, New York, New York 10048 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You can request copies of these documents upon payment of a duplicating fee by writing to the SEC. You may call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference rooms. Our filings, including the registration statement, will also be available to you on the Internet site maintained by the SEC at <http://www.sec.gov>.

We will also file annual, quarterly and current reports, proxy statements and other information with the SEC. You can request copies of these documents, for a copying fee, by writing to the SEC. We intend to furnish our stockholders with annual reports containing financial statements audited by our independent auditors.

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SMTC CORPORATION

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF SMTC CORPORATION Year ended December 31, 2000

The unaudited pro forma consolidated statement of earnings for the year ended December 31, 2000 gives pro forma effect to (1) the acquisition of Pensar Corporation by SMTC Corporation, (2) the acquisition of Qualtron Teoranta by SMTC Manufacturing Corporation of Canada and (3) the initial public offering including the exercise of the underwriters' over-allotment option and the application of the net proceeds to reduce indebtedness. The unaudited pro forma consolidated statement of earnings gives effect to the acquisitions and our initial public offering as if each of these occurred on January 1, 2000. The accounting policies used in preparing the unaudited pro forma consolidated financial information are those disclosed in the SMTC Corporation consolidated financial statements included in this prospectus.

The unaudited pro forma consolidated financial information has been provided for information purposes only and is not necessarily indicative of the results of operations or financial condition that actually would have been achieved if the acquisition and other transactions had been completed on the date indicated or that may be reported in the future. The unaudited pro forma financial information does not reflect expenses expected to be incurred to finalize the integration of the acquired operations or potential cost savings or improvements in revenue that SMTC Corporation believes can be realized as a result of the acquisition. The pro forma financial information should be read in conjunction with the consolidated financial statements of SMTC Corporation and the acquired operations, including the respective notes, included elsewhere in this prospectus.

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SMTC CORPORATION

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PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
(In thousands of U.S. dollars, except share quantities and per share amounts)
Year ended December 31, 2000
(Unaudited)

	SMTC Corporation year ended December 31, 2000	Pensar Corporation period from January 1, 2000 to July 27 2000	Qualtron Teoranta period from January 1, 2000 to November 22, 2000	Adjustments	Pro forma
Revenue.....	\$ 782,763	\$38,355	\$21,445	\$	\$ 842,56
Cost of sales.....	714,420	32,534	17,370		764,32
Gross profit.....	68,343	5,821	4,075		78,23
Selling, general and administrative expenses.....	34,614	3,403	2,329		40,34
Amortization.....	6,229	4	--	3,212 (a) (295) (b)	9,15
Operating income.....	27,500	2,414	1,746	(2,917)	28,74
Interest expense (income).....	13,837	232	(64)	1,965 (c) (8,286) (d)	7,68
Earnings before income taxes.....	13,663	2,182	1,810	3,404	21,05
Income taxes.....	7,347	--	185	2,897 (e)	10,42
Earnings.....	\$ 6,316 =====	\$ 2,182 =====	\$ 1,625 =====	\$ 507 =====	\$ 10,63 =====
Earnings per common share:					
Earnings.....	\$ 6,316				
Less Class L preferred entitlement.....	(3,164)				
Earnings attributable to common shareholders....	\$ 3,152 =====				
Earnings per common share					
Basic.....	\$ 0.24				\$ 0.3
Diluted.....	0.23 =====				0.3 =====
Weighted average number of shares outstanding:					
Basic.....	13,212,076				28,213,50
Diluted.....	13,736,616 =====				29,042,13 =====

See accompanying notes to pro forma consolidated financial information.

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION
(In thousands of U.S. dollars)
Year ended December 31, 2000

1. Basis of presentation:

The unaudited pro forma consolidated statement of earnings has been prepared in accordance with United States Generally Accepted Accounting Principles.

The pro forma consolidated statement of earnings for the year ended December 31, 2000 gives effect to the following transactions:

- (i) The initial public offering of common stock of the Company and exchangeable shares of its subsidiary with the net proceeds used to repay indebtedness.
- (ii) SMTC Corporation's acquisition of all the issued and outstanding shares of Pensar Corporation on the closing date of the initial public offering for approximately \$37,019 including acquisition costs. The purchase consideration consisted of \$18,000 in cash consideration and costs and 1,188,682 shares of common stock of SMTC Corporation. The valuation of the Company's shares issued as consideration was based on the Company's initial public offering price.
- (iii) SMTC Corporation's acquisition of all the issued and outstanding shares of Qualtron Teoranta for approximately \$26,900 including acquisition costs. The final purchase price is subject to a working capital adjustment. The purchase consideration consists of \$14,355 in cash consideration and costs and 547,114 exchangeable shares of SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada.

The unaudited pro forma consolidated financial information for the year ended December 31, 2000 has been prepared by management of SMTC Corporation based on the audited consolidated financial information of SMTC Corporation (formerly HTM Holdings, Inc.) for the year ended December 31, 2000, the unaudited financial statements of Pensar Corporation for the period from January 1, 2000 to July 27, 2000 and the unaudited financial statements of Qualtron Teoranta for the period from January 1, 2000 to November 22, 2000.

The unaudited pro forma consolidated statement of earnings does not reflect the net after-tax extraordinary loss of \$2.7 million resulting from debt prepayment penalties of \$0.3 million, the write-off of unamortized debt financing fees of \$2.9 million and the write-off of the value of the warrants issued in excess of the proceeds received of \$1.1 million, net of a tax recovery of \$1.6 million.

The acquisitions are accounted for by the purchase method. The total purchase consideration is allocated to the identifiable assets acquired and liabilities assumed based on their respective fair values as at the date of acquisition, with the excess amounts allocated to goodwill, which will be amortized over a useful life of ten years.

Accounting policies used in the preparation of the unaudited pro forma consolidated financial information are those disclosed in the SMTC Corporation consolidated financial statements as at and for the year ended December 31, 2000. The unaudited pro forma consolidated financial information should be read in conjunction with the separate historical audited consolidated financial statements of SMTC Corporation (formerly HTM Holdings, Inc.), Pensar Corporation and Qualtron Teoranta.

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The pro forma consolidated financial information is not necessarily indicative of the actual results that would have occurred had the acquisitions occurred on the dates indicated and is not necessarily indicative

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SMTC CORPORATION

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION--(Continued)

(In thousands of U.S. dollars)

Year ended December 31, 2000

of the results of operations or financial condition that actually would have been achieved if the acquisitions had been completed on the dates indicated, or that may be reported in the future. In preparing pro forma information, no adjustments have been made to reflect expenses expected to be incurred to finalize the integration of the acquired operations or the full impact of the operating synergies expected to result from combining the operations of SMTC Corporation and the acquired operations.

2. Pro forma adjustments:

The pro forma consolidated statement of earnings gives effect to the acquisitions of Pensar Corporation and Qualtron Teoranta as if each had taken place on January 1, 2000. The following reflects the allocation of the purchase consideration for the acquisitions in accordance with the purchase method of accounting:

	Pensar Corporation	Qualtron Teoranta
	-----	-----
Current assets.....	\$ 16,609	\$13,041
Capital assets.....	5,299	1,858
Other long-term assets.....	581	--
Goodwill and excess of purchase price over tangible book value of net assets acquired.....	26,563	18,075
Liabilities assumed.....	(12,033)	(6,074)
	-----	-----
Net assets acquired.....	\$ 37,019	\$26,900
	=====	=====

- (a) Reflects the additional amortization expense of \$1,555 for Pensar Corporation and \$1,657 for Qualtron Teoranta related to goodwill and the excess of purchase price over tangible book value of net assets acquired. The amortization is based on an estimated useful life of 10 years.
- (b) Reflects the decrease in amortization of debt issuance costs as a result of the application of the offering proceeds to reduce indebtedness.
- (c) Reflects the additional interest expense of \$873 for Pensar Corporation and \$1,092 for Qualtron Teoranta related to the borrowings required by SMTC Corporation to complete the Pensar Corporation and Qualtron Teoranta acquisitions based on the Company's incremental borrowing rate on December 31, 2000 of LIBOR plus 250 basis points.

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(d) Reflects the decrease in interest expense in connection with the use of net proceeds from the offering to repay outstanding debt as follows:

Pro forma interest expense (including acquisitions).....	\$15,970
Elimination of historical and pro forma interest resulting from the application of offering proceeds.....	(8,286)

Pro forma interest expense subsequent to the offering.....	\$ 7,684
	=====

The elimination of historical and pro forma interest is calculated by applying the offering proceeds, including the overallotment proceeds, net of the prepayment penalty to outstanding debt balances (including the debt related to the acquisitions) net of \$5,000 to be applied to the subordinated notes

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SMTC CORPORATION
NOTES TO PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
(In thousands of U.S. dollars, except per share amounts)
Year ended December 31, 2000
(Unaudited)

issued in May 2000 and \$9,925 of demand notes issued in July 2000, as if the proceeds were applied at January 1, 2000. The proceeds were applied against the entire balance outstanding on the subordinated debt, term loans, Pensar Corporation debt and a portion of the revolving credit facility.

(e) Reflects the income tax effect of:

- . the goodwill amortization (adjustment (a)) at a 40% effective tax rate. The goodwill amortization of \$1,555 in connection with the acquisition of Pensar Corporation is tax deductible. The goodwill amortization of \$1,657 in connection with the Qualtron Teoranta acquisition is not tax deductible;
- . adjustments (b), (c) and (d) at a 40% effective tax rate; and
- . treating Pensar Corporation as a "C" Corporation. Prior to its acquisition by SMTC Corporation, Pensar Corporation held subchapter "S" status for federal and state income tax purposes, thereby consenting to include the Company's income in the shareholders' individual income tax returns.

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AUDITORS' REPORT

To the Board of Directors of SMTC Corporation

We have audited the accompanying consolidated balance sheets of SMTC Corporation (formerly HTM Holdings, Inc.) and subsidiaries as at December 31, 1999 and 2000, and the related consolidated statements of operations, changes in shareholders' equity (deficiency), and cash flows for each of the years in the two-year period ended December 31, 2000. These consolidated financial

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statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SMTC Corporation and subsidiaries as at December 31, 1999 and 2000, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2000 in accordance with United States generally accepted accounting principles.

United States generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in Canada. Application of accounting principles generally accepted in Canada would have affected results of operations for each of the years in the three-year period ended December 31, 2000 and shareholders' equity (deficiency) as at December 31, 1999 and 2000 to the extent summarized in note 22 to the consolidated financial statements.

/s/ KPMG LLP

Chartered Accountants

Toronto, Canada
February 9, 2001

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of SMTC Corporation (formerly HTM Holdings, Inc.):

We have audited the accompanying consolidated balance sheet of SMTC Corporation (a Delaware corporation, formerly HTM Holdings, Inc.) and its subsidiary as of December 31, 1998, and the related consolidated statements of earnings (loss), changes in shareholders' equity (deficiency) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above

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present fairly, in all material respects, the consolidated financial position of SMTC Corporation (formerly HTM Holdings, Inc.) and its subsidiary as of December 31, 1998, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado
March 10, 1999

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of U.S. dollars)

	December 31, 1999 and 2000	
	1999	2000
	-----	-----
Assets		
Current assets:		
Cash and short-term investments.....	\$ 2,083	\$ 2,698
Accounts receivable (note 4).....	71,597	194,749
Inventories (note 5).....	61,680	191,821
Prepaid expenses.....	3,647	5,233
Deferred income taxes (note 10).....	1,527	1,044
	-----	-----
	140,534	395,545
Capital assets (note 6).....	35,003	58,564
Goodwill (note 7).....	40,800	80,149
Other assets (note 8).....	11,145	9,859
Deferred income taxes (note 10).....	623	3,359
	-----	-----
	\$228,105	\$547,476
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable.....	\$ 53,119	\$141,574
Accrued liabilities.....	29,307	51,695
Income taxes payable.....	1,127	5,458
Current portion of long-term debt (note 9).....	2,000	7,500
Current portion of capital lease obligations (note 9)...	1,541	995
	-----	-----
	87,094	207,222
Capital lease obligations (note 9).....	1,537	1,242
Long-term debt (note 9).....	128,942	108,305
Deferred income taxes (note 10).....	2,733	2,221
Shareholders' equity:		
Capital stock (note 11).....	3	77,427
Warrants (note 11).....	367	367
Loans receivable (note 11).....	(60)	(27)
Additional paid-in-capital.....	11,804	151,396

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Deficit.....	(4,315)	(677)
	-----	-----
	7,799	228,486
Commitments and contingencies (notes 15 and 16)		
United States and Canadian accounting policy differences (note 22).....	\$228,105	\$547,476
	=====	=====

See accompanying notes to consolidated financial statements.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Years ended December 31,		
	1998	1999	2000
	-----	-----	-----
Revenue.....	\$ 89,687	\$ 257,962	\$ 782,763
Cost of sales.....	82,528	236,331	714,420
	-----	-----	-----
Gross profit.....	7,159	21,631	68,343
Selling, general and administrative expenses.....	3,280	13,332	34,614
Amortization.....	151	1,990	6,229
Leveraged recapitalization expenses (note 2(a)(ii)).....	2,219	--	--
	-----	-----	-----
Operating income.....	1,509	6,309	27,500
Interest (note 9).....	2,030	7,066	13,837
	-----	-----	-----
Earnings (loss) before income taxes.....	(521)	(757)	13,663
Income taxes (recovery) (note 10):			
Current.....	15	442	7,954
Deferred.....	(208)	(335)	(607)
	-----	-----	-----
	(193)	107	7,347
	-----	-----	-----
Earnings (loss) before extraordinary loss...	(328)	(864)	6,316
Extraordinary loss, net of income tax recovery of 1999--\$811; 2000--\$1,640 (note 17).....	--	(1,279)	(2,678)
	-----	-----	-----
Net earnings (loss).....	\$ (328)	\$ (2,143)	\$ 3,638
	=====	=====	=====
Earnings (loss) per common share (note 20):			
Earnings (loss) before extraordinary loss...	\$ (328)	\$ (864)	\$ 6,316
Preferred share dividends.....	(609)	--	--
Class L preferred entitlement.....	--	(2,185)	(3,164)
	-----	-----	-----
Earnings (loss) before extraordinary loss attributable to common shareholders.....	(937)	(3,049)	3,152

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Extraordinary loss.....	---	(1,279)	(2,678)

Earnings (loss) attributable to common shareholders.....	\$ (937)	\$ (4,328)	\$ 474
=====			
Earnings (loss) per common share before extraordinary loss.....	\$ (0.44)	\$ (1.89)	\$ 0.24
Extraordinary loss per common share.....	---	(0.79)	(0.20)

Basic earnings (loss) per common share.....	\$ (0.44)	\$ (2.68)	\$ 0.04
=====			
Diluted earnings (loss) per common share....	\$ (0.44)	\$ (2.68)	\$ 0.03
=====			
Weighted average number of shares outstanding:			
Basic.....	2,147,130	1,617,356	13,212,076
Diluted.....	2,147,130	1,617,356	13,736,616
=====			

See accompanying notes to consolidated financial statements.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(Expressed in thousands of U.S. dollars)

Years ended December 31, 1998, 1999 and 2000

	Capital stock	Warrants	Treasury stock	Additional paid-in capital	Loans receivable	Deficit	Total shareholder equity (deficiency)
	-----						-----
	(note 11)						
Balance, December 31, 1997.....	\$ 5	\$ --	\$ --	\$ 5,971	\$--	\$ (1,844)	\$ 4,132
Shares issued.....	2	--	--	7,907	--	--	7,909
Warrants issued.....	--	367	--	--	--	--	367
Preferred share dividends.....	--	--	--	(609)	--	--	(609)
Shares repurchased.....	(1)	--	(21,938)	--	--	--	(21,939)
Loss for the year.....	--	--	--	--	--	(328)	(328)

Balance, December 31, 1998.....	6	367	(21,938)	13,269	--	(2,172)	(10,468)
Acquisition of SMTC Corporation.....	(3)	--	21,938	(1,525)	--	--	20,410
Options exercised.....	--	--	--	60	(60)	--	--
Loss for the year.....	--	--	--	--	--	(2,143)	(2,143)

Balance, December 31, 1999.....	3	367	--	11,804	(60)	(4,315)	7,799
Warrants issued.....	--	3,598	--	--	--	--	3,598
Warrants exercised.....	4	(3,598)	--	3,594	--	--	--

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Share reorganization....	116	--	--	(116)	--	--	--
Shares issued on completion of initial public offering, net of costs of \$20,706.....	64,976	--	--	116,718	--	--	181,694
Shares issued on acquisition of Pensar Corporation.....	12	--	--	19,007	--	--	19,019
Options exercised.....	--	--	--	160	--	--	160
Shares issued on acquisition of Qualtron Teoranta.....	12,545	--	--	--	--	--	12,545
Conversion of shares from exchangeable to common stock.....	(229)	--	--	229	--	--	--
Repayment of loans receivable.....	--	--	--	--	33	--	33
Net earnings.....	--	--	--	--	--	3,638	3,638
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 2000.....	\$77,427	\$ 367	\$ --	\$151,396	\$ (27)	\$ (677)	\$228,486
	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of U.S. dollars)

	Years ended December 31,		
	1998	1999	2000
	-----	-----	-----
Cash provided by (used in):			
Operations:			
Net earnings (loss).....	\$ (328)	\$ (2,143)	\$ 3,638
Items not involving cash:			
Amortization.....	151	1,990	6,229
Depreciation.....	2,869	6,452	9,595
Deferred income tax provision (benefit).....	(208)	(335)	(71)
Loss (gain) on disposition of capital assets.....	(6)	160	(60)
Loss on early extinguishment of debt.....	--	1,279	2,461
Change in non-cash operating working capital:			
Accounts receivable.....	(9,895)	4,441	(110,131)
Inventories.....	(1,170)	(15,217)	(118,455)
Prepaid expenses and other.....	105	(1,705)	(1,316)
Accounts payable and accrued liabilities....	4,709	(1,487)	103,200
	-----	-----	-----
	(3,773)	(6,565)	(104,910)
Financing:			
Increase in bank indebtedness.....	1,212	--	--

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Repayment of bank indebtedness.....	--	(6,559)	--
Increase in restricted cash.....	(250)	--	--
Increase in long-term debt.....	--	130,942	--
Repayment of long-term debt.....	--	(69,261)	(19,717)
Principal payments on notes payable.....	(175)	--	--
Principal payments on capital lease obligations.....	(1,319)	(1,571)	(1,427)
Proceeds from warrants.....	--	--	2,500
Issuance of subordinated notes.....	--	--	5,000
Repayment of subordinated notes.....	--	--	(5,000)
Issuance of demand notes.....	--	--	9,925
Repayment of demand notes.....	--	--	(9,925)
Proceeds from notes payable.....	25,000	--	--
Proceeds from issuance of common stock.....	9,252	--	202,560
Dividends paid on preferred stock.....	(609)	--	--
Stock issuance costs.....	(1,342)	--	(23,400)
Repurchase of stock.....	(26,160)	--	--
Repayment of loans receivable.....	--	--	33
Debt issuance costs.....	(1,296)	(3,975)	(1,450)
	-----	-----	-----
	4,313	49,576	159,099
Investments:			
Acquisitions, net of \$4,672 (1999--\$698) cash acquired.....	--	(31,619)	(27,683)
Purchases of capital assets.....	(505)	(4,130)	(25,676)
Proceeds from sale of capital assets.....	30	8	278
Cash in escrow.....	--	(5,735)	--
Purchase of other assets.....	--	62	(493)
	-----	-----	-----
	(475)	(41,414)	(53,574)
Increase in cash and cash equivalents.....	65	1,597	615
Cash and cash equivalents, beginning of year....	421	486	2,083
	-----	-----	-----
Cash and cash equivalents, end of year.....	\$ 486	\$ 2,083	\$ 2,698
	=====	=====	=====

Supplemental cash flow information (note 14)
See accompanying notes to consolidated financial statements.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Years ended December 31, 1998, 1999 and 2000

1. Nature of business:

The Company is a worldwide provider of advanced electronics manufacturing services to original equipment manufacturers. The Company services its customers through eleven manufacturing and technology centres located in the United States, Canada, Europe and Mexico.

The Company's accounting principles are in accordance with accounting principles generally accepted in the United States and, except as outlined in note 22, are, in all material respects, in accordance with accounting

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principles generally accepted in Canada.

2. Significant accounting policies:

(a) Basis of presentation:

(i) Business combination between HTM Holdings, Inc. and SMTC Corporation:

Effective July 30, 1999, SMTC Corporation acquired 100% of the outstanding common shares of HTM Holdings, Inc. SMTC Corporation issued 1,393,971 Class A shares and 154,168 Class L shares to the shareholders of HTM Holdings, Inc. for \$16,739 cash consideration and 100% of the outstanding shares of HTM Holdings, Inc. Simultaneously, the former shareholders of SMTC Corporation subscribed for an additional 26,701 Class N shares for nominal consideration. Upon completion of these transactions, the former HTM Holdings, Inc. shareholders held 58% of the outstanding shares of SMTC Corporation. Accordingly, the acquisition is recorded as a reverse takeover of SMTC Corporation by HTM Holdings, Inc. and accounted for using the purchase method. Application of reverse takeover accounting results in the following:

- (a) The consolidated financial statements of the combined entity are issued under the name of the legal parent (SMTC Corporation) but are considered a continuation of the financial statements of the legal subsidiary (HTM Holdings, Inc.).
- (b) As HTM Holdings, Inc. is deemed to be the acquiror for accounting purposes, its assets and liabilities are included in the consolidated financial statements of the continuing entity at their carrying values and the comparative figures reflect the results of operations of HTM Holdings, Inc.
- (c) Control of the net assets and operations of SMTC Corporation is deemed to be acquired by HTM Holdings, Inc. effective July 30, 1999. For purposes of this transaction, the deemed consideration is \$24,703, being the \$20,410 fair value of the outstanding common shares of SMTC Corporation immediately prior to the business combination plus transaction costs of \$4,293.

Details of net assets acquired at fair value are as follows:

Current assets.....	\$	84,423
Capital assets.....		21,093
Goodwill.....		24,863
Liabilities assumed.....		(105,676)

Net assets acquired.....	\$	24,703
		=====

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share

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amounts)
Years ended December 31, 1998, 1999 and 2000

(ii) Recapitalization transaction:

On June 8, 1998, HTM Holdings, Inc. completed a leveraged recapitalization and reorganization in which it sold 1,800,424 new shares to an investment company, reacquired 92% of its then outstanding common shares, retired its preferred stock and settled all options outstanding under its 1993 stock option plan.

In connection with the recapitalization, the Company contributed substantially all of its assets and liabilities to a newly formed subsidiary in exchange for 100% of the subsidiary's stock, and changed its name from Hi-Tech Manufacturing, Inc. to HTM Holdings, Inc. The subsidiary adopted the Hi-Tech Manufacturing, Inc. name. The subsidiary borrowed \$13,000 in senior debt and \$12,000 in subordinated debt and entered into a \$15,000 revolving line of credit agreement. The stock of the subsidiary was pledged as collateral for the senior debt and line of credit. The subsidiary loaned approximately \$21,000 to the Company.

The net sources and uses of proceeds were as follows:

Borrowings.....	\$ 23,700
Stock proceeds.....	7,900
Repurchase of stock.....	(26,800)

	\$ 4,800
	=====

Subsequent to the leveraged recapitalization, an investment company held 92% of the outstanding common stock of the parent.

Transaction costs related to the leveraged recapitalization and compensation expense arising from the settlement of stock options resulted in a \$2,219 charge to operating income in fiscal 1998.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

(c) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Actual results may differ from those estimates.

(d) Revenue recognition:

Revenue from the sale of products is recognized when goods are shipped to customers. Revenue from the provision of services is recognized when services are provided. The earnings process is complete upon shipment of products and provision of services.

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(e) Cash and short-term investments:

Cash and short-term investments include cash on hand and deposits with banks with original maturities of less than three months.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

(f) Inventories:

Inventories are valued on a first-in, first-out basis at the lower of cost and replacement cost for raw materials and at the lower of cost and net realizable value for work in progress. Inventories include an application of relevant overhead.

(g) Capital assets:

Capital assets are recorded at cost and depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings.....	20 years
Machinery and equipment.....	7 years
Office furniture and equipment.....	7 years
Computer hardware and software.....	3 years
Leasehold improvements.....	Over term of lease

(h) Goodwill:

Goodwill represents the excess of cost over the fair value of net tangible assets acquired in facility acquisitions and other business combinations. Goodwill is amortized on a straight-line basis over 10 years. The recoverability of goodwill is reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment of value is recorded if undiscounted projected future net cash flows of the acquired operation are determined to be insufficient to recover goodwill. The amount of goodwill impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting the Company's average cost of funds.

(i) Other assets:

Costs incurred relating to the issuance of debt are deferred and amortized over the term of the related debt. Amortization of debt issuance costs is included in amortization expense in the consolidated statements of operations. Deferred lease costs are amortized over the term of the lease.

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(j) Income taxes:

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable earnings. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. The effect of changes in tax rates is recognized in the period in which the rate change occurs.

(k) 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 Statement of Financial Accounting Standards No. 123.

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SMTC CORPORATION (FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

(l) Foreign currency translation:

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

(m) Financial instruments and hedging:

The Company enters into interest rate swap contracts to hedge its exposure to changes in interest rates on its long-term debt. The contracts have the effect of converting the floating rate of interest on \$65,000 of the senior credit facility to a fixed rate. Net receipts, payments and accruals under the swap contracts are recorded as adjustments to interest expense.

If a swap is terminated prior to its maturity, the gain or loss is recognized over the remaining original life of the swap if the item hedged remains outstanding or immediately, if the item hedged does not remain outstanding. If the swap is not terminated prior to maturity, but the underlying hedged item is no longer outstanding, the interest rate swap is marked to market and any unrealized gain or loss is recognized immediately.

One of the Company's subsidiaries has entered into forward foreign currency contracts to hedge foreign currency exposures on future sales. As the contracts do not meet the criteria for hedge accounting, the Company records those contracts on the balance sheet at their fair values and any

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corresponding unrealized gains or losses are recognized in the statements of operations.

(n) Impairment of long-lived assets:

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairments whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets.

(o) Comprehensive income:

Comprehensive income includes all changes in equity (net assets) during a period from non-owner sources. During each of the years in the three-year period ended December 31, 2000 comprehensive income was equal to net earnings (loss).

(p) Recently issued accounting pronouncements:

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. SFAS No. 133 requires all derivatives to be recognized either as assets or liabilities and measured at fair value. The Company will implement SFAS No. 133 for its first quarter ended March 31, 2001. In accordance

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

with the new standard, the Company will account for its existing interest rate swaps as cash flow hedges. If the Company applied the new standard at December 31, 2000, the Company would record an \$85 liability on its balance sheet and an \$85 charge to other comprehensive income as a cumulative effect type adjustment to reflect the initial mark to market on the interest rate swaps.

3. Acquisitions:

In addition to the business combination between HTM Holdings, Inc. and SMTC Corporation (note 2(a)(i)), the Company completed two acquisitions during 1999 and two acquisitions during 2000, which were accounted for as purchases. The results of operations of the facilities acquired are included in these financial statements from their respective dates of acquisition.

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Acquisitions completed in 1999:

(a) In July 1999, the Company acquired a manufacturing facility operated by Zenith Electronics Corporation in Chihuahua, Mexico. Zenith used the facility to manufacture components included in Zenith products. The transaction was effected through the acquisition of the outstanding shares of Cableproducts de Chihuahua, S.A. de C.V. ("Cableproducts") and Radio Components de Mexico, S.A. de C.V. ("Radio"). The total purchase price of \$8,352 was financed with cash. Under the provisions of the purchase agreement, Zenith may claim additional consideration in the form of cash if certain production volumes are achieved. The contingent consideration will be amortized over the remaining term of the supply contract with Zenith if and when paid. Of the purchase price, \$5,735 is being held in escrow and will be released pending the resolution of certain liabilities, including the settlement of a portion of the contingent consideration.

(b) In September 1999, the Company acquired 100% of the issued and outstanding shares of W.F. Wood, Incorporated. W.F. Wood, Incorporated operates a manufacturing facility that provides high precision enclosures, located in Boston, Massachusetts. The total purchase price of \$19,672 was financed with cash.

Acquisitions completed in 2000:

(a) On July 27, 2000, simultaneously with the closing of the initial public offering, the Company acquired Pensar Corporation, an electronics manufacturing services company specializing in design services and located in Appleton, Wisconsin. The total purchase price including transaction costs was \$37,019 resulting in goodwill of approximately \$26,563. The purchase consideration consisted of \$18,000 cash and the balance in 1,188,682 shares of common stock of the Company. The cash portion of the acquisition was financed with a portion of the proceeds from the initial public offering.

(b) On November 22, 2000, the Company acquired Qualtron Teoranta, a provider of specialized custom made cable harnesses and fibre optic assemblies located in Donegal, Ireland. The total purchase price including transaction costs was \$26,900 resulting in goodwill of approximately \$18,075. The final purchase price is subject to a working capital adjustment. The purchase consideration consisted of \$14,355 cash and the balance in 547,114 exchangeable shares of SMTC Manufacturing Corporation of Canada, a subsidiary of the Company.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

Details of the net assets acquired in these acquisitions, at fair value, are as follows:

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	Manufacturing Facility	W.F. Wood, Incorporated	Pensar Corporation	Qualtron Teoranta
Current assets.....	\$ --	\$ 6,354	\$16,609	\$13,041
Capital assets.....	9,094	1,695	5,299	1,858
Other long-term assets.....	--	20	581	--
Goodwill.....	--	17,468	26,563	18,075
Liabilities assumed.....	--	(5,865)	(12,033)	(6,074)
Deferred income taxes.....	(742)	--	--	--
Net assets acquired.....	\$8,352	\$19,672	\$37,019	\$26,900

The following unaudited pro forma consolidated financial information for the year ended December 31, 1999 reflects the impact of the business combination with SMTC Corporation and the acquisitions of W.F. Wood, Incorporated, Pensar Corporation and Qualtron Teoranta assuming the acquisitions had occurred at the beginning of 1999. The following unaudited pro forma consolidated financial information for the year ended December 31, 2000 reflects the impact of the acquisitions of Pensar Corporation and Qualtron Teoranta assuming the acquisitions had occurred at the beginning of 2000. This unaudited pro forma consolidated financial information has been provided for information purposes only and is not necessarily indicative of the results of operations or financial condition that actually would have been achieved if the acquisitions had been on the date indicated, or that may be reported in the future:

	1999	2000
	(Unaudited)	(Unaudited)
Revenue.....	\$530,690	\$842,563
Earnings (loss) before extraordinary loss.....	(1,767)	5,662
Net earnings (loss).....	(3,046)	2,984
Basic earnings (loss) per share.....	(1.46)	0.22
Diluted earnings (loss) per share.....	(1.46)	0.21

4.Accounts receivable:

Accounts receivable at December 31, 2000 are net of an allowance for doubtful accounts of \$2,368 (1999--\$514).

5.Inventories:

	1999	2000
Raw materials.....	\$35,371	\$107,767
Work in progress.....	17,124	56,521
Finished goods.....	8,578	25,493
Other.....	607	2,040
	\$61,680	\$191,821

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

6.Capital assets:

1999	Cost	Accumulated depreciation	Net book value
----	-----	-----	-----
Land.....	\$ 2,060	\$ --	\$ 2,060
Buildings.....	5,099	59	5,040
Machinery and equipment.....	31,150	12,789	18,361
Office furniture and equipment.....	2,540	479	2,061
Computer hardware and software.....	3,838	1,371	2,467
Leasehold improvements.....	6,065	1,051	5,014
	-----	-----	-----
	\$50,752	\$15,749	\$35,003
	=====	=====	=====

2000	Cost	Accumulated depreciation	Net book value
----	-----	-----	-----
Land.....	\$ 3,134	\$ --	\$ 3,134
Buildings.....	11,653	313	11,340
Machinery and equipment.....	41,301	17,953	23,348
Office furniture and equipment.....	3,965	1,091	2,874
Computer hardware and software.....	8,004	3,339	4,665
Leasehold improvements.....	15,726	2,523	13,203
	-----	-----	-----
	\$83,783	\$25,219	\$58,564
	=====	=====	=====

Property and equipment under capital leases included in capital assets at December 31, 2000 was \$2,027 (1999--\$8,981) and accumulated depreciation of equipment under capital leases at December 31, 2000 was \$917 (1999--\$8,123).

Included in the total depreciation expense for the year ended December 31, 2000 of \$9,595 (1999--\$6,452; 1998--\$2,869) is \$273 (1999--\$1,358; 1998--\$1,305) relating to the depreciation of equipment under capital leases.

7.Goodwill:

1999	Cost	Accumulated depreciation	Net book value
------	------	--------------------------	----------------

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Goodwill.....	\$42,331	\$1,531	\$40,800
	=====	=====	=====

2000	Cost	Accumulated depreciation	Net book value
Goodwill.....	\$86,969	\$6,820	\$80,149
	=====	=====	=====

8. Other assets:

	1999	2000
Deferred financing costs, net of accumulated amortization of \$868 (1999--\$277).....	\$ 3,698	\$1,696
Restricted cash and cash held in escrow.....	5,985	5,985
Deferred lease costs, net of accumulated amortization of \$379 (1999--\$30).....	1,430	1,072
Other.....	32	1,106
	-----	-----
	\$11,145	\$9,859
	=====	=====

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
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9. Long-term debt and capital leases:

	1999	2000
Revolving credit facilities (a).....	\$ 35,942	\$ 68,305
Term loans (a).....	85,000	47,500
Subordinated debt.....	10,000	--
	-----	-----
	130,942	115,805
Less current portion.....	2,000	7,500
	-----	-----
	\$128,942	\$108,305
	=====	=====

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For the period from January 1, 1999 to July 26, 2000:

Concurrent with the business combination of HTM Holdings, Inc. and SMTC Corporation, the Company and certain of its subsidiaries entered into a senior credit facility that provided for \$85,000 in terms loans, \$10,000 in subordinated debt and \$60,000 in revolving credit loans, swing-line loans and letters of credit. The senior credit facility was secured by a security agreement over all assets and required the Company to meet certain financial ratios and benchmarks and to comply with certain restrictive covenants. The revolving credit facilities terminated in July 2004. The term loans matured in quarterly instalments from September 2000 to June 2004 for \$35,000 of the term loans and from September 2000 to December 2005 for \$50,000 of the term loans. Term loans totalling \$35,000 were repaid from proceeds of the initial public offering. The \$10,000 subordinated debt was payable in one instalment on September 30, 2006 and was repaid from proceeds of the initial public offering.

The revolving credit loans and term loans bore interest at varying rates based on either the Eurodollar base rate plus 2.25% to 3.50%, the U.S. base rate plus 0.50% to 1.75% or the Canadian prime rate plus 0.50% to 1.75%.

The subordinated debt bore interest at the Eurodollar base rate plus 4.75% or the U.S. base rate plus 3.00%.

In May 2000, the Company's lenders increased the revolving credit facility from \$60,000 to \$67,500. The Company issued senior subordinated notes to certain shareholders for proceeds of \$5,000. The notes bore interest at 15% per annum. The notes were repaid from proceeds of the initial public offering.

On July 3, 2000, the Company issued demand notes in the aggregate principal amount of \$9,925. Of these demand notes, \$5,925 in aggregate principal amount was secured by a portion of the capital assets of the Company and certain of its subsidiaries. The demand notes bore a fee of 3% of the principal amount accruing on the date of issuance and interest of 13.75% per year and were payable to the holders of the notes at any time upon demand. The demand notes were repaid of proceeds of the initial public offering.

For the period from July 27, 2000 to December 31, 2000:

(a) In connection with the initial public offering, the Company and certain of its subsidiaries entered into an amended and restated credit agreement that provides for \$50,000 in an initial term loan and \$100,000 in revolving credit loans, swing-line loans and letters of credit. The senior credit facility is secured by a security agreement over all assets and requires the Company to meet certain financial ratios and benchmarks and to comply with certain restrictive covenants. The revolving credit facilities terminate in July 2004. The term loans mature in quarterly instalments from September 2000 to June 2004.

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SMTC CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
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The revolving credit loans and term loans bear interest at varying rates based on either the Eurodollar base rate plus 2.00% to 3.00%, the U.S. base rate plus 0.25% to 1.25% or the Canadian prime rate plus 0.25% to 1.25%.

The Company has entered into interest rate swaps to exchange the 90-day floating LIBOR rates on \$65,000 of borrowings for a two-year fixed interest rate of 6.16% (before credit spread) per annum (note 12).

The weighted average interest rate on the borrowings in 2000 was 9.9%.

The Company is required to pay the lenders a commitment fee of 0.5% of the average unused portion of the revolving credit facility. Commitment fees of \$128 were incurred in 2000.

As at December 31, 2000, principal repayments due within each of the next four years are as follows:

2001.....	\$ 7,500
2002.....	12,500
2003.....	17,500
2004.....	78,305

	\$115,805
	=====

(b) Senior notes payable outstanding in 1998 and through to July 30, 1999 bore interest based on the prime rate or LIBOR. The weighted average interest rate was 7.64% in 1999.

(c) Subordinated notes outstanding in 1998 and through July 30, 1999 were held by affiliates of certain shareholders of HTM Holdings, Inc. The weighted average interest rate was 11.5% in 1999.

(d) Lines of credit:

For the period up to July 30, 1999, the Company had a line of credit for borrowings up to a maximum of \$15,000. The weighted average interest rate on the line of credit was 7.35% in 1999.

(e) Capital lease obligations:

Minimum lease payments for capital leases consist of the following at December 31, 2000:

2001.....	\$1,143
2002.....	619
2003.....	551
2004.....	152
2005.....	46

Total minimum lease payments.....	2,511
Less amount representing interest of 8% to 11%.....	274

	2,237

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Less current portion.....	995

	\$1,242
	=====

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The Company is required to maintain \$250 in a certificate of deposit in connection with certain capital lease obligations.

(f) Interest expense:

	1998	1999	2000
	-----	-----	-----
Short-term obligations.....	\$ 584	\$ 702	\$ --
Long-term debt.....	1,105	6,061	13,765
Obligations under capital leases.....	341	303	72
	-----	-----	-----
	\$2,030	\$7,066	\$13,837
	=====	=====	=====

10. Income taxes:

The components of income taxes are:

	1998	1999	2000
	-----	-----	-----
Current:			
Federal.....	\$ 15	\$--	\$3,448
Foreign.....	--	442	4,506
	-----	-----	-----
	15	442	7,954
Deferred:			
Federal.....	(198)	(267)	(582)
State.....	(10)	(47)	(68)
Foreign.....	--	(21)	43
	-----	-----	-----
	(208)	(335)	(607)
	-----	-----	-----
	\$ (193)	\$107	\$7,347
	=====	=====	=====

The overall effective income tax rate (expressed as a percentage of

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financial statement earnings (loss) before income taxes) varied from the U.S. statutory income tax rate as follows:

	1998	1999	2000
	----	-----	----
Federal tax rate.....	34.0%	34.0%	34.3%
State income tax, net of federal tax benefit.....	3.0	6.0	4.0
Income of international subsidiaries taxed at different rates.....	--	4.9	4.2
Change in valuation allowance.....	--	(6.3)	1.5
Non-deductible goodwill amortization.....	--	(50.1)	6.8
Other.....	--	(2.6)	3.0
	----	-----	----
Effective income tax rate.....	37.0%	(14.1)%	53.8%
	=====	=====	=====

A tax benefit of \$1,640 (1999--\$811) has been allocated to the extraordinary loss.

A tax benefit of \$2,694 relating to share issue costs has been recorded in capital stock and additional paid-in-capital.

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SMTC CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
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Worldwide earnings (loss) before income taxes consisted of the following:

	1998	1999	2000
	-----	-----	-----
U.S.....	\$ (521)	\$ (1,269)	\$ 5,651
Non-U.S.....	--	512	8,012
	-----	-----	-----
	\$ (521)	\$ (757)	\$13,663
	=====	=====	=====

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's deferred tax liabilities and assets are comprised of the following at December 31:

1999 2000

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	-----	-----
Deferred tax assets:		
Net operating loss carryforwards.....	\$1,275	\$1,485
Reserves, allowances and accruals.....	1,429	3,682
	-----	-----
	2,704	5,167
Valuation allowance.....	(554)	(764)
	-----	-----
	2,150	4,403
Deferred tax liabilities:		
Capital and other assets.....	(2,733)	(2,221)
	-----	-----
Net deferred tax assets (liabilities).....	\$ (583)	\$2,182
	=====	=====

At December 31, 2000, the Company had total net operating loss carryforwards of approximately \$9,300, which begin to expire in 2013. Losses of \$1,400 in one of the subsidiaries may only be used against taxable income generated by that subsidiary. 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 by the appropriate subsidiaries during those periods when the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. Based upon consideration of these factors, management believes the recorded valuation allowance related to the loss carryforwards of a specific subsidiary is appropriate.

The valuation allowance in 1999 is higher than 1998 by \$554 due to the acquisition of certain loss carryforwards in the business combination between HTM Holdings, Inc. and SMTC Corporation. The valuation allowance in 2000 is \$210 higher than 1999 due to losses generated in one of the Company's subsidiaries in 2000.

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SMTC CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
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11. Capital stock:

(a) Authorized:

To July 30, 1999:

The authorized share capital of HTM Holdings, Inc. consisted of:

- (i) 10,000,000 common shares, \$0.01 par value per share;
- (ii) 100,000 Series A preferred shares, convertible, \$0.001 par value per share, mandatorily redeemable for \$11.48 per share;

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- (iii) 100,000 Series B preferred shares--\$0.001 par value per share, mandatorily redeemable for \$11.48 per share; and
- (iv) 250,000 Series C preferred shares, convertible, \$0.001 par value per share, mandatorily redeemable for \$11.25 per share.

As a result of the business combination, described in note 2(a)(i), HTM Holdings, Inc. became a wholly owned subsidiary of SMTC Corporation on July 30, 1999. The authorized share capital of SMTC Corporation at December 31, 1999 consists of:

- (i) 11,720,000 Class A-1 voting common shares, par value \$0.001 per share:

Holders are entitled to one vote per share and to share in dividends pro rata subject to any preferential rights of the Class L shares.

- (ii) 1,100,000 Class A-2 voting common shares, par value \$0.001 per share:

Holders are entitled to one vote per share and to share in dividends pro rata subject to any preferential rights of the Class L shares.

- (iii) 300,000 Class L voting common shares, par value \$0.001 per share:

The number of votes per share is determined by a prescribed formula and the holders are entitled to receive all dividends declared on common stock until there has been paid a specified amount based on an internal rate of return of 12% compounded quarterly and a recovery of the initial amount of \$162 per Class L share, after which point, they are entitled to receive dividends pro rata.

- (iv) 125,000 Class N voting common shares, par value \$0.001 per share:

The number of votes per share are determined by a prescribed formula and the holders are not entitled to receive dividends. The holders of the Class N shares hold the exchangeable shares described in note 11(c).

Each share of Class L and Class A-2 stock shall convert automatically, under certain conditions, into Class A-1 shares based on a prescribed formula for Class L shares and on a one-for-one basis for Class A-2 shares.

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SMTC CORPORATION
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As a result of the share reclassification and the initial public offering, the authorized share capital of SMTC Corporation at December 31, 2000 consists of:

(i) 60,000,000 shares of common stock, par value \$0.01 per share:

Holders are entitled to one vote per share and to share in dividends pro rata subject to any preferential dividend rights of any then outstanding preferred stock.

(ii) 5,000,000 shares of preferred stock, par value \$0.01 per share:

The Company may from time to time issue preferred stock in one or more series and fix the terms of that series at the time it is created.

(b) Issued and outstanding:

HTM Holdings, Inc. to July 30, 1999:

Number of shares -----	Common shares -----	Preferred shares -----
Balance, December 31, 1997.....	4,361,621	450,000
Shares issued.....	1,800,424	--
Shares repurchased.....	(4,215,641)	(450,000)
	-----	-----
Balance, December 31, 1998, being balance, July 30, 1999.....	1,946,404 =====	-- =====

The 4,215,641 common shares repurchased were held in treasury stock.

Amount -----	Common shares -----	Preferred shares -----
Balance, December 31, 1997.....	\$ 4	\$ 1
Shares issued.....	2	--
Shares repurchased.....	--	(1)
	-----	-----
Balance, December 31, 1998, being balance, July 30, 1999.....	\$ 6 =====	\$ -- =====

In connection with the recapitalization, the Company contributed substantially all of its assets and liabilities to a newly formed subsidiary in exchange for 100% of the subsidiary's stock and changed its name from Hi-Tech Manufacturing, Inc. The subsidiary borrowed \$13,000 in senior debt and \$12,000 in subordinated debt and entered into a \$15,000 revolving line of credit agreement. The stock of the subsidiary was pledged as collateral for the senior debt and line of credit. The subsidiary loaned approximately \$21,000 to the Company.

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(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
 (Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
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SMTC Corporation from July 30, 1999 to December 31, 2000:

As a result of the application of reverse acquisition accounting to the business combination with HTM Holdings, Inc., the number of outstanding shares of the continuing consolidated entity consists of the number of outstanding shares of SMTC Corporation outstanding at July 30, 1999.

Number of shares	Class A shares	Class L shares	Class N shares	Exchangeable shares	Common stock	Special voting stock
Balance, July 29, 1999..	1,020,671	--	86,707	--	--	--
Issued to existing shareholders (i).....	--	--	26,701	113,408	--	--
Share transactions related to the reverse acquisition (ii).....	1,393,971	154,168	--	--	--	--
Options exercised (iii).....	33,140	--	--	--	--	--
Balance, December 31, 1999.....	2,447,782	154,168	113,408	113,408	--	--
Share reorganization (i).....	(2,447,782)	(154,168)	(113,408)	1,356,037	11,871,517	1
Warrants exercised (ii).....	--	--	--	--	477,049	--
Shares issued on completion of initial public offering (iii)..	--	--	--	4,375,000	8,275,000	--
Acquisition of Pensar Corporation (iv).....	--	--	--	--	1,188,682	--
Options exercised (v)...	--	--	--	--	20,053	--
Acquisition of Qualtron Teoranta (vi).....	--	--	--	547,114	--	--
Conversion of shares from exchangeable to common stock (vii)....	--	--	--	(20,600)	20,600	--
Balance, December 31, 2000.....	--	--	--	6,370,959	21,852,901	1

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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

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Amount	Class A shares	Class L shares	Class N shares	Exchangeable shares	Common stock	Special voting stock
-----	-----	-----	-----	-----	-----	-----
Ascribed value at the date of the reverse takeover (ii).....	\$ 3	\$ --	\$ --	\$ --	\$--	\$ --
Options exercised (iii).....	--	--	--	--	--	--
Balance, December 31, 1999.....	3	--	--	--	--	--
Share reorganization (i).....	(3)	--	--	--	119	--
Warrants exercised (ii).....	--	--	--	--	4	--
Shares issued on completion of initial public offering (iii)..	--	--	--	64,893	83	--
Shares issued on acquisition of Pensar Corporation (iv).....	--	--	--	--	12	--
Options exercised (v)...	--	--	--	--	--	--
Shares issued on acquisition of Qualtron Teoranta (vi).....	--	--	--	12,545	--	--
Conversion of shares from exchangeable to common stock (vii).....	--	--	--	(229)	--	--
Balance, December 31, 2000.....	\$ --	\$ --	\$ --	\$77,209	\$218	\$ --
	=====	=====	=====	=====	=====	=====

The difference between the par value of the capital stock and the accounting value ascribed at the date of the reverse takeover has been credited to additional paid-in capital.

Capital transactions from July 30, 1999 to December 31, 1999:

- (i) In connection with the business combination on July 30, 1999, SMTC Corporation issued 26,701 Class N shares to its existing shareholders for nominal cash consideration. The existing shareholders also received the exchangeable shares described in (c) below.
- (ii) On July 30, 1999, SMTC Corporation issued 1,393,971 Class A-1 shares and 154,168 Class L shares to the shareholders of HTM Holdings, Inc. in exchange for \$16,739 cash consideration and 100% of the outstanding shares of HTM Holdings, Inc. The ascribed value of the shares issued is equal to the \$20,410 fair value of SMTC Corporation at the time of the transaction.

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- (iii) On July 30, 1999, 33,140 Class A-1 restricted shares were granted upon the exercise of options for consideration of \$60 in promissory notes receivable. The notes are secured by the shares granted and bear interest at 5.7%. The notes have been recorded as a reduction of shareholders' equity. The restrictions vest over the original vesting period of the underlying 1998 HTM Plan options. At December 31, 1999, 24,855 of the issued Class A shares are subject to restrictions.

Capital transactions from January 1, 2000 to December 31, 2000:

- (i) Concurrent with the effectiveness of the initial public offering (see (iii) below), the Company completed a share capital reorganization as follows:
 - (a) Each outstanding Class Y share of SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, was purchased in exchange for shares of Class L common stock.

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- (b) Each outstanding share of Class L common stock was converted into one share of Class A common stock plus an additional number of shares of Class A common stock.
- (c) Each outstanding share of Class A common stock was converted into 3.6745 shares of common stock.
- (d) All outstanding shares of Class N common stock were redeemed and one share of special voting stock was issued and is held by a trustee for the benefit of the holders of the exchangeable shares.
- (e) Each SMTC Canada Class L exchangeable share was converted into exchangeable shares of the same class as those being offered in the offering in the same ratio as shares of Class L common stock which were converted to shares of common stock.
- (ii) On July 27, 2000, the Company issued 477,049 shares of common stock on the exercise of 41,667 warrants.
- (iii) On July 27, 2000, the Company completed an initial public offering of its common stock in the United States and exchangeable shares of its subsidiary, SMTC Manufacturing Corporation of Canada, in Canada. The offering consisted of 6,625,000 shares of common stock at a price of \$16.00 per share and 4,375,000 exchangeable shares at a price of Cdn. \$23.60 per share (described in (c) below). The total net proceeds to the Company from the offering of approximately \$157,400 were used to reduce its indebtedness under the senior credit facility, repay the subordinated stockholders' notes issued in May 2000, repay the demand notes issued in July 2000 and finance the cash

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portion of the purchase price of the Pensar Corporation acquisition. On August 18, 2000, the underwriters exercised their over-allotment option with respect to 1,650,000 shares of common stock at a price of \$16.00 per share. The net proceeds to the Company from the sales of those shares of \$24,600 were used to reduce indebtedness under the senior credit facility.

- (iv) On July 27, 2000, simultaneously with the closing of the initial public offering, the Company issued 1,188,682 shares of common stock at a price of \$16.00 per share to finance the share portion of the purchase price of the Pensar Corporation acquisition.
- (v) Pursuant to employee share purchase and option plans, the Company issued 20,053 shares from treasury for cash of \$160.
- (vi) On November 22, 2000, the Company issued 547,114 exchangeable shares at a price of \$22.93 per share to finance the share portion of the Qualtron Teoranta acquisition.
- (vii) During the year, 20,600 exchangeable shares were exchanged for common stock.

(c) Exchangeable shares:

On July 30, 1999, SMTC Manufacturing Corporation of Canada, a 100% owned subsidiary of the Company, issued two classes of non-voting shares which can be exchanged into 113,408 Class L common shares of the Company on a one-for-one basis. The holders of the exchangeable shares are entitled to receive dividends equivalent to the dividends declared on Class L shares. The holders of exchangeable shares exercise, through the special voting stock, essentially the same voting rights in respect of the Company as they would if they had exchanged their shares into shares of the Company's common stock.

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On July 27, 2000, pursuant to the initial public offering, the exchangeable shares convertible into 113,408 Class L common shares, were converted to 1,469,445 exchangeable shares. The shares are exchangeable into shares of the Company's common stock on a one-for-one basis.

On July 27, 2000, pursuant to the initial public offering, SMTC Manufacturing Corporation of Canada issued an additional 4,375,000 exchangeable shares at a price of Cdn. \$23.60 per share.

On November 22, 2000, 547,114 exchangeable shares were issued to finance the share portion of the purchase price of the Qualtron Teoranta acquisition.

(d) Warrants:

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Number -----	Class A warrants -----	Class L warrants -----	Common stock warrants -----
Balance, December 31, 1999.....	103,895	12,088	--
Warrants issued (i).....	--	--	41,667
Warrants conversion (ii).....	(103,895)	(12,088)	578,441
Warrants exercised (iii).....	--	--	(41,667)
	-----	-----	-----
Balance, December 31, 2000.....	--	--	578,441
	=====	=====	=====

1999 transactions:

In connection with the business combination between SMTC Corporation and HTM Holdings, Inc., each existing warrant holder of HTM Holdings, Inc. was granted equivalent warrants in SMTC Corporation and the previous HTM Holdings, Inc. warrants were cancelled.

2000 transactions:

- (i) On May 18, 2000, the Company issued 41,667 warrants for \$2,500 cash consideration in connection with the issue of \$5,000 in subordinated notes (note 9). The value of the warrants in excess of proceeds received, \$1,098, was recorded as a deferred financing cost and was written off upon early repayment of the subordinated notes as an extraordinary loss (note 17).
- (ii) On July 27, 2000, pursuant to the initial public offering, the Class A and Class L warrants were converted into common stock warrants.
- (iii) On July 27, 2000, the Company issued 477,049 shares of common stock on the exercise of warrants.

The Class A warrants and Class L warrants had an exercise price of \$1.82 and \$147.57, respectively. The common stock warrants have a weighted average exercise price of \$3.41. The warrants have a term of 10 years and are exercisable from the date of grant. Each common stock warrant is convertible into one common share.

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(e) Stock options:

1993 HTM Holdings Equity Plan:

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In connection with the leveraged recapitalization in 1998, the stock option plan adopted by HTM Holdings, Inc. in 1993 (the "1993 Plan") was cancelled. HTM Holdings, Inc. permitted its employees to exercise all outstanding options prior to the cancellation of the 1993 Plan by executing notes payable for the exercise price. The shares issued to the exercising employees were reacquired in connection with the leveraged recapitalization and both the shares issued and the notes payable were retired, resulting in a \$2,108 non-recurring charge.

The weighted average grant date fair value of options granted during 1998 was \$3.46 per share.

1998 HTM Plan:

In June 1998, HTM Holdings, Inc. adopted a new stock option plan (the "1998 Plan") pursuant to which incentive stock options and non-qualified stock options to purchase shares of common stock may be issued. The Board of Directors authorized 122,685 shares to be issued under the 1998 Plan. Incentive stock options are granted at an exercise price not less than the fair market value of the common stock on the date of grant, as determined by the Board of Directors. Options generally vest over four years and expire 10 years from their respective dates of grant.

1998 SMTC Plan:

In July 1999, the Company replaced the 1998 Plan with an equivalent stock option plan. Each HTM option holder was granted equivalent options in SMTC Corporation's stock. The Board of Directors authorized 165,000 Class A and 4,000 Class L options to be issued under the plan. The Class A options vest immediately and are exercisable for Class A restricted shares. The restrictions expire on the same basis as the Class L vesting periods. The Class L options vest over a four-year period and expire after 10 years from the original grant date of the 1998 Plan options.

2000 Equity Incentive Plan:

In July 2000, the Company approved a new stock option plan, the SMTC/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan (the "2000 Equity Incentive Plan"), pursuant to which a variety of stock-based incentive awards may be granted. The plan permits the issuance of up to 1,727,052 shares plus an additional number of shares determined by the Board but not to exceed 1% of the total number of shares outstanding per year. Options generally vest over a four-year period and expire ten years from their respective date of grant.

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Stock option transactions were as follows:

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	1993 Plan		1998 Plan		1998 SMTC Plan		
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Class A shares	Weighted average exercise price	Class L shares
Balance, December 31, 1997.....	1,250,492	\$3.48	--	\$ --	--	\$ --	--
Granted.....	33,212	3.10	115,603	5.14	--	--	--
Forfeited.....	(26,000)	3.67	--	--	--	--	--
Exercised.....	(1,257,704)	3.46	--	--	--	--	--
Balance, December 31, 1998.....	--	--	115,603	5.14	--	--	--
Exchanged and issued at combination date.....	--	--	(115,603)	(5.14)	33,140	1.82	3,856
Issued.....	--	--	--	--	116,860	19.68	--
Exercised.....	--	--	--	--	(33,140)	(1.82)	--
Balance, December 31, 1999.....	--	\$ --	--	\$ --	116,860	\$19.68	3,856

	1998 SMTC Plan				2000 Equity Incentive Plan			
	Class A shares	Weighted average exercise price	Class L shares	Weighted average exercise price	Common stock	Weighted average exercise price	Common stock	Weighted average exercise price
Balance, December 31, 1999.....	116,860	\$19.68	3,856	\$147.57	--	\$ --	--	\$ --
Converted pursuant to initial public offering.....	(116,860)	19.68	(3,856)	147.57	486,448	5.78	--	--
Issued.....	--	--	--	--	--	--	1,397,000	--
Exercised.....	--	--	--	--	(20,053)	5.78	--	--
Balance, December 31, 2000.....	--	\$ --	--	\$ --	466,395	\$5.78	1,397,000	\$ --

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

Years ended December 31, 1998, 1999 and 2000

The following options were outstanding as at December 31, 2000:

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Option plan	Outstanding options	Weighted average exercise price	Exercisable options	Weighted average exercise price	Remaining contractual
1998 SMTC Plan.....	466,395	\$5.78	135,393	\$5.78	3
2000 Equity Incentive Plan.....	1,397,000	19.05	--	19.05	4

The Company accounts for its employee stock plans using the intrinsic value method under APB No. 25. Compensation expense related to these plans has been recognized in the Company's financial statements as follows:

	1998	1999	2000
Compensation expense.....	\$2,108	\$ --	\$ --

The weighted average grant date fair value of options granted for the year ended December 31, 2000 was \$19.05 (1999--\$17.13; 1998--\$0.95).

The following table sets out the pro forma amounts of net earnings (loss) before extraordinary loss and net earnings (loss) per share that would have resulted if the Company had accounted for its employee stock plans under the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

	1998	1999	2000
Earnings (loss) before extraordinary loss:			
As reported.....	\$ (328)	\$ (864)	\$6,316
Pro forma.....	975	(1,122)	4,934
Basic earnings (loss) per share before extraordinary loss:			
As reported.....	\$(0.44)	\$(1.89)	\$ 0.24
Pro forma.....	0.16	(2.04)	0.13

For purposes of computing pro forma net earnings prior to January 1, 2000, the fair value of each option grant is estimated on the date of grant using the minimum value method under which no volatility is assumed. For the year ended December 31, 2000, the Black-Scholes option pricing model was used. Assumptions used to calculate the fair value were:

	1998	1999	2000
Risk-free interest rate.....	5.5%	6.0%	5.2%

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Dividend yield.....	--	--	--
Expected life.....	4	3 - 4	4
Volatility.....	N/A	N/A	79.0%
	===	=====	=====

12. Financial instruments:

(a) Interest rate swaps:

On September 30, 1999, the Company entered into two interest rate swap transactions with a Canadian chartered bank for hedging purposes. The swaps expire on September 22, 2001 and involve the exchange of 90-day floating LIBOR rates for a two-year fixed interest rate of 6.16% before credit spread of 2.00% to 3.00% per annum on a notional amount of \$65,000.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

(b) Forward exchange contracts:

One of the Company's subsidiaries has entered into forward foreign currency contracts with a foreign bank to sell U.S. dollars for Irish punts. The aggregate principal amount of the contracts was \$6,250 at December 31, 2000 with an average contract rate of \$1.38 compared to a closing dollar exchange rate of \$1.19. These contracts mature at various dates through July 31, 2001.

(c) Fair values:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- (i) The carrying amounts of cash and short-term investments, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short-term nature of these instruments.
- (ii) The fair value of long-term debt, including the current portion, is based on rates currently available to the Company for debt with similar terms and maturities.
- (iii) The fair values of interest rate swap contracts and forward exchange contracts are estimated by obtaining quotes from a financial institution.

The carrying amounts and fair values of the Company's financial instruments, where there are differences at December 31, 2000 and 1999, are as follows:

1999

2000

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Asset (liability)	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt.....	\$ (130,942)	\$ (130,942)	\$ (115,805)	\$ (115,805)
Interest rate swaps.....	--	478	--	(85)
Forward exchange contracts....	--	--	(855)	(855)
	=====	=====	=====	=====

13.Related party transactions:

The Company entered into related party transactions with certain shareholders as follows:

	1998	1999	2000
Management fees expensed under formal management agreements.....	\$136	\$ 717	\$ 74
Share issue costs incurred.....	650	--	1,800
Financing and acquisition related fees paid.....	--	1,741	674
Lease costs expensed for the Colorado facility.....	535	535	--
	=====	=====	=====

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

14.Supplemental cash flow information:

	1998	1999	2000
Interest paid.....	\$1,627	\$6,767	\$13,064
Income taxes paid.....	15	1,460	1,983

Non-cash financing and investing activities:

	1998	1999	2000
Acquisition of equipment under capital leases.....	\$2,673	\$ --	\$ 541
Acquisition of SMTC Corporation for capital stock...	--	20,410	--
Acquisition of Pensar Corporation for capital			

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stock.....	--	--	19,019
Acquisition of Qualtron Teoranta for exchangeable shares.....	--	--	12,545
Deferred lease costs arising from trade in of equipment.....	--	1,460	--
Issuance of capital stock for notes receivable under option plan.....	--	60	--
Value of warrants issued in excess of proceeds received.....	--	--	1,098
Tax benefit of share issues costs.....	--	--	2,694

15. Commitments:

- (a) The Company leases manufacturing equipment and office space under various non-cancellable operating leases. Minimum future payments under non-cancellable operating lease agreements are as follows:

2001.....	\$19,152
2002.....	17,529
2003.....	13,755
2004.....	8,814
2005.....	1,312
Thereafter.....	1,638

	\$62,200
	=====

Operating lease expense was \$12,864 for the year ended December 31, 2000 (1999--\$4,585; 1998--\$1,414).

- (b) Pursuant to an agreement in connection with the share reorganization, as described in note 11(b), the Company agreed to lend, on an interest free basis, approximately \$2,000 to a certain shareholder to fund any tax liability incurred as a result of the reorganization. The loan will be secured by a first priority security interest over all of the shares of capital stock of the Company held by the shareholder, and will be repayable at such time and to the extent that the shareholder receives after-tax proceeds in respect of such shares.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

- (c) Pursuant to an agreement in connection with the acquisition of Pensar Corporation, as described in note 3, the Company requested that the former shareholders of Pensar Corporation file an election, allowing the Company to deduct for income tax purposes the goodwill related to the acquisition. In conjunction with this agreement, the Company agreed to lend, on an interest-free basis, approximately \$4,500 to the former shareholders of Pensar Corporation to fund any tax liability incurred

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as a result of the election. The loans will be secured by a first priority security interest over all of the shares of capital stock of the Company held by the shareholders, and will be repayable at such time and to the extent that the shareholders receive after-tax proceeds in respect of such shares.

16.Contingencies:

General:

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.

17.Extraordinary loss:

(a) 1999:

As a result of the early payment of the senior notes payable and subordinated notes that occurred concurrent with the business combination between SMTC Corporation and HTM Holdings, Inc., the Company incurred charges of \$2,090 (\$1,279 after tax) in 1999 related to early payment penalties, the write-off of unamortized deferred financing fees and the write-off of the unamortized debt discount.

(b) 2000:

Approximately \$143,700 of the proceeds of the initial public offering were used to reduce the Company's indebtedness under its credit facility. As a result, the Company incurred charges of \$4,318 (\$2,678 after tax) in 2000 related to early payment penalties, the write-off of a portion of the unamortized deferred financing fees and the write-off of the value of the warrants issued in May 2000 in excess of the proceeds received in connection with the subordinated notes.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

18.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 eleven facilities in the United States, Canada, Europe and Mexico. The Company monitors the performance of its geographic operating segments based on EBITA (earnings before interest, taxes and amortization). 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:

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	1999			2000		
	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue
United States.....	\$223,006	\$ (1,419)	\$221,587	\$633,959	\$ (9,403)	\$624,556
Canada.....	21,675	(2,676)	18,999	79,923	(5,165)	74,758
Europe.....	9,507	(1,995)	7,512	21,037	(2,997)	18,040
Mexico.....	9,864	--	9,864	79,612	(14,203)	65,409
	-----	-----	-----	-----	-----	-----
	\$264,052	\$ (6,090)	\$257,962	\$814,531	\$ (31,768)	\$782,763
	=====	=====	=====	=====	=====	=====

	1999	2000
	-----	-----
EBITA:		
United States.....	\$ 6,917	\$ 24,813
Canada.....	2,107	10,638
Europe.....	(222)	(1,053)
Mexico.....	(503)	(669)
	-----	-----
	8,299	33,729
Interest.....	7,066	13,837
Amortization.....	1,990	6,229
	-----	-----
Earnings (loss) before income taxes.....	\$ (757)	\$ 13,663
	=====	=====
Capital expenditures:		
United States.....	\$ 2,713	\$ 16,456
Canada.....	840	3,141
Europe.....	30	724
Mexico.....	547	5,896
	-----	-----
	\$ 4,130	\$ 26,217
	=====	=====

Prior to 1999, the Company operated in one geographic segment--the United States.

This segmented information incorporates the operations of SMTC Corporation as discussed in note 2(a). SMTC Corporation has operated facilities in Canada, the United States and Europe for 15 years, 5 years and 3 years, respectively.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)

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Years ended December 31, 1998, 1999 and 2000

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.

	1998	1999	2000
	-----	-----	-----
Geographic revenue:			
United States.....	\$84,668	\$225,772	\$694,290
Canada.....	--	8,983	18,844
Europe.....	5,019	19,965	53,588
Asia.....	--	3,242	16,041
	-----	-----	-----
	\$89,687	\$257,962	\$782,763
	=====	=====	=====

	1999	2000
	-----	-----
Long-lived assets:		
United States.....	\$40,304	\$ 79,136
Canada.....	25,585	24,540
Europe.....	735	20,410
Mexico.....	9,179	14,627
	-----	-----
	\$75,803	\$138,713
	=====	=====

In 1998, all of the Company's long-lived assets were located in the United States.

19. Significant customers and concentration of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Sales of the Company's products are concentrated among specific customers in the same industry. The Company generally does not require collateral. The Company considers concentrations of credit risk in establishing the reserves for bad debts and believes the recorded reserves are adequate.

During 1998, one customer individually comprised 43% of total revenue generated in the U.S. At December 31, 1998, this customer represented 48% of the Company's accounts receivable.

During 1999, three customers individually comprised 29%, 10% and 10% of total revenue across all geographic segments. At December 31, 1999, these customers represented 33%, 6% and 3%, respectively, of the Company's accounts receivable.

During 2000, two customers individually comprised 16% and 10% of total revenue across all geographic segments. At December 31, 2000, these customers represented 10% and 10%, respectively, of the Company's accounts receivable.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

20.Earnings per share:

The following table sets forth the computation of basic net earnings (loss) per share before extraordinary loss:

	1998	1999	2000
	-----	-----	-----
Numerator:			
Earnings (loss) before extraordinary loss.....	\$ (328)	\$ (864)	\$ 6,316
Preferred share dividends.....	(609)	--	--
Class L preferred entitlement.....	--	(2,185)	(3,164)
	-----	-----	-----
Earnings (loss) before extraordinary loss available to common shareholders.....	\$ (937)	\$ (3,049)	\$ 3,152
	=====	=====	=====
Denominator:			
Weighted average shares--basic.....	2,147,130	1,617,356	13,212,076
Effect of dilutive securities:			
Employee stock options.....	--	--	155,744
Warrants.....	--	--	368,796
	-----	-----	-----
Weighted average shares--diluted.....	2,147,130	1,617,356	13,736,616
	=====	=====	=====
Net earnings (loss) per share before extraordinary loss:			
Basic.....	\$ (0.44)	\$ (1.89)	\$ 0.24
Diluted.....	(0.44)	(1.89)	0.23
	=====	=====	=====

For purposes of calculating the basic number of weighted average shares outstanding, the Class A restricted shares have been excluded. Under reverse takeover accounting, the number of shares outstanding prior to July 30, 1999 is deemed to be the number of shares of SMTC Corporation issued to the shareholders of HTM Holdings, Inc., appropriately adjusted to take into account the effect of any change in the number of HTM Holdings, Inc. shares outstanding in that period.

During fiscal 1999 and fiscal 1998, the exercise prices of the options and warrants were less than the average fair value price and were not included in the calculation of diluted loss per share as the effect would have been anti-dilutive. In addition, in fiscal 1999, the calculation did not include the Class A shares issuable upon conversion of the Class L shares and exchangeable shares as the effect would have been anti-dilutive. During fiscal 2000, the calculation did not include 1,097,000 options as

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the effect would have been anti-dilutive.

21. Comparative figures:

Certain of the 1999 and 1998 figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

22. United States and Canadian accounting policy differences:

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in the United States ("U.S."). The significant differences between U.S. GAAP and Canadian GAAP and their effect on the consolidated financial statements of the Company are described below:

The following table reconciles net earnings (loss) as reported in the accompanying consolidated statements of operations to net earnings (loss) that would have been reported under Canadian GAAP:

	1998	1999	2000
	-----	-----	-----
Net earnings (loss) in accordance with U.S. GAAP.....	\$ (328)	\$ (2,143)	\$ 3,638
Amortization (a).....	--	--	20
	-----	-----	-----
Net earnings (loss) in accordance with Canadian GAAP.....	\$ (328)	\$ (2,143)	\$ 3,658
	=====	=====	=====

Net earnings (loss) for the year under Canadian GAAP is comprised of the following:

	1998	1999	2000
	-----	-----	-----
Operating income.....	\$ 1,509	\$ 6,309	\$ 27,520
Interest.....	2,030	7,066	13,837
Debt extinguishment costs (b).....	--	2,090	4,318
	-----	-----	-----
Earnings (loss) before income taxes.....	(521)	(2,847)	9,365
Income taxes (recovery).....	(193)	(704)	5,707
	-----	-----	-----
Net earnings (loss).....	\$ (328)	\$ (2,143)	\$ 3,658
	=====	=====	=====
	1998	1999	2000

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	-----	-----	-----
Shareholders' equity (deficiency), in accordance with U.S. GAAP.....	\$ (10,468)	\$ 7,799	\$228,486
Shares issued to acquire Qualtron Teoranta (a).....	--	--	(2,445)
Amortization of goodwill (a).....	--	--	20
	-----	-----	-----
Shareholders' equity (deficiency) in accordance with Canadian GAAP.....	\$ (10,468)	\$ 7,799	\$226,061
	=====	=====	=====

(a) Acquisitions:

Under U.S. GAAP, shares issued as consideration in a business combination are valued using the share price at the announcement date of the acquisition. Under Canadian GAAP the shares are valued on the consummation date. As a result, under Canadian GAAP, the total purchase price for Qualtron Teoranta would be \$24,455, resulting in goodwill of \$15,630. Under the U.S. GAAP, the purchase price was \$26,900, resulting in goodwill of \$18,075.

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 1998, 1999 and 2000

(b) Extraordinary loss:

Under U.S. GAAP, the charges incurred as a result of the early payment of the senior notes payable and subordinated notes described in note 17 are recorded as an extraordinary loss. Under Canadian GAAP, the charges would have been included in earnings (loss) before income taxes and the related tax benefit recorded in income tax expense.

(c) Earnings per share:

In fiscal 2000, the Company adopted the new accounting standard approved by The Canadian Institute of Chartered Accountants dealing with the computation of earnings per share.

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AUDITORS' REPORT

To the Directors of SMTC Corporation (formerly The Surface Mount Technology Centre Inc.) ("Surface Mount"):

We have audited the consolidated balance sheets of SMTC Corporation (formerly The Surface Mount Technology Centre Inc.) as at July 29, 1999 and August 31, 1998 and the consolidated statements of earnings and retained earnings (deficit) and cash flows for the period from September 1, 1998 to July

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29, 1999 and for each of the years ended August 31, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 29, 1999 and August 31, 1998 and the results of its operations and its cash flows for the period from September 1, 1998 to July 29, 1999 and for each of the years ended August 31, 1998 and 1997 in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for the period from September 1, 1998 to July 29, 1999 and each of the years ended August 31, 1998 and 1997 and shareholders' equity (deficiency) as at July 29, 1999 and August 31, 1998, to the extent summarized in note 17 to the consolidated financial statements.

/s/ KPMG LLP
Chartered Accountants

Toronto, Canada
December 3, 1999

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of U.S. dollars)

	August 31, 1998	July 29, 1999
	-----	-----
Assets		
Current assets:		
Cash and short-term investments.....	\$ 4,704	\$ 698
Accounts receivable.....	39,379	51,639
Inventories.....	31,067	30,388
Prepaid expenses.....	864	1,698
	-----	-----
Capital assets (note 4).....	76,014	84,423
	-----	-----
	18,501	21,093
	-----	-----
	\$94,515	\$105,516

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	=====	=====
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Bank indebtedness (note 5).....	\$27,099	\$ --
Accounts payable and accrued liabilities.....	34,839	36,183
Income taxes payable.....	1,860	2,247
Note payable.....	3,335	--
Preferred and non-voting shares of subsidiary (note 8)..	--	42,035
Current portion of long-term debt (note 6).....	2,378	--
Current portion of obligations under capital leases (note 7).....	191	95
	-----	-----
	69,702	80,560
Long-term debt (note 6).....	4,098	43,376
Obligations under capital leases (note 7).....	88	--
Deferred income taxes.....	787	512
Shareholders' equity (deficiency):		
Share capital (note 8).....	3,604	1
Additional paid-in capital.....	--	4
Retained earnings (deficit).....	15,856	(19,317)
Currency translation account (note 2(c)).....	380	380
	-----	-----
	19,840	(18,932)
Commitments (note 13).....		
Contingencies (note 14).....		
Subsequent events (note 16).....		
	-----	-----
	\$94,515	\$105,516
	=====	=====

See accompanying notes to consolidated financial statements.

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (DEFICIT)
(Expressed in thousands of U.S. dollars)

	Year ended August 31, 1997	Year ended August 31, 1998	September 1, 1998 to July 29, 1999
	-----	-----	-----
Revenue.....	\$96,761	\$210,213	\$270,578
Cost of sales.....	81,662	188,397	245,575
	-----	-----	-----
Gross profit.....	15,099	21,816	25,003
Selling, general and administrative...	5,132	11,774	14,978
	-----	-----	-----
Operating income.....	9,967	10,042	10,025
Interest (note 9).....	955	2,468	3,111
	-----	-----	-----
Earnings before income taxes.....	9,012	7,574	6,914
Income taxes:			
Current.....	3,335	4,195	3,251
Deferred (recovery).....	176	(71)	(195)

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	3,511	4,124	3,056
Net earnings.....	5,501	3,450	3,858
Retained earnings, beginning of period.....	7,517	12,856	15,856
Dividends (note 8).....	(162)	(450)	(387)
Increase in stated capital (note 8)...	--	--	(17,582)
Premium on redemption of shares of subsidiary (note 8).....	--	--	(20,850)
Reorganization costs, net of tax of \$79 (note 2(a)).....	--	--	(212)
Retained earnings (deficit), end of period.....	\$12,856	\$ 15,856	\$(19,317)

See accompanying notes to consolidated financial statements.

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of U.S. dollars)

	Year ended August 31, 1997	Year ended August 31, 1998	September 1, 1998 to July 29, 1999
Cash provided by (used in):			
Operating activities:			
Net earnings.....	\$ 5,501	\$ 3,450	\$ 3,858
Items not involving cash:			
Depreciation of capital assets.....	2,558	3,899	4,005
Loss (gain) on disposal of capital assets.....	37	(23)	--
Unrealized foreign exchange loss (gain).....	(96)	(422)	8
Deferred income taxes.....	176	(71)	(195)
Change in non-cash operating working capital.....	(8,557)	(19,777)	(10,684)
	(381)	(12,944)	(3,008)
Financing activities:			
Increase (decrease) in bank indebtedness.....	878	22,589	(27,099)
Increase in long-term debt.....	3,610	1,793	39,348
Repayment of long-term debt.....	(3,008)	(2,260)	(2,450)
Repayment of note payable.....	--	--	(3,335)
Issuance of shares.....	--	--	5
Redemption of shares.....	--	--	(1)
Decrease in obligations under capital leases.....	(214)	(458)	(184)

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Dividends paid.....	(162)	(450)	(387)
	-----	-----	-----
	1,104	21,214	5,897
Investing activities:			
Purchase of capital assets.....	(3,657)	(1,555)	(6,596)
Reorganization costs.....	--	--	(291)
Acquisitions.....	--	(1,744)	--
Proceeds on disposal of capital assets...	176	72	--
	-----	-----	-----
	(3,481)	(3,227)	(6,887)
Foreign exchange gain (loss) on cash held in foreign currency.....	69	55	(8)
	-----	-----	-----
Increase (decrease) in cash.....	(2,689)	5,098	(4,006)
Cash and short-term investments (bank indebtedness), beginning of period.....	2,295	(394)	4,704
	-----	-----	-----
Cash and short-term investments (bank indebtedness), end of period.....	\$ (394)	\$ 4,704	\$ 698
	=====	=====	=====

Cash is defined as cash and short-term investments.

Supplemental cash flow disclosures (note 11).

See accompanying notes to consolidated financial statements.

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of U.S. dollars, except for share quantities and per
share amounts)

1. Nature of business:

SMTC Corporation (formerly The Surface Mount Technology Centre Inc.) (the "Company") is a worldwide provider of electronics manufacturing services to original equipment manufacturers. The Company services its customers through five manufacturing and technology centres located in the United States, Canada and Europe.

The Company's accounting principles are in accordance with accounting principles generally accepted in Canada, and, except as outlined in note 17, are in all material respects, in accordance with accounting principles generally accepted in the United States.

2. Significant accounting policies:

(a) Basis of presentation:

On July 28, 1999, The Surface Mount Technology Centre Inc. and its 100% owned U.S. subsidiary, SMTC Corporation, completed a reorganization such that SMTC Corporation then became the parent company of the group of companies which includes The Surface Mount Technology Centre Inc. ("the Reorganization.") The Reorganization provides a more effective corporate structure for tax, investing and financing purposes. As the Reorganization involved the transfer of entities under common control, the Reorganization

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has been accounted for as a continuity of interests in a manner similar to a pooling of interests. The expenses incurred in connection with the Reorganization have been charged directly to retained earnings.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

(c) Change in functional currency:

As a result of changes in underlying circumstances resulting in the U.S. dollar becoming the measurement currency in which most of the Company's and its subsidiaries' business was transacted, effective September 1, 1997 the Company adopted the U.S. dollar as its measurement currency for preparation of its consolidated financial statements resulting in a change from the previous use of the Canadian dollar as its measurement currency.

(d) Revenue recognition:

Revenue from sales of products is recognized when goods are shipped. Revenue from services is recognized when the services are provided.

(e) Income taxes:

The Company follows the deferral method of tax allocation in accounting for income taxes whereby the provision for income taxes is based on accounting income. Income taxes related to timing differences between accounting and taxable income are recorded as deferred income taxes.

(f) Cash and short-term investments:

Cash and short-term investments include cash on hand and deposits with banks with original maturities of less than three months.

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SMTC CORPORATION

(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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

(g) Inventories:

Inventories are valued at the lower of cost, on a first-in, first-out basis, and net realizable value. Inventories include an application of the relevant overhead.

(h) Capital assets:

Capital assets are stated at cost. Depreciation is provided using the following methods and annual rates:

Asset	Basis	Rate
-------	-------	------

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Manufacturing machinery and equipment.....	Straight line	5-10 years
Furniture and equipment.....	Declining balance	20%
Computer software and hardware.....	Straight line	3 years
Leasehold improvements.....	Straight line	Term of lease

(i) Foreign currency translation:

Transactions in foreign currencies are translated at the exchange rate in effect on the transaction date. Monetary items expressed in foreign currencies are translated at the exchange rate in effect at the balance sheet date. The resulting exchange gains and losses are included in the determination of net earnings for the period.

The Company's foreign subsidiaries are classified as integrated foreign operations. As such, their monetary assets and monetary liabilities are translated using period-end exchange rates, and other assets and liabilities are translated at applicable historical rates of exchange. Revenue and expenses are translated at monthly average exchange rates, except for depreciation, which is translated at historical rates. Exchange gains and losses are included in earnings in the period they are incurred.

(j) Accounting estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

(k) Statement of cash flows:

Effective September 1, 1998, the Company adopted retroactively, the new recommendations of The Canadian Institute of Chartered Accountants ("CICA") with respect to the preparation of the statement of cash flows. As a result, this change has revised the definition of cash and cash equivalents to include only cash and highly liquid investments with a maturity of 90 days or less and does not include the Company's bank indebtedness under its credit facilities as was the case in prior years. In addition, non-cash transactions previously presented in the statement of changes in financial position are no longer presented in the statement of cash flows.

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars except for share quantities and per share amounts)

(l) Recently issued accounting pronouncements:

The CICA has issued Section 3465, "Income Taxes", that establishes new standards for accounting for income taxes. The recommendations require the

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use of the liability method whereby deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end. The Company will adopt the new recommendations effective July 30, 1999 and has estimated that the impact would be to decrease the recorded deferred income tax liability by \$247.

3. Acquisitions:

(a) On January 1, 1998, the Company acquired 100% of the issued and outstanding shares of Ogden Atlantic Design (Europe) Ltd. for \$353. The purchase price consisted of \$219 paid at closing and \$134 of acquisition-related expenses. This acquisition was accounted for by the purchase method with the purchase price being allocated to capital assets.

(b) Effective September 1, 1997, the Company acquired certain assets of Ogden Atlantic Design Company, Inc. located in Charlotte, North Carolina for \$4,726. Under the terms of the purchase, the Company also assumed the property lease and certain operating leased equipment. The purchase price consisted of \$1,155 paid at closing, \$236 of acquisition related expenses and a \$3,335 one year note, subordinated to the bank and bearing interest at 9% per annum. \$1,391 of the purchase price was allocated to capital assets and \$3,335 was allocated to inventory.

4. Capital assets:

August 31, 1998	Cost	Accumulated depreciation	Net book value
Manufacturing machinery and equipment.....	\$21,904	\$ 7,623	\$14,281
Furniture and equipment.....	1,331	489	842
Computer software and hardware.....	2,210	1,080	1,130
Leasehold improvements.....	3,513	1,265	2,248
	\$28,958	\$10,457	\$18,501
	=====	=====	=====

July 29, 1999	Cost	Accumulated depreciation	Net book value
Manufacturing machinery and equipment.....	\$23,791	\$ 9,571	\$14,220
Furniture and equipment.....	2,114	866	1,248
Computer software and hardware.....	3,296	1,691	1,605
Leasehold improvements.....	6,005	1,985	4,020
	\$35,206	\$14,113	\$21,093
	=====	=====	=====

Included in machinery and equipment at December 31, 1999 is equipment under capital lease with a cost of \$443 (1998--\$1,133) and accumulated depreciation of \$203 (1998--\$757).

Included in the total depreciation expense for the year ended December 31, 1999 of \$4,005 (1998--\$3,899; 1997--\$2,558) is \$128 (1998--\$402; 1997--\$363) relating to the depreciation of equipment under capital lease.

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars except for share quantities and per share amounts)

5. Bank indebtedness:

Up to July 29, 1999, the operating lines of credit were due on demand, bore interest at LIBOR plus 0.45% and rates ranging from the Company's bank prime rate (prime) plus 0.25% to prime plus 1% and were secured by a general security agreement covering all assets of the Company. All bank indebtedness outstanding on July 29, 1999 was refinanced under a new senior credit facility on July 30, 1999. The indebtedness has been classified as long-term, consistent with the terms of that facility (note 6).

6. Long-term debt:

Up to July 29, 1999, the term loans bore interest at rates ranging from the Company's bank prime or base rate plus 0.50% to prime or base rate plus 1.5%. The loans could be repaid at any time or times without payment of bonus interest.

On July 30, 1999, concurrent with the business combination with HTM Holdings, Inc. ("HTM") (note 16) the Company and HTM entered into a new senior credit facility that provides for \$95,000 in term loans and \$60,000 in revolving credit loans, swing line loans and letters of credit. The senior credit facility is secured by a security agreement over all assets and requires the Company to meet certain financial ratios and benchmarks and to comply with certain restrictive covenants. The revolving credit facilities terminate in July 2004. The term loans mature in quarterly instalments from September 2000 to June 2004 for \$35,000 of the term loans and from September 2000 to December 2005 for \$50,000 of the term loans. \$10,000 of the term loans is payable in one instalment on September 30, 2006. The borrowings will bear interest at varying rates based on either the Eurodollar base rate plus 3%, the U.S. bank rate plus 1.25% or the Canadian prime rate plus 1.25%.

The future minimum repayments under the new senior credit facility are:

2000.....	\$	--
2001.....		2,668
2002.....		5,335
2003.....		8,003
2004 and thereafter.....		27,370

		\$43,376
		=====

7. Obligations under capital leases:

Obligations under capital leases consist of several leases for equipment bearing interest from 7% to 8% per annum.

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8. Share capital:

(a) Authorized:

At July 29, 1999 (SMTC Corporation):

- (i) 1,720,000 Class A-1 voting common shares, par value \$0.001 per share, holders are entitled to one vote per share, entitled to share in dividends pro rata subject to any preferential rights to the Class L shares;

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars except for share quantities and per share amounts)

- (ii) 1,100,000 Class A-2 voting common shares, par value \$0.001 per share, holders are entitled to one vote per share, entitled to share in dividends pro rata subject to any preferential rights of the Class L shares;
- (iii) 300,000 Class L voting common shares, par value \$0.001 per share, the number of votes per share is determined by a prescribed formula, entitled to receive all dividends declared on common stock until there has been paid a specified amount based on an internal annual rate of return of 12%; and
- (iv) 125,000 Class N voting common shares, par value \$0.001 per share, the number of votes per share are determined by a prescribed formula, not entitled to receive dividends.

Each share of Class L and Class A-2 stock shall convert automatically under certain conditions into Class A-1 shares based on a prescribed formula for Class L shares and on a one-for-one basis for Class A-2 shares.

Prior to July 28, 1999 (The Surface Mount Technology Centre Inc.):

The Company completed a capital reorganization on July 28, 1999 such that The Surface Mount Technology Centre Inc. became a wholly owned subsidiary of SMTC Corporation. Prior to the reorganization, the authorized capital stock of The Surface Mount Technology Centre Inc. was:

- (i) An unlimited number of Class B common shares, voting, convertible into 0.78 common or Class D shares and 0.22 Class C or Class E shares each;
- (ii) An unlimited number of Class C non-cumulative shares, voting, redeemable at \$3.03 each, convertible into one common share each, and subject to a maximum dividend of \$0.33 per share per year;
- (iii) An unlimited number of Class D non-cumulative shares, voting, convertible into one common share each;
- (iv) An unlimited number of Class E non-cumulative shares, voting, redeemable at \$3.03 each, convertible into one common share each,

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and subject to a maximum dividend of \$0.33 per share per year;
and

- (v) An unlimited number of common shares.

In order to facilitate the share capital reorganization, the Company amended its authorized share capital on July 28, 1999 to include new classes of shares including:

- (i) Unlimited number of Class A, Class B and Class C preferred shares, redeemable by the Company at \$0.66 per share with an annual 6% non-cumulative dividend;
- (ii) Unlimited number of subordinate non-voting Class D and Class E shares; the Class D shares are convertible into Class E shares; and
- (iii) Class V voting shares.

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars except for share quantities and per share amounts)

- (b) Issued and outstanding:

The Surface Mount Technology Centre Inc.

	1998			
Number of shares	Common shares	Class C shares	Class D shares	Class E shares
-----	-----	-----	-----	-----
Balance, August 31, 1997.....	1,272,224	169,444	390,278	84,722
Share conversion (i).....	254,166	(169,444)	--	(84,722)
Balance, August 31, 1998.....	1,526,390	--	390,278	--
	=====	=====	=====	=====
Amount	Common shares	Class C shares	Class D shares	Class E shares
-----	-----	-----	-----	-----
Balance, August 31, 1997.....	\$ 2,392	\$ 319	\$ 734	\$ 159
Share conversion (i).....	478	(319)	--	(159)
Balance, August 31, 1998.....	\$ 2,870	\$ --	\$ 734	\$ --
	=====	=====	=====	=====

1998 capital transactions:

- (i) On September 5, 1997, the issued Class C and Class E shares were

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converted into an equal number of common shares.

(ii) During fiscal 1998, the Company paid dividends on its common and Class C shares in the amount of \$397 and \$53, respectively.

Number of shares	1999				
	Common shares	Class D shares (voting)	Class D shares (non-voting)	Class E shares (non-voting)	Preferred shares
Balance, August 31, 1998.....	1,526,390	390,278	--	--	--
Share capital reorganization (i).....	(1,521,390)	(390,278)	12,301,570	26,399,229	32,731,788
Balance, July 29, 1999..	5,000	--	12,301,570	26,399,229	32,731,788

Amount	1999				
	Common shares	Class D shares (voting)	Class D shares (non-voting)	Class E shares (non-voting)	Preferred shares
Balance, August 31, 1998.....	\$ 2,870	\$ 734	\$ --	\$ --	\$ --
Share capital reorganization (i).....	(2,865)	(734)	--	--	21,185
Balance, July 29, 1999..	\$ 5	\$ --	\$ --	\$ --	\$ 21,185

As a result of the capital reorganization, The Surface Mount Technology Centre Inc. acquired 100% of the outstanding voting shares of SMTC Corporation. The number of issued and outstanding shares of SMTC Corporation become the number of issued and outstanding shares of the continuing consolidated entity. The recorded value of the issued and outstanding shares of the continuing

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars except for share quantities and per share amounts)

consolidated entity is the recorded value of the capital stock of The Surface Mount Technology Centre Inc. The issued and outstanding shares of the continuing consolidated entity are as follows:

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	Number	Amount
	-----	-----
Class A-2 shares:		
Recorded value of The Surface Mount Technology Centre Inc. shares.....	2,500	\$ 1
	-----	---
Balance, July 29, 1999.....	2,500	\$ 1
	=====	===

The \$4 excess of The Surface Mount Technology Centre Inc. shares recorded value over the \$1 par value of the Class A-2 shares has been recorded as additional paid-in capital.

1999 capital transactions:

- (i) On July 27, 1999 and July 28, 1999, The Surface Mount Technology Centre Inc. and SMTC Corporation completed a series of transactions to complete the reorganization described in note 2(a). As a result of the reorganization, the Company increased the stated capital of certain classes of common shares with a corresponding charge to retained earnings of \$17,582 and reduced the stated capital of other classes of shares; converted common shares into Class A, B or C common shares which in turn were exchanged into Class E non-voting shares, preferred shares and Class V voting shares; exchanged Class D shares into Class D non-voting shares and Class V voting shares; issued 5,000 common shares for \$5 cash consideration; and redeemed the outstanding Class V voting shares for \$1 cash consideration.
- (ii) In connection with the reorganization agreement and the business combination with HTM Holdings, Inc. that was consummated on July 30, 1999 (note 16), the Company committed to redeem the outstanding preferred shares and a portion of the outstanding Class D non-voting and Class E non-voting shares of The Surface Mount Technology Centre Inc. for \$42,035. The redemption amount of these shares has been presented as a current liability in the consolidated financial statements at July 29, 1999. The \$20,850 excess of the redemption amount over the \$21,185 stated capital for the Class D, Class E and preferred shares has been recorded as a charge to retained earnings.
- (iii) During fiscal 1999, The Surface Mount Technology Centre Inc. paid dividends on its common shares in the amount of \$387. The dividends were paid prior to the reorganization.

Due to the corporate reorganization that took place effective July 29, 1999, the capital stock amount for accounting purposes differs from the legal stated capital amount.

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars except for share quantities and per share amounts)

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9. Interest expense:

	Year ended August 31, 1997	Year ended August 31, 1998	September 1, 1998 to July 29, 1999
	-----	-----	-----
Short-term:			
Bank indebtedness.....	\$533	\$1,665	\$2,615
Interest on acquisition note payable.....	--	288	--
	-----	-----	-----
	533	1,953	2,615
Long-term:			
Interest on bank debt..	349	469	478
Interest on obligations under capital leases..	73	46	18
	-----	-----	-----
	422	515	496
	-----	-----	-----
	\$955	\$2,468	\$3,111
	=====	=====	=====

10. Income taxes:

Certain of the Company's subsidiaries have approximately \$7,322 of losses available to reduce income taxes in future years. The losses begin to expire in 2017. The benefit of approximately \$991 of these losses has been recognized in the financial statements as a reduction in the deferred tax liability. In fiscal 1998, tax expense was reduced by the benefit of losses of \$1,100 which had not been previously recognized.

11. Cash flows:

Change in non-cash operating working capital:

	Year ended August 31, 1997	Year ended August 31, 1998	September 1, 1998 to July 29, 1999
	-----	-----	-----
Accounts receivable.....	\$(3,188)	\$(24,289)	\$(12,260)
Inventories.....	(7,355)	(18,787)	679
Prepaid expenses.....	(147)	(553)	(835)
Accounts payable and accrued lia- bilities.....	1,727	23,704	1,345
Income taxes payable.....	406	148	387
	-----	-----	-----
	\$(8,557)	\$(19,777)	\$(10,684)
	=====	=====	=====

Cash paid for interest and income taxes:

Year ended August 31, 1997	Year ended August 31, 1998	September 1, 1998 to July 29, 1999
-----	-----	-----

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Interest.....	\$1,023	\$2,258	\$3,193
Income taxes.....	2,998	4,062	3,054

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars except for share quantities and per share amounts)

Non-cash financing and investing activities:

1999:

Certain transactions arising from the share capital reorganization (notes 2(a) and 8) were non-cash transactions including the increase in stated capital and the exchange of common shares for preferred and non-voting shares.

1998:

On September 1, 1997, the Company acquired certain assets of Ogden Atlantic Design Company, Inc. located in Charlotte, North Carolina. A portion of the acquisition was financed by the issuance of a \$3,335 one year note payable.

12. Economic dependence and concentration of credit risk:

84% of sales for the period ended July 29, 1999 (year ended August 31, 1998--74%; year ended August 31, 1997--84%) and 81% of accounts receivable at July 29, 1999 (August 31, 1998--61%) arise from transactions with the Company's five largest customers.

13. Commitments:

The Company is committed to future payments on operating leases for premises and equipment at July 29, 1999 as follows:

2000.....	\$7,294
2001.....	6,635
2002.....	5,650
2003.....	2,659
2004.....	635
Subsequent years.....	169

14. Contingencies:

(a) General:

In the normal course of business, the Company may be subjected to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the

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accounts where required. Although it is not possible to estimate the extent of potential costs, if any, management believes the ultimate resolution of such contingencies would not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

(b) Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to a significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars except for share quantities and per share amounts)

all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

15. Comparative figures:

Certain prior years' figures presented have been reclassified to conform with the current year's presentation.

16. Subsequent events:

(a) Capital transactions:

On July 30, 1999, the Company issued 1,018,171 Class A shares and 86,707 Class N shares to its existing shareholders for \$2,036 cash consideration.

(b) Business combination between HTM Holdings, Inc. and SMTC Corporation:

Effective July 30, 1999, the Company acquired 100% of the outstanding common shares of HTM Holdings, Inc., a contract manufacturer in Denver, Colorado. The Company issued 1,393,971 Class A shares and 154,168 Class L shares to the shareholders of HTM Holdings, Inc. for \$16,739 cash consideration and 100% of the outstanding shares of HTM Holdings, Inc. Simultaneously, the former shareholders of the Company subscribed for an additional 26,701 Class N shares for nominal consideration.

Upon completion of these transactions, the former shareholders of HTM Holdings, Inc. held 58% of the outstanding shares of the Company and HTM Holdings, Inc. became a wholly owned subsidiary of the Company. As a result, the acquisition will be recorded as a reverse takeover of the Company by HTM Holdings, Inc. and accounted for using the purchase method. The purchase price is \$24,703, including transaction costs of \$4,293. The purchase price will be allocated to the fair value of the Company's net

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assets as follows:

Current assets.....	\$ 84,423
Capital assets.....	21,093
Goodwill.....	24,863
Liabilities and other.....	(105,676)

Net assets acquired.....	\$ 24,703
	=====

(c) Stock options and warrants:

On July 30, 1999, in connection with the business combination described in note 16(b), each existing warrant holder and stock option holder of HTM Holdings, Inc. was granted equivalent warrants and stock options for Class A and Class L shares of SMTC Corporation.

On September 30, 1999, the Company issued an additional 116,860 Class A stock options to certain employees.

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars except for share quantities and per share amounts)

(d) Hedging activities:

On September 20, 1999, the Company entered into, for hedging purposes, two interest rate swap transactions with a Canadian chartered bank. The swaps expire on September 22, 2001 and involve the exchange of 90-day floating LIBOR rates for a two-year fixed interest rate of 6.16% (before credit spread) per annum on a notional amount of \$65,000.

17. Canadian and United States accounting policy differences:

The consolidated financial statements of the Company have been prepared in accordance with the generally accepted accounting principles ("GAAP") in Canada. Material measurement differences between Canadian and U.S. GAAP and their effect on the Company's consolidated financial statements are summarized below:

Consolidated statements of earnings:

	Year ended August 31, 1997	Year ended August 31, 1998	September 1, 1998 to July 29, 1999
	-----	-----	-----
Net earnings for the year in accordance with Canadian GAAP....	\$5,501	\$3,450	\$3,858
Adjustment to foreign			

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exchange (i).....	--	(87)	(58)
Adjustment to deferred income			
taxes (ii).....	(143)	48	152
Adjustment to reorganization			
costs (iii).....	--	--	(212)
	-----	-----	-----
Net earnings for the year in			
accordance with U.S. GAAP.....	5,358	3,411	3,740
Currency translation adjustment...	380	--	--
	-----	-----	-----
Comprehensive income--U.S. GAAP...	\$5,738	\$3,411	\$3,740
	=====	=====	=====

As a result of the adjustments to foreign exchange and deferred taxes, deferred income taxes would be \$600 and \$969 at July 29, 1999 and August 31, 1998, respectively and shareholders' equity (deficiency) would be \$(19,020) and \$19,658 at July 29, 1999 and August 31, 1998, respectively.

- (i) Under Canadian GAAP, deferred taxes of operations using the temporal method are translated at historical exchange rates, while under U.S. GAAP, deferred income taxes are translated at current exchange rates.
- (ii) Under Canadian GAAP, deferred income taxes are computed based on accounting income using the deferral method. Under U.S. GAAP, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end, based on enacted tax rates applicable in periods in which the differences are expected to reverse.
- (iii) Under Canadian GAAP, the costs associated with the Reorganization are charged directly to retained earnings. Under U.S. GAAP, because the transaction is between entities under common control and is accounted for in a manner similar to a pooling of interests, these costs are recorded as a charge to earnings.
- (iv) U.S. GAAP requires the reporting of comprehensive income in addition to net earnings. Comprehensive income includes net earnings plus other comprehensive income; specifically, all

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SMTC CORPORATION
(FORMERLY THE SURFACE MOUNT TECHNOLOGY CENTRE INC.) ("SURFACE MOUNT")

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Expressed in thousands of U.S. dollars except for share quantities and per share amounts)

changes in equity of a company during the period arising from transactions and other events from non-owner sources.

- (v) Under Canadian GAAP, changes in bank overdraft balances are considered cash reductions and are not presented as financing activities. Under U.S. GAAP, any changes in bank overdrafts are considered to be financing activities. Accordingly, the cash provided by financing activities would have been \$1,498 and \$20,820 for the years ended August 31, 1998 and 1997,

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respectively, in accordance with U.S. GAAP. In addition, at the end of 1997 and beginning of 1998 cash would have been nil.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of SMTC Corporation (formerly HTM Holdings, Inc):

We have audited the accompanying balance sheets of W.F. Wood, Incorporated (a Massachusetts corporation and a wholly owned subsidiary of HTM Holdings, Inc.) as of September 3, 1999, December 31, 1998, and 1997, and the related statements of income, stockholders' equity, and cash flows for the period ended September 3, 1999 and the years ended December 31, 1998, 1997 and 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of W.F. Wood, Incorporated as of September 3, 1999, December 31, 1998, and 1997, and the results of its operations and its cash flows for the period ended September 3, 1999 and the years ended December 31, 1998, 1997, and 1996 in conformity with United States generally accepted accounting principles.

Boston, Massachusetts
February 9, 2000.

/s/ Canby, Maloney & Co., Inc.

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W.F. WOOD, INCORPORATED

BALANCE SHEETS
AS OF THE DATES INDICATED

	December 31, 1997	December 31, 1998	September 3, 1999
	-----	-----	-----
Assets			
Current Assets:			
Cash.....	\$ 70,282	\$ 22,991	\$ 3
Accounts receivable, net of allowance for doubtful accounts of \$20,000.....	1,953,774	2,599,745	2,619,517
Inventories.....	3,011,002	2,971,547	3,590,236
Prepaid state income taxes.....	--	--	59,820
Other current assets.....	33,041	91,347	84,751
	-----	-----	-----

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Total current assets.....	5,068,099	5,685,630	6,354,327
Equipment and Improvements, Net.....	1,412,241	1,414,924	1,695,208
Other Assets:			
Due from related party.....	624,609	484,609	--
Deposits.....	8,732	8,732	20,160
	633,341	493,341	20,160
	\$7,113,681	\$7,593,895	\$8,069,695
	=====	=====	=====
Liabilities and Stockholders' Equity			
Current Liabilities:			
Demand note payable to a bank.....	\$1,670,764	\$ --	\$ --
Current maturities of capital lease obligations.....	63,088	33,726	6,626
Current maturities of long-term debt..	350,744	275,930	183,835
Accounts payable.....	1,879,225	2,710,425	3,855,502
Accrued expenses.....	211,369	279,862	570,166
Accrued state income taxes.....	26,703	26,000	--
Total current liabilities.....	4,201,893	3,325,943	4,616,129
Capital Lease Obligations, less current maturities.....	43,303	--	--
Long-Term Debt, less current liabilities.....	473,529	465,013	394,833
Total Liabilities.....	4,718,725	3,790,956	5,010,962
	=====	=====	=====
Stockholders' Equity:			
Common stock, no par value			
Authorized--200,000 shares			
Issued and outstanding--80,000 shares.....	985,000	985,000	3,806,393
Retained earnings (accumulated deficit).....	1,409,956	2,817,939	(747,660)
	2,394,956	3,802,939	3,058,733
	\$7,113,681	\$7,593,895	\$8,069,695
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

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W.F. WOOD, INCORPORATED

STATEMENTS OF INCOME
FOR THE PERIODS INDICATED

For the Years Ended December 31,

1996

1997

1998

For the Period Ended
September 3, 1999

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Net Sales.....	\$16,822,612	\$25,618,654	\$30,783,620	\$23,198,095
Cost of Sales.....	12,700,384	20,883,967	25,196,045	20,071,521
Gross profit.....	4,122,228	4,734,687	5,587,575	3,126,574
Selling, General, and Administrative Expenses:				
Stockholders' compensation.....	166,057	248,805	214,619	135,525
Professional fees related to sale transaction.....	--	--	--	402,610
Bonuses paid to management and employees related to sale transaction.....	--	--	--	2,571,176
Other selling, general, and administrative expenses.....	2,204,506	2,370,845	2,965,395	1,717,789
Total selling, general, and administrative expenses.....	2,370,563	2,619,650	3,180,014	4,827,100
Income (loss) from operations.....	1,751,665	2,115,037	2,407,561	(1,700,526)
Other Income (Expense):				
Interest expense, net.....	(179,160)	(220,593)	(132,578)	(58,078)
Income (loss) before provision for state income taxes.....	1,572,505	1,894,444	2,274,983	(1,758,604)
Provision for State Income Taxes.....	45,000	79,000	103,000	--
Net income (loss).....	\$ 1,527,505	\$ 1,815,444	\$ 2,171,983	\$(1,758,604)

The accompanying notes are an integral part of these financial statements.

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W.F. WOOD, INCORPORATED

STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIODS INDICATED

Common Stock	
Number of	Retained

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	Shares Issued	Amount	Earnings (Deficit)
BALANCE, December 31, 1995.....	80,000	\$ 985,000	\$ 220,385
Net income.....	--	--	1,527,505
Distributions to stockholders.....	--	--	(1,069,810)
BALANCE, December 31, 1996.....	80,000	985,000	678,080
Net income.....	--	--	1,815,444
Distributions to stockholders.....	--	--	(1,083,568)
BALANCE, December 31, 1997.....	80,000	985,000	1,409,956
Net income.....	--	--	2,171,983
Distributions to stockholders.....	--	--	(764,000)
BALANCE, December 31, 1998.....	80,000	985,000	2,817,939
Additional paid-in capital.....	--	2,821,393	--
Net loss.....	--	--	(1,758,604)
Distributions to stockholders.....	--	--	(1,806,995)
BALANCE, September 3, 1999.....	80,000	\$3,806,393	\$ (747,660)

The accompanying notes are an integral part of these financial statements.

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W.F. WOOD, INCORPORATED

STATEMENTS OF CASH FLOWS
FOR THE PERIODS INDICATED

For the Years Ended December 31,

	1996	1997	1998	For the Period Ended September 3, 1999
Operating Activities:				
Collections from customers.....	\$ 15,693,172	\$ 26,008,142	\$ 30,137,649	\$ 23,178,323
Interest income collected.....	3,750	4,143	555	36
Payment of state income taxes.....	(22,033)	(103,730)	(111,470)	(82,564)
Payment of operating expenses.....	(14,290,962)	(24,485,261)	(27,127,288)	(23,798,966)
Payment of interest...	(193,518)	(215,707)	(161,872)	(66,169)
Net cash provided by (used for) operating				

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activities.....	1,190,409	1,207,587	2,737,574	(769,340)
Investing Activities:				
Proceeds from sale of equipment.....	18,500	10,301	45,757	5,704
Purchase of equipment and improvements....	(638,596)	(281,560)	(181,863)	(222,911)
Payment of deposits...	(19,402)	(3,576)	--	(11,428)
Net cash used for investing activities.....	(639,498)	(274,835)	(136,106)	(228,635)
Financing Activities:				
Net proceeds from (payment of) demand note payable to a bank.....	232,734	259,581	(1,670,764)	--
Proceeds from long-term debt.....	389,920	71,469	--	--
Payment of long-term debt.....	(181,605)	(205,387)	(281,330)	(227,776)
Payment of capital lease obligations....	(8,219)	(62,674)	(72,665)	(27,100)
Proceeds from (payments to) related party.....	(11,622)	27,101	140,000	83,496
Additional paid-in capital.....	--	--	--	2,552,249
Distributions to stockholders.....	(1,069,810)	(1,083,568)	(764,000)	(1,405,882)
Net cash provided by (used for) financing activities.....	(648,602)	(993,478)	(2,648,759)	974,987
Net decrease in cash....	(97,691)	(60,726)	(47,291)	(22,988)
Cash balance, beginning of period.....	228,699	131,008	70,282	22,991
Cash balance, end of period.....	\$ 131,008	\$ 70,282	\$ 22,991	\$ 3

The accompanying notes are an integral part of these financial statements.

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W.F. WOOD, INCORPORATED

STATEMENTS OF CASH FLOWS--(Continued)
FOR THE PERIODS INDICATED

For the Years Ended December 31,

For the

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	1996	1997	1998	Period Ended September 3, 1999
	-----	-----	-----	-----
Reconciliation of Net Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
Net income (loss).....	\$ 1,527,705	\$1,815,444	\$2,171,983	\$ (1,758,604)
Adjustments to reconciled net income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization.....	242,315	321,615	365,624	264,160
(Gain) loss on disposal of equipment.....	19,339	(8,307)	(34,301)	7,408
(Increase) decrease in:				
Accounts receivable.....	(1,129,440)	389,488	(645,971)	(19,772)
Inventories.....	(1,166,871)	(591,976)	39,455	(618,689)
Prepaid state income taxes.....	--	--	--	(59,820)
Other current assets....	(1,957)	18,588	(58,306)	6,596
Increase (decrease) in:				
Accounts payable.....	1,576,965	(656,910)	831,200	1,145,077
Accrued expenses.....	99,386	(65,737)	68,493	290,304
Accrued state income taxes.....	22,967	(14,618)	(703)	(26,000)
	-----	-----	-----	-----
Net cash provided by (used for) operating activities.....	\$ 1,190,409	\$1,207,587	\$2,737,574	\$ (769,340)
	=====	=====	=====	=====
Non-Cash Investing and Financing Activities				
Payment of long-term debt with stockholders' additional paid-in capital.....	\$ --	\$ --	\$ --	\$ 269,144
	=====	=====	=====	=====
Distribution of due from related party to stockholders.....	\$ --	\$ --	\$ --	\$ 401,113
	=====	=====	=====	=====
Purchase of equipment in exchange for long-term debt.....	\$ 32,778	\$ --	\$ 198,000	\$ 334,645
	=====	=====	=====	=====
Purchase of equipment in exchange for capital lease obligations.....	\$ 105,689	\$ 71,595	\$ --	\$ --
	=====	=====	=====	=====
Deposit applied to equipment purchase.....	\$ --	\$ 17,746	\$ --	\$ --
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

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W.F. WOOD, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

W.F. Wood, Incorporated (the "Company"), is engaged in the design, manufacture, finishing, and sale of sheet metal fabrication and metal products. The accompanying financial statements reflect the application of certain accounting policies as described in this note. Other policies and practices are covered in the remaining notes.

(a) Inventories:

Inventories, which include material, labor, and manufacturing overhead, are stated at the lower of cost (first-in, first-out) or market.

(b) Equipment and Improvements:

Purchased property and equipment is recorded at cost. Capital lease property and equipment is recorded at the lesser of cost or the present value of minimum lease payments required. The Company provides for depreciation and amortization by charges to income in amounts estimated to recover the cost of its equipment and improvements over their estimated useful lives or term of lease, using the straight-line method, as follows:

Machinery and equipment.....	5-10 Years
Building improvements.....	Term of Lease
Office equipment.....	3-10 Years
Vehicles.....	5 Years
Office equipment under capital lease.....	Term of Lease

(c) Income Taxes:

As discussed in Note 10, the outstanding common stock of the Company was sold effective September 3, 1999 to HTM Holdings, Inc. This transaction terminated the Company's subchapter "S" status. Prior to this transaction, the former stockholders of the Company had elected subchapter "S" status for federal and Massachusetts income tax purposes, thereby consenting to include the Company's income in their individual income tax returns. Massachusetts "S" corporations with sales over \$9 million are subject to a state corporate income tax of 4.5%. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". This Statement requires the use of the asset and liability approach for financial accounting and reporting for income taxes.

(d) Reclassification:

Certain accounts in the financial statements for the years ended December 31, 1998 and 1997 have been reclassified to conform to the financial statement presentation for the period ended September 3, 1999.

(e) Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and

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assumptions that affect the reported amounts of assets and liabilities and disclosure 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 may differ from those estimates.

(2) Related Party Transactions

(a) Due from Related Party:

Due from related party represents an amount due from Airedale Realty Trust (the "Trust"), which is an entity that the former majority stockholders of the Company are beneficiaries of. On September 3, 1999, the amount due from the Trust was distributed to the former majority stockholders. The due from related party was unsecured with no interest.

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W.F. WOOD, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Continued)

(b) Facility Lease:

In connection with the sale of stock described in Note 10, the Company entered into a lease agreement with the Trust to lease a manufacturing facility for a term of one year with a four-year extension at the option of the Company. The annual base rent is \$300,000, plus operating costs, as defined. The annual rent will range from approximately \$319,000 in the first extension year to approximately \$362,000 in the fourth extension year.

Prior to the lease agreement described above, the Company leased the facility from the Trust on a tenant-at-will basis. Total rent expense was \$202,500 for the period ended September 3, 1999 and \$300,000 for each of the years ended December 31, 1998, 1997, and 1996.

(3) Inventories

	December 31, 1997	December 31, 1998	September 3, 1999
Raw material.....	\$1,642,463	\$1,360,722	\$1,556,381
Work in process.....	1,228,417	1,524,611	1,994,284
Finished goods.....	140,122	86,214	39,571
	-----	-----	-----
	\$3,011,002	\$2,971,547	\$3,590,236
	=====	=====	=====

(4) Equipment and Improvements

Equipment and improvements consisted of the following:

	December 31, 1997	December 31, 1998	September 3, 1999
	-----	-----	-----

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Machinery and equipment.....	\$1,823,555	\$2,003,146	\$2,484,866
Building improvements.....	251,093	325,593	377,248
Office equipment.....	525,855	584,989	609,169
Vehicles.....	49,023	32,778	--
	-----	-----	-----
	2,649,526	2,946,506	3,471,283
Less--Accumulated depreciation and amortization.....	1,237,285	1,531,582	1,776,075
	-----	-----	-----
	\$1,412,241	\$1,414,924	\$1,695,208
	=====	=====	=====

Depreciation and amortization expense related to equipment and improvements, including the equipment under capital lease, was \$264,160 for the period ended September 3, 1999 and \$365,624, \$321,615, and \$242,315 for the years ended December 31, 1998, 1997, and 1996, respectively.

(5) Demand Note Payable to a Bank

In connection with the sale of common stock described in Note 10, the demand note payable to a bank and the security interest provided to the bank was terminated.

In 1998 and 1997, the demand note payable to a bank represents borrowings under a line-of-credit agreement, renewable annually, in which the Company may borrow against qualified accounts receivable and inventories, less letters of credit, as defined in the loan agreement, subject to a maximum limit of \$2,500,000. Borrowings under the agreement bear interest at the bank's prime rate (7.75% at December 31, 1998) plus 0.5%, are collateralized by substantially all assets of the Company and the Trust and are fully guaranteed by the Trust.

The provisions of this agreement require, among other things, the Company to (a) maintain a minimum cash flow coverage ratio as defined, (b) maintain a minimum tangible capital base (stockholders' equity less intangibles plus subordinated debt) as defined, (c) not allow senior debt to be four times greater than the tangible capital base and (d) places certain limits on distributions to the Company's stockholders.

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W.F. WOOD, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Continued)

(6) Capital Lease Obligations

The Company leases various office equipment under capital lease agreements with monthly principal and interest installments ranging from \$3,300 to \$6,672, expiring at various dates through October 2000, with effective interest rates of approximately 8% to 10%. The related equipment collateralizes each lease.

At September 3, 1999, and December 31, 1998 and 1997, the capitalized cost of leased office equipment was approximately \$177,000 as of each date and the related accumulated amortization was approximately \$167,000, \$126,000, and \$67,000, respectively.

(7) Long-Term Debt

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Long-term debt at September 3, 1999, and December 31, 1998 and 1997, consists of the following:

	December 31, 1997	December 31, 1998	September 3, 1999
	-----	-----	-----
(a) Installment note payable to a bank, due in monthly principal payments of \$8,929 through January 1999, with a final payment of \$61,343 due February 1999. The note bears interest at the bank's prime rate (7.75% at December 31, 1998) plus 0.5% and is collateralized by substantially all assets of the Company and the Trust. This note payable was refinanced in 1998 to extend its maturity date from November 1998 to February 1999.....	\$177,415	\$ 70,272	\$ --
(b) Installment note payable to a bank, due in monthly principal payments of \$7,690 plus interest at the bank's prime rate (7.75% at December 31, 1998) plus 0.5% through August 2002. Borrowings are collateralized by substantially all assets of the Company and the Trust	430,631	338,353	--
(c) 9.9% Installment note payable to a finance company, due in monthly principal and interest payments of \$833 through March 2000. The note is collateralized by a motor vehicle	19,934	11,534	--
(d) 8.0% Installment note payable to a finance company, due in monthly principal and interest payments of \$4,015 through August 2003. The note is collateralized by the related equipment	--	187,115	164,456
(e) 7.25% Installment note payable to a finance company, due in monthly principal and interest payments of \$6,666 through May 2004. The note is collateralized by the related equipment.....	--	--	320,628
(f) 10.2% Installment note payable to a finance company, due in monthly principal and interest payments of \$6,672 through October 2000. The note is collateralized by the related equipment.....	196,293	133,669	93,584
	-----	-----	-----
	824,273	740,943	578,668
Less--Current maturities.....	350,744	275,930	183,835
	-----	-----	-----
	\$473,529	\$465,013	\$394,833

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W.F. WOOD, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Continued)

The installment notes payable to a bank in (a) and (b) were fully repaid in connection with the sale of common stock described in Note 10, and the security interest provided to the bank was terminated.

Principal payments on the long-term debt at September 3, 1999 are due as follows:

Year Ending September 3, -----	Amount -----
2000.....	\$183,835
2001.....	116,058
2002.....	111,110
2003.....	115,771
2004.....	51,894

	\$578,668
	=====

(8) Commitments

(a) Facility Lease:

The Company leases a second manufacturing facility under a five-year lease agreement expiring January 2004. The lease requires the Company to pay annual base rent, plus a share of real estate taxes, operating costs and management fees as defined in the agreement. The agreement provides for one five-year option to extend the lease term.

Future minimum lease payments (without regard to real estate taxes, operating costs and management fees) on the operating lease are as follows:

Year Ending September 3, -----	Amount -----
2000.....	\$189,092
2001.....	189,092
2002.....	198,791
2003.....	203,637
2004.....	67,877

	\$848,489
	=====

(b) Employment Agreements:

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The Company has entered into employment agreements with two officers of the Company. The Company is obligated to pay the officers one year's salary as severance if their employment is terminated by the Company without cause or terminated by the officers with good reason, as defined. The terms of the agreements expire in December 2001 and are automatically renewed each year until terminated by either party.

(c) Employee Bonus Plan:

In connection with the sale of stock described in Note 10, the Company adopted an employee bonus plan in which the Company provided a \$250,000 bonus to its employees in recognition of their past service and will pay a \$250,000 retention bonus as an incentive for employees to remain with the Company for at least six months subsequent to the sale of stock. As of September 3, 1999, the past service bonus of \$250,000 has been reflected in the accompanying financial statements. The retention bonus will be recognized upon the completion of the required term of employment.

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W.F. WOOD, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Continued)

(9) Profit Sharing Plan

The Company has a defined contribution profit sharing plan covering both salaried and hourly employees under Section 401(k) of the Internal Revenue Code. Under the plan, employees may reduce up to 15% of their compensation per year as a contribution to the plan, subject to the limitations imposed under Section 401(k). The matching contribution to the plan, if any, is determined annually at the discretion of the Company's directors. During the period ended September 3, 1999 and the years ended December 31, 1998, 1997, and 1996, there were no matching contributions by the Company.

(10) Concentrations

(a) Concentration of Credit Risk:

The Company extends credit to customers primarily located in Massachusetts who are manufacturers of various equipment, such as computers, computer-related equipment, and production equipment.

The Company generally does not require its customers to secure the accounts receivable. Total accounts receivable outstanding at September 3, 1999, and December 31, 1998 and 1997, from Massachusetts customers in computer-related industries is approximately \$1,794,000, \$2,083,000, and \$1,317,000, respectively.

(b) Concentration of Credit Risk Arising from Cash Deposits in Excess of Insured Limits:

The Company maintains its cash balances in one financial institution. The balances are insured up to \$100,000. At September 3, 1999, the Company's uninsured cash balances totaled \$1,021,812. The Company has not experienced any losses in such cash accounts and believes it is not exposed to any significant credit risk on cash.

(c) Significant Customer:

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One customer accounted for approximately 80%, 87%, and 77% of net sales for the period ended September 3, 1999 and the years ended December 31, 1998 and 1997, respectively. Two customers accounted for approximately 67% of net sales for the year ended December 31, 1996. Total receivables from this significant customer was approximately \$1,850,000, \$1,989,000, and \$1,033,000 at September 3, 1999 and December 31, 1998 and 1997, respectively.

(11) Sale of Common Stock and Change in Tax Status

Effective on September 3, 1999, the stockholders sold their common stock of the Company to HTM Holdings, Inc. This transaction terminated the Company's subchapter "S" status and will become a taxable corporation. SFAS No. 109 requires recognizing a deferred tax asset and liability for temporary differences that exist at the date the Company's tax status changes from nontaxable to taxable. The deferred tax liability due to this change was immaterial and has not been reflected in the accompanying financial statements.

As part of the stock purchase agreement relating to the sale of stock, HTM Holdings, Inc. may make an election under Section 338(h)(10) of the Internal Revenue Code, thereby treating the common stock sale of the Company as a sale of assets for tax reporting purposes. This would result in a gain on sale of assets for Massachusetts income tax reporting purposes. The potential state tax liability as a result of this election would be approximately \$680,000. The accompanying financial statements do not reflect any adjustments for this as the election has not been made as of the date of this report.

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W.F. WOOD, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Continued)

(12) Sale Related Professional Fees and Bonuses Paid to Management and Employees

Professional fees reflected in the accompanying statements of income for the period ended September 3, 1999 are non-recurring professional fees related to the Sale of the Company. Acquisition-related bonuses paid to management and employees reflect non-recurring bonuses paid by the Company upon sale of the Company to HTM Holdings, Inc.

(13) Additional paid-in capital

The existing shareholders of the Company funded the bonuses paid to management and employees and certain professional fees (notes 12 and 8(c)) and paid off certain bank debt by contributing cash of \$2,821,393 to the Company.

(14) Material Differences Between Generally Accepted Accounting Principles (GAAP) in United States and Canada

The financial statements have been prepared in accordance with generally accepted accounting principles as applied in the United States. The financial statements also conform, in all material respects, with Canadian generally accepted accounting principles.

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INDEPENDENT AUDITORS' REPORT

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Board of Directors
Pensar Corporation:

We have audited the accompanying balance sheets of Pensar Corporation as of December 31, 1998 and 1999, and the related statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pensar Corporation as of December 31, 1998 and 1999, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with United States generally accepted accounting principles.

KPMG LLP

Milwaukee, Wisconsin
May 9, 2000

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PENSAR CORPORATION

BALANCE SHEETS

December 31, 1998, 1999 and June 30, 2000

	December 31,		June 30,
	1998	1999	2000
	-----	-----	-----
			(unaudited)
Assets			
Current assets:			
Cash.....	\$ 427,285	\$ 511,740	\$ 23,676
Trade accounts receivable, net of allowance for doubtful receivables of \$20,000 in 1998 and 1999.....	7,506,530	9,780,860	9,057,170
Inventories.....	2,473,339	5,273,489	6,947,732
Prepaid expenses.....	65,960	200,994	220,319
	-----	-----	-----
Total current assets.....	10,473,114	15,767,083	16,248,897
	-----	-----	-----
Property, plant and equipment, net.....	3,436,303	4,720,574	5,191,316
Other assets.....	456,085	511,048	580,837
	-----	-----	-----

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	\$14,365,502	\$20,998,705	\$22,021,050
	=====	=====	=====
Liabilities and Stockholders' Equity			
Current liabilities:			
Lines of credit.....	\$ 1,500,000	\$ 4,215,000	\$ 3,650,000
Current installments of long-term debt.....	290,000	331,631	80,110
Accounts payable.....	2,810,627	5,138,413	5,308,418
Accrued liabilities.....	1,239,201	1,292,407	1,966,098
Stockholders' distributions payable...	560,000	138,666	--
	-----	-----	-----
Total current liabilities.....	6,399,828	11,116,117	11,004,626
Long-term debt, less current installments.....	830,000	1,080,867	1,255,867
	-----	-----	-----
Total liabilities.....	7,229,828	12,196,984	12,260,493
	-----	-----	-----
Stockholders' equity:			
Common stock, \$1 par value:			
Voting; 10,000 shares authorized, 1,000 shares issued and outstanding.....	1,000	1,000	1,000
Nonvoting; 40,000 shares authorized, no shares issued.....	--	--	--
Additional paid-in capital.....	1,209,423	1,209,423	1,209,423
Retained earnings.....	6,564,314	8,046,298	8,965,134
Notes receivable from officers and stockholders.....	(639,063)	(455,000)	(415,000)
	-----	-----	-----
Total stockholders' equity.....	7,135,674	8,801,721	9,760,557
	-----	-----	-----
	\$14,365,502	\$20,998,705	\$22,021,050
	=====	=====	=====

See accompanying notes to financial statements.

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PENSAR CORPORATION

STATEMENTS OF INCOME

Years ended December 31, 1997, 1998, 1999 and six months ended June 30, 1999 and 2000

	Year ended December 31,			Six months ended June 30,	
	1997	1998	1999	1999	2000
				(unaudited) (unaudited)	
Revenue:					
Manufacturing.....	\$49,863,694	\$48,919,471	\$50,018,206	\$20,198,874	\$31,820,078
Engineering services..	1,167,940	1,978,051	2,977,675	1,059,767	1,736,534
	-----	-----	-----	-----	-----
Total revenue.....	51,031,634	50,897,522	52,995,881	21,258,641	33,556,612

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Cost of goods sold or services provided.....	41,858,905	41,867,805	43,858,748	18,133,024	28,387,010
Gross profit.....	9,172,729	9,029,717	9,137,133	3,125,617	5,169,602
Operating expenses:					
Executive bonus compensation.....	642,037	528,764	497,692	23,730	225,750
Professional fees related to sale transaction.....	--	--	75,000	--	--
Other selling, general and administrative...	4,482,527	4,408,246	4,532,716	2,159,083	2,842,092
Total selling, general administrative expenses.....	5,124,564	4,937,010	5,105,408	2,182,813	3,067,842
Operating income.....	4,048,165	4,092,707	4,031,725	942,804	2,101,760
Other expense:					
Interest expense.....	387,891	216,985	267,697	91,168	199,945
Net income.....	\$ 3,660,274	\$ 3,875,722	\$ 3,764,028	\$ 851,636	\$ 1,901,815
Basic net income per common share.....	\$ 3,812.79	\$ 3,875.72	\$ 3,764.03	\$ 851.64	\$ 1,901.82
Weighted average shares of common stock outstanding.....	960	1,000	1,000	1,000	1,000
Diluted net income per common share.....	\$ 3,734.97	\$ 3,875.72	\$ 3,764.03	\$ 851.64	\$ 1,901.82
Weighted average shares of common stock outstanding.....	980	1,000	1,000	1,000	1,000

See accompanying notes to financial statements.

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PENSAR CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 1997, 1998 and 1999 and
six months ended June 30, 2000

	Voting Shares common	Nonvoting common	Additional paid-in capital	Retained earnings	Notes receivable from officers and stockholders	Total stockhold equity	
Balance at December 31, 1996.....	960	\$ 960	--	809,463	4,116,635	(416,000)	4,511,0
Net income.....	--	--	--	--	3,660,274	--	3,660,2

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Distributions.....	--	--	--	--	(2,256,121)	--	(2,256,1
Collections of notes receivable.....	--	--	--	--	--	69,600	69,6
Balance at December 31, 1997.....	960	960	--	809,463	5,520,788	(346,400)	5,984,8
Issuance of voting common stock.....	40	40	--	399,960	--	(400,000)	
Net income.....	--	--	--	--	3,875,722	--	3,875,7
Distributions.....	--	--	--	--	(2,832,196)	--	(2,832,1
Collections of notes receivable.....	--	--	--	--	--	107,337	107,3
Balance at December 31, 1998.....	1,000	1,000	--	1,209,423	6,564,314	(639,063)	7,135,6
Net income.....	--	--	--	--	3,764,028	--	3,764,0
Distributions.....	--	--	--	--	(2,282,044)	--	(2,282,0
Collections of notes receivable.....	--	--	--	--	--	184,063	184,0
Balance at December 31, 1999.....	1,000	\$1,000	--	1,209,423	8,046,298	(455,000)	8,801,7
Net income.....	--	--	--	--	1,901,815	--	1,901,8
Distributions.....	--	--	--	--	(982,979)	--	(982,9
Collections of notes receivable.....	--	--	--	--	--	40,000	40,0
Balance at June 30, 2000.....	1,000	\$1,000	--	1,209,423	8,965,134	(415,000)	9,760,5

See accompanying notes to financial statements.

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PENSAR CORPORATION

STATEMENTS OF CASH FLOWS

Years ended December 31, 1997, 1998, 1999 and
six months ended June 30, 1999 and 2000

	Year ended December 31,			Six months ended June 30,	
	1997	1998	1999	1999	2000
				(unaudited)	(unaudited)
Cash flows from operating activities:					
Net income.....	\$ 3,660,274	3,875,722	3,764,028	851,636	1,901,815
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation.....	623,057	631,904	752,457	324,880	440,135

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Amortization of debt issuance costs.....	15,684	15,680	26,729	16,667	5,628
Loss (gain) on sale of property, plant and equipment.....	--	(2,913)	4,004	--	--
Increase in cash surrender value of life insurance.....	(72,040)	(78,119)	(83,766)	(43,200)	(75,417)
Changes in assets and liabilities:					
Accounts receivable...	(1,416,342)	419,131	(2,274,330)	1,034,445	723,690
Inventories.....	675,672	136,718	(2,800,150)	(2,237,996)	(1,674,243)
Prepaid expenses.....	194	(17,837)	(135,034)	(77,582)	(19,325)
Accounts payable.....	(331,939)	(541,775)	2,327,786	650,715	170,005
Accrued liabilities...	441,783	(16,695)	53,206	111,163	535,025
	-----	-----	-----	-----	-----
Net cash provided by operating activities.....	3,596,343	4,421,816	1,634,930	630,728	2,007,313
	-----	-----	-----	-----	-----
Cash flows from investing activities:					
Purchase of property, plant and equipment...	(321,365)	(691,407)	(2,054,857)	(679,619)	(910,877)
Proceeds from sale of property, plant and equipment.....	--	3,325	14,125	--	--
(Increase) decrease in debt service trust funds.....	(3)	(8)	2,074	(1,226)	--
	-----	-----	-----	-----	-----
Net cash used for investing activities.....	(321,368)	(688,090)	(2,038,658)	(680,845)	(910,877)
	-----	-----	-----	-----	-----
Cash flows from financing activities:					
Proceeds from lines of credit.....	30,385,000	18,625,000	26,050,000	8,250,000	17,955,000
Payments on lines of credit.....	(31,450,000)	(18,325,000)	(23,335,000)	(7,000,000)	(18,520,000)
Repayment of stockholders' notes payable.....	--	(300,000)	--	--	--
Proceeds from issuance of long-term debt.....	--	--	500,000	--	--
Repayments of long-term debt.....	(442,250)	(928,865)	(207,502)	--	(76,521)
Distributions to stockholders.....	(1,402,121)	(3,126,196)	(2,703,378)	(1,653,544)	(982,979)
Proceeds from collection of notes receivable from officers and stockholders.....	91,700	107,337	184,063	84,000	40,000
	-----	-----	-----	-----	-----
Net cash provided by (used for) financing activities.....	(2,817,671)	(3,947,724)	488,183	(319,544)	(1,584,500)
	-----	-----	-----	-----	-----
Increase (decrease) in cash.....	457,304	(213,998)	84,455	(369,661)	(488,064)

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Cash:					
Beginning of period....	183,979	641,283	427,285	427,285	511,740
	-----	-----	-----	-----	-----
End of period.....	\$ 641,283	\$ 427,285	\$ 511,740	\$ 57,624	\$ 23,676
	=====	=====	=====	=====	=====
Supplemental cash flow information--Cash paid for interest.....					
	\$ 372,467	\$ 213,917	\$ 227,749	\$ 77,805	\$ 194,317
	=====	=====	=====	=====	=====
Non-cash investing and financing activities--					
Receipt of notes receivable for issuance of common stock.....					
	\$ --	\$ 400,000	\$ --	\$ --	\$ --
	=====	=====	=====	=====	=====

See accompanying notes to financial statements.

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PENSAR CORPORATION

NOTES TO FINANCIAL STATEMENTS
December 31, 1997, 1998 and 1999

(1) Nature of Business

Pensar Corporation (the Company), based in Appleton, Wisconsin, designs and assembles custom made electronic products, most of which include printed circuit boards, for domestic manufacturers. The Company also provides engineering services relating to board design and microchip programming. The Company's raw materials are readily available, and the Company is not dependent on a single supplier or a limited number of suppliers.

The Company's accounting principles are in accordance with accounting principles generally accepted in the United States, and, except as outlined in note 15, are, in all material respects, in accordance with accounting principles generally accepted in Canada.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Actual results may differ from those estimates.

(b) Revenue Recognition

Revenue from the sale of products is recognized when goods are shipped to customers. Revenue from the provision of engineering services is recognized as services are provided.

(c) Inventories

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Inventories are valued on a first-in, first-out basis at the lower of cost or replacement value for raw materials and at the lower of cost or net realizable value for work in process and finished goods.

(d) Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated predominantly on a straight-line basis over their estimated useful lives as follows:

Building.....	40 years
Building improvements.....	5 years
Machinery and equipment.....	5-10 years
Office furniture and equipment.....	7 years
Computer hardware and software.....	3-5 years

(e) Other Assets

Costs incurred relating to the issuance of debt are deferred and amortized to interest expense over the term of the related debt.

(f) Income Taxes

The Company has elected to be taxed as an S corporation under the provisions of the Internal Revenue Code and Wisconsin state statutes. Under those provisions, the Company does not pay Federal or Wisconsin corporate income taxes on its taxable income. Rather, the stockholders are individually liable

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PENSAR CORPORATION

NOTES TO FINANCIAL STATEMENTS--(Continued) December 31, 1997, 1998 and 1999

for Federal and Wisconsin income taxes on their respective shares of the Company's taxable income. The Company makes periodic distributions to its stockholders to enable them to pay the personal income taxes related to their respective shares of the Company's taxable income.

(g) Impairment of Long-Lived Assets

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered permanently impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying value or the fair value less costs to sell.

(h) Recently Issued Accounting Pronouncements

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In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. The Statement requires all derivatives to be recognized either as assets or liabilities and measured at fair value. In 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of SFAS 133, which defers the effective date of SFAS No. 133. The Company will be required to implement SFAS No. 133 for its fiscal year ended December 31, 2001. It is anticipated that SFAS No. 133 will not have a significant impact on the Company's financial position, results of operations or cash flows since it does not maintain any derivative financial instruments.

(i) Advertising

Advertising costs are charged to operations as selling expense when incurred. Advertising expense for the years ended December 31, 1997, 1998 and 1999 was approximately \$21,700, \$21,200 and \$34,100, respectively.

(j) Research and Development

The Company expenses all research and development costs as incurred. For the years ending December 31, 1997, 1998 and 1999, research and development costs included in the respective statements of income were not significant to the Company's operations.

(k) Earnings Per Share

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Basic net income per common share does not consider common stock equivalents. Diluted net income per common share reflects the dilution that would occur if convertible debt securities and stock options were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the net income of the entity. The computation of diluted net income per common share uses the "if converted" and "treasury stock" methods to reflect dilution. The difference between basic net income per common

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PENSAR CORPORATION

NOTES TO FINANCIAL STATEMENTS--(Continued) December 31, 1997, 1998 and 1999

share and diluted net income per common share in 1997 relates to the outstanding stock options discussed in note 12.

(l) Unaudited Financial Information

The unaudited interim financial statements furnished herein reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position of the Company as of June 30, 2000 and the results of its operations and its cash flows for the six months ended June 30, 1999 and 2000. The unaudited interim financial statements should be read in conjunction with the annual financial statements and notes thereto included herein.

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(3) Inventories

Inventories as of December 31, 1998 and 1999 and June 30, 2000 are summarized as follows:

	December 31,		June 30,
	1998	1999	2000
			(unaudited)
Raw materials.....	\$1,646,169	2,865,416	\$4,130,105
Work in process.....	806,766	2,406,257	2,725,114
Finished goods.....	20,404	1,816	92,513
Total inventories.....	\$2,473,339	5,273,489	\$6,947,732

(4) Property, Plant and Equipment

Property, plant and equipment at December 31, 1998 and 1999 are summarized as follows:

	1998		
	Cost	Accumulated depreciation	Net book value
Land.....	\$ 162,847	--	162,847
Building and building improvements.....	2,497,237	418,633	2,078,604
Machinery and equipment.....	4,032,582	3,261,890	770,692
Office furniture and equipment.....	190,846	139,749	51,097
Computer hardware and software.....	1,188,601	815,538	373,063
	\$8,072,113	4,635,810	3,436,303

	1999		
	Cost	Accumulated depreciation	Net book value
Land.....	\$ 162,847	--	162,847
Building and building improvements.....	2,596,407	495,301	2,101,106
Machinery and equipment.....	5,529,471	3,676,185	1,853,286
Office furniture and equipment.....	318,068	160,244	157,824
Computer hardware and software.....	1,389,469	943,958	445,511
	\$9,996,262	5,275,688	4,720,574

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PENSAR CORPORATION

NOTES TO FINANCIAL STATEMENTS--(Continued) December 31, 1997, 1998 and 1999

(5) Other Assets

Other assets at December 31, 1998 and 1999 are summarized as follows:

	1998	1999
	-----	-----
Cash surrender value of life insurance.....	\$396,559	480,325
Deferred financing costs, net.....	57,452	30,723
Debt service trust funds.....	2,074	--
	-----	-----
	\$456,085	511,048
	=====	=====

(6) Accrued Liabilities

Accrued liabilities at December 31, 1998 and 1999 are summarized as follows:

	1998	1999
	-----	-----
Salaries and wages, payroll taxes and related withholdings.....	\$ 402,571	574,595
Vacation.....	429,889	480,381
Health and dental benefits.....	133,806	144,000
Warranty costs.....	90,000	--
Property taxes.....	68,691	64,392
Customer rebates.....	63,000	9,436
Other.....	51,244	19,603
	-----	-----
	\$1,239,201	1,292,407
	=====	=====

(7) Lines of Credit

The lines of credit balance at December 31, 1998 and 1999 is summarized as follows:

	1998	1999
	-----	-----
Bank line of credit, \$3,800,000 maximum available, interest at the prime rate minus 0.75% (7.75% at December 31, 1999) on the principal balance outstanding of \$1,900,000 or less and prime rate minus 1.00% (7.50% at December 31, 1999) on the principal balance outstanding in excess of		

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\$1,900,000, due July 31, 2000.....	\$1,500,000	3,800,000
Bank line of credit, \$500,000 maximum available, interest at the prime rate minus 0.75% (7.75% at December 31, 1999), due December 20, 2001.....	--	415,000
	-----	-----
	\$1,500,000	4,215,000
	=====	=====

At December 31, 1998 and 1999, the Company also has available a \$400,000 line of credit with interest at prime minus 0.75% (7.75% at December 31, 1999). The line of credit is available through July 2000. At December 31, 1998 and 1999, there were no outstanding borrowings on this line of credit.

The weighted average interest rates for the lines of credit outstanding during 1998 and 1999 were 7.85% and 7.35% respectively.

The Company pays a commitment fee on the unused portion of its lines of credit at an annual rate of 0.25%.

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PENSAR CORPORATION

NOTES TO FINANCIAL STATEMENTS--(Continued)
December 31, 1997, 1998 and 1999

The line of credit agreements contain various restrictive covenants including maintaining certain working capital and net worth requirements and prohibition against change in control of the Company. At December 31, 1999, the Company was in compliance with or has obtained waivers for covenants with which it was not in compliance. It is management's intent to pay off the \$415,000 line of credit within the next year, and accordingly, it is presented as a current liability.

(8) Long-term Debt

Long-term debt at December 31, 1998 and 1999 is summarized as follows:

	1998	1999
	-----	-----
1993 City of Appleton, Wisconsin Industrial Development Revenue Bonds, due December 2003, variable interest rate adjusted weekly (5.6% at December 31, 1999), interest payments due monthly.....	\$ 600,000	\$ 600,000
1994 City of Appleton, Wisconsin Industrial Development Revenue Bonds, due August 2001, variable interest rate adjusted weekly (5.6% at December 31, 1999), interest payments due monthly, with mandatory sinking fund payments of \$175,000 due each August.....	520,000	350,000
Note payable to a financial institution, with interest at 7.9%, principal and interest payments of \$15,660 due monthly through September 2002....	--	462,498
	-----	-----
Total long-term debt.....	1,120,000	1,412,498

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Less current installments.....	290,000	331,631
	-----	-----
Long-term debt, less current installments.....	\$ 830,000	\$1,080,867
	=====	=====

The 1993 City of Appleton, Wisconsin Industrial Development Revenue Bonds are secured by an irrevocable bond letter of credit in the amount of \$607,398. The letter of credit expires on December 15, 2003 and is secured by the assets of the Company.

The 1994 City of Appleton, Wisconsin Industrial Development Revenue Bonds are secured by an irrevocable bond letter of credit in the amount of \$354,375. The letter of credit expires on August 15, 2001 and is secured by the assets of the Company.

The Industrial Development Revenue Bonds contain various restrictive covenants including maintaining certain working capital and net worth requirements and prohibition against change in control of the Company. At December 31, 1999, the Company was in compliance with or has obtained waivers for covenants with which it was not in compliance.

Aggregate long-term debt principal payments and mandatory sinking fund payments due within the next five years and thereafter follows:

Year ending December 31,	

2000.....	\$ 331,631
2001.....	344,674
2002.....	136,193
2003.....	600,000

	\$1,412,498
	=====

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PENSAR CORPORATION

NOTES TO FINANCIAL STATEMENTS--(Continued)
December 31, 1997, 1998 and 1999

(9) Leases

The Company leases certain manufacturing equipment and vehicles under noncancellable operating leases with initial or remaining terms in excess of one year.

Future minimum rental payments required under these operating leases for the next five years and thereafter follows:

Year ending December 31,

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2000.....	\$ 708,657
2001.....	426,172
2002.....	327,461
2003.....	211,876
2004.....	211,876
Thereafter.....	12,397

	\$1,898,439
	=====

Rent expense, including executory costs, under all operating leases for the years ended December 31, 1997, 1998 and 1999 amounted to \$322,568, \$416,133 and \$463,378, respectively.

(10) Employee Benefit Plans

Substantially all employees participate in a discretionary bonus program in which cash payments are made to participants based on a guideline of net income in excess of a minimum return on total stockholders' equity at the beginning of the year. Bonus expense amounted to \$1,658,620, \$1,575,823 and \$1,422,469 for the years ended December 31, 1997, 1998 and 1999, respectively.

The Company maintains a 401(k) profit sharing plan. Virtually all employees are eligible to participate in the plan. During 1997 and 1998, employees could elect to contribute up to 20% of their compensation to the plan and during 1999, employees could elect to contribute up to 25% of their compensation to the plan. The Company's contribution to the plan is determined annually by the Board of Directors. There were no Company contributions for the years ended December 31, 1997, 1998 and 1999.

On September 1, 1998, the Company entered into a Phantom Stock Agreement with an officer of the Company. Under the agreement, the officer received 50 phantom share units. Upon separation from service, the officer will receive his vested portion of the difference between the ending certificate of agreed value of the shares over the beginning certificate of agreed value of the shares. The agreed value is established at the discretion of the Board of Directors. The officer was immediately 40% vested and will vest an additional 15% per year on January 1, 2000 through January 1, 2003. At December 31, 1998 and 1999, the certificate of agreed value of the phantom shares was the same as the beginning certificate of agreed value, and thus the Company has not recorded a liability for this agreement.

(11) Stock and Related Party Transactions

In the event of the death of a stockholder, the deceased stockholder's estate has the option to require the Company to purchase all stock owned by the estate. The Company is the beneficiary on life insurance policies of the major shareholders that would help cover the Company's obligation to purchase stock from a deceased stockholder's estate. The Company has the right of first refusal on all other transfers of common stock. Also, upon termination of employment, certain stockholders are required to sell and the Company is obligated to buy all of their shares of stock.

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PENSAR CORPORATION

NOTES TO FINANCIAL STATEMENTS--(Continued)
December 31, 1997, 1998 and 1999

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During 1994 and 1998, certain officers purchased common stock partially financed with notes payable to the Company. The notes, with interest at 6.25%, are collateralized by the stock. Interest is payable quarterly and principal is due annually in minimum amounts of \$84,000 through 2004 and then \$32,000 through 2008. During 1997, 1998 and 1999, the Company received \$69,600, \$107,337 and \$184,063, respectively, in principal repayments and recorded approximately \$26,000, \$41,000 and \$33,200, respectively, of interest income in connection with these notes.

The Company recorded approximately \$20,388 of interest expense for the year ended December 31, 1998, in connection with certain notes payable to the stockholders. The notes payable to the stockholders were paid in full by the Company during 1998.

(12) Stock Options

In 1994, the Company awarded an employee stockholder options to purchase 40 shares of voting common stock at \$10,000 per share, the estimated fair market value of the common stock. The employee vested in 10 shares of the options each January 1 from 1995 through 1998. The options were exercised on January 1, 1998 with the issuance to the Company of a \$400,000 note, as discussed in note 11.

The Company accounts for its stock option plan in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees; as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. Under APB Opinion No. 25, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price of the stock option.

The table below sets out the pro forma amounts of net income and net income per common share that would have resulted if the Company had accounted for its employee stock plans under the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation.

	1997

Net income:	
As reported.....	\$3,660,274
Pro forma.....	3,638,363
	=====
Basic net income per common share:	
As reported.....	3,812.79
Pro forma.....	\$ 3,712.62
	=====

For purposes of computing pro forma net income, the fair value of each optional grant is estimated on the date of grant using the minimum value method under which no volatility is assumed. Assumptions used to calculate the fair value was a risk-free interest rate of 6.3%, no dividend yield and an expected life of 4 years.

(13) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair

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value of each class of financial instruments:

- (i) The carrying amounts of cash, trade accounts receivable, accounts payable, accrued liabilities and stockholders' distribution payable approximate fair values due to the short-term nature of these instruments.

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PENSAR CORPORATION

NOTES TO FINANCIAL STATEMENTS--(Continued)
December 31, 1997, 1998 and 1999

- (ii) The carrying amounts of the bank lines of credit approximate fair values due to the current interest rates approximating interest rates currently available to the Company for bank lines of credit with similar terms and availability.
- (iii) The fair value of long-term debt, including the current portion, is based on interest rates currently available to the Company for debt with similar terms and maturities. The fair value of long-term debt at December 31, 1998 and 1999 approximates book value.

(14) Segment Information

The Company's principal operating segments are identified by the types of products and services from which revenues are derived and are consistent with the reporting structure of the Company's internal organization.

The Company has two reportable segments: printed circuit boards and engineering services. The printed circuit boards segment includes the manufacture of surface mount, through-hole and mixed technology custom printed circuit boards for industrial uses. The engineering services segment includes various engineering services such as custom design, product research and development, prototyping and testing.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on gross profit, which excludes operating expenses and other income and expenses. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately due to the difference in the products and services offered by each segment.

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PENSAR CORPORATION

NOTES TO FINANCIAL STATEMENTS--(Continued)
December 31, 1997, 1998 and 1999

The following is a summary of financial information concerning each of the Company's reportable segments:

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December 31, 1997	circuit boards	Engineering services	Total Segments	Corporate	Total
Total revenue.....	\$49,863,694	1,167,940	51,031,634	--	51,031,634
Depreciation and amortization.....	357,387	38,372	395,759	242,982	638,741
Gross profit (loss).....	9,351,413	(178,684)	10,093,536	--	9,172,729
Total assets.....	10,957,829	328,742	11,286,571	3,709,403	14,995,974
Capital expenditures....	88,180	68,496	156,676	164,689	321,365
December 31, 1998	Printed circuit boards	Engineering services	Total Segments	Corporate	Total
Total revenue.....	\$48,919,471	1,978,051	50,897,522	--	50,897,522
Depreciation and amortization.....	362,400	63,600	426,000	221,584	647,584
Gross profit.....	8,912,281	117,436	9,029,717	--	9,029,717
Total assets.....	10,486,696	464,438	10,951,134	3,414,368	14,365,502
Capital expenditures....	445,562	107,478	553,040	138,367	691,407
December 31, 1999	Printed circuit boards	Engineering services	Total Segments	Corporate	Total
Total revenue.....	\$50,018,206	2,977,675	52,995,881	--	52,995,881
Depreciation and amortization.....	461,492	107,942	569,434	209,752	779,186
Gross profit.....	8,564,217	572,916	9,137,133	--	9,137,133
Total assets.....	16,296,672	1,039,411	17,336,083	3,662,622	20,998,705
Capital expenditures....	1,673,837	201,282	1,875,119	179,738	2,054,857
June 30, 1999 (unaudited)	Printed circuit boards	Engineering services	Total Segments	Corporate	Total
Total revenue.....	\$20,198,874	1,059,767	21,258,641	--	21,258,641
Depreciation and amortization.....	185,939	52,694	238,633	102,914	341,547
Gross profit (loss).....	3,263,446	(137,829)	3,125,617	--	3,125,617
Total assets.....	11,909,241	610,452	12,519,693	3,139,780	15,659,473
Capital expenditures....	421,364	47,573	468,937	210,682	679,619
June 30, 2000 (unaudited)	Printed circuit boards	Engineering services	Total Segments	Corporate	Total
Total revenue.....	\$31,820,078	1,736,534	33,556,612	--	33,556,612
Depreciation and amortization.....	271,925	77,910	349,835	95,928	445,763
Gross profit.....	5,059,336	110,266	5,169,602	--	5,169,602
Total assets.....	16,423,189	852,570	17,275,759	4,745,291	22,021,050
Capital expenditures....	564,744	63,761	628,505	282,372	910,877
Reconciliation of segment data to net income:	December 31, 1997	December 31, 1998	December 31, 1999	June 30, 1999	June 30, 2000

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Gross profit.....	\$ 9,172,729	9,029,717	9,137,133	3,125,617	5,169,602
Selling, general administrative expenses.....	5,124,564	4,937,010	5,105,408	2,182,813	3,067,842
Operating income.....	4,048,165	4,092,707	4,031,725	942,804	2,101,760
Interest expense.....	387,891	216,985	267,697	91,168	199,945
Net income.....	\$ 3,660,274	3,875,722	3,764,028	851,636	1,901,815

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PENSAR CORPORATION

NOTES TO FINANCIAL STATEMENTS--(Continued)
December 31, 1997, 1998 and 1999

At December 31, 1997, 1998 and 1999 segment assets represent the segments' respective share of trade accounts receivable, inventories and net property plant and equipment. All other assets are considered corporate assets.

All of the Company's long-lived assets are located within the United States. Further, all of the Company's shipments of goods or engineering services are provided to domestic manufacturers.

During 1997, a significant portion of the Company's net sales were generated from two customers, accounting for approximately 41% and 22% of the Company's total net sales. During 1998, a significant portion of the Company's net sales were generated from two customers, which comprised approximately 26% and 25%, of the Company's net sales, respectively and comprising approximately \$1,251,000 and \$1,477,000 of total trade accounts receivable, respectively at December 31, 1998. During 1999, a significant portion of the Company's net sales were generated from two customers, which comprised approximately 22% and 11%, of the Company's net sales, respectively and comprising approximately \$1,404,000 and \$1,305,000 of total trade accounts receivable, respectively at December 31, 1999.

(15)United States and Canadian Accounting Principle Differences

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) as applied in the United States (U.S.). The significant differences between U.S. GAAP and Canadian GAAP and their effect on the consolidated financial statements of the Company are described below and relate to the calculation of diluted net income per common share.

Under Canadian GAAP, fully diluted net income per common share is calculated by assuming that all of the outstanding options at the end of the year have been exercised at the beginning of the year or at the date granted, if later, and proceeds from the exercise of options have been used to generate investment income. Under U.S. GAAP, fully diluted net income per common share is calculated by assuming that the proceeds were used to acquire common shares of the Company at the average market price. Diluted net income per common share under Canadian GAAP is \$3,681.61 in 1997.

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(16) Subsequent Event

Subsequent to December 31, 1999, the Company's shareholders signed a memorandum of understanding to sell all of its outstanding common stock to SMTC Corporation. In 2000, 100% of the Company's outstanding common stock will be sold to SMTC Corporation.

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AUDITORS' REPORT TO THE DIRECTORS AND STOCKHOLDERS OF QUALTRON TEORANTA AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of Qualtron Teoranta and subsidiaries at 30 September 1999 and 2000 and the related consolidated statements profit and loss accounts and statements of consolidated cash flows for the years ended 30 September 1998, 1999 and 2000, all expressed in US Dollars. The financial statements are the responsibility of the directors of Qualtron Teoranta. Our responsibility is to express an opinion on those financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Qualtron Teoranta and subsidiaries as of 30 September 1999 and 2000, results of operations and cash flows for each of the years ended 30 September 1998, 1999 and 2000 in conformity with accounting principles generally accepted in the Republic of Ireland (which differ in certain significant respects from generally accepted accounting principles in the United States of America--see pages F-102 to F-105) on the basis set out in the Accounting Policies on pages F-86 to F-88.

KPMG
Chartered Accountants

Dublin, Ireland
November 26, 2000

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QUALTRON TEORANTA AND SUBSIDIARIES

The Group has operations in Ireland and the United States. Qualtron Teoranta, an Irish incorporated entity, is a leading provider of specialised cable and harness assemblies to the telecommunications industry and has two subsidiaries, Qualtron Inc. and Qualtron R&D Teoranta.

The Group operates in the United States through Qualtron Inc.

Qualtron R&D Teoranta holds patents over certain processes and has licensed the use of those patents to Qualtron Teoranta and Qualtron Inc.; accordingly all of the income earned by Qualtron R&D represents intercompany profits.

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ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of Qualtron Teoranta and Subsidiaries ("Qualtron" or the "Group").

Basis of preparation

The financial statements are prepared in accordance with Irish generally accepted accounting principles under the historical cost convention and comply with financial reporting standards of the Accounting Standards Board. Significant differences between Irish GAAP and US GAAP are described on pages F-102 to F-105.

Basis of consolidation

The consolidated financial statements include the results of Qualtron Teoranta and its subsidiary undertakings. All significant inter-company profits, transactions and account balances have been eliminated on consolidation.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation.

Provision is made for depreciation on all tangible assets, at rates calculated to write off the cost of each asset over its expected useful life on a straight line basis at the following annual rates:

Plant and equipment.....	15%
Fixtures and fittings.....	20%
Computer equipment.....	25%
Motor vehicles.....	20%

Goodwill

Purchased goodwill arising on the acquisition of a business represents the excess of the acquisition cost over the fair value of the identifiable net assets when they were acquired.

Purchased goodwill arising on acquisitions is capitalised and amortised over its estimated economic life of three years.

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QUALTRON TEORANTA AND SUBSIDIARIES

ACCOUNTING POLICIES--(Continued)

Stock valuation

Stocks are stated at the lower of cost and net realisable value.

Cost includes all expenditure which has been incurred in the normal course of business in bringing the products to their present location and condition. In the case of finished goods and work in progress, cost is defined as the aggregate cost of raw material, direct labour and the attributable proportion

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of direct production overheads.

Net realisable value is the actual or estimated selling price net of trade discounts, less all further costs to completion and all costs to be incurred or likely to be incurred in the realisation of such selling price.

Government grants

Capital grants are treated as deferred income. Such income is credited to the profit and loss account over the same period and on the same basis as the related tangible assets are written off to the profit and loss account.

Revenue grants are credited to the profit and loss account in the same period as the related expenditure is incurred.

Foreign currencies

The functional currency of the parent company is Irish pounds and the functional currency of the company's US subsidiary is the US Dollar.

Transactions during the period in currencies other than the functional currency, for each of the entities, have been translated at the rate of exchange prevailing at the date of transaction or at a contracted rate. The resulting monetary assets and liabilities denominated in currencies other than the functional currency are translated at the balance sheet rate or the contracted rate and the exchange differences are dealt with in the profit and loss account.

The assets and liabilities of subsidiary undertakings are translated using year-end exchange rates and income is translated at average rates. The cumulative effect of exchange rate movements is included in shareholders' equity.

The Group's reporting currency is the US Dollar (US\$). Assets and liabilities so determined are translated into the Group's reporting currency at the exchange rate at the balance sheet date. Revenues, expenses, gains and losses are translated at the average exchange rate during the period and all translation effect of exchange rate changes are included in the foreign currency reserve as a separate component of shareholders' equity.

The Group enters into forward foreign currency contracts to eliminate the currency exposures that arise on sales denominated in foreign currencies immediately after those sales are transacted. Changes in fair value of instruments used as hedges are not recognised in the financial statements until the hedge position matures.

Dividends declared by Qualtron Teoranta will be declared in Irish pounds.

Leased assets

Tangible fixed assets acquired under finance leases are included in the balance sheet at their fair value and are depreciated over the shorter of the lease term and their useful lives. The corresponding liabilities are recorded as a liability and the interest element of the finance lease rentals is charged to the profit and loss account during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

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ACCOUNTING POLICIES--(Continued)

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Pensions

Pension benefits for employees are met by payments to a defined contribution pension fund. Contributions are charged to the profit and loss account in the year in which they fall due.

Taxation

The charge for corporation tax is based on the results for the year. Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these differences are expected to be recovered or settled.

Turnover

Turnover represents the value of goods invoiced to customers outside the Group and excludes value added tax. Revenue is recognised at the point at which title passes.

Research and development

Research and development expenditure is written off as incurred.

Liquid resources

In the consolidated cash flow statement, liquid resources are represented by cash on deposit at bank requiring more than 24 hours notice of withdrawal.

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QUALTRON TEORANTA AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

FOR THE YEARS ENDED 30 SEPTEMBER

	Note	1998	1999	2000
		-----	-----	-----
		US\$	US\$	US\$
		-----	-----	-----
		(in thousands)		
Turnover--continuing operations.....	1	16,093	27,981	23,403
Cost of sales.....		(10,487)	(19,636)	(18,199)
		-----	-----	-----
Gross profit.....		5,606	8,345	5,204
Distribution costs.....		(236)	(274)	(264)
Administrative expenses.....		(2,756)	(2,986)	(1,577)

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Research and development costs.....		(97)	(368)	(247)
Other operating income.....		268	146	99
		-----	-----	-----
Operating profit--continuing operations.....	2	2,785	4,863	3,215
Interest receivable and similar income.....	5	188	130	92
Interest payable and similar charges.....	6	(10)	(6)	(5)
Foreign exchange losses.....		--	(266)	(22)
		-----	-----	-----
Profit on ordinary activities before taxation.....		2,963	4,721	3,280
Taxation on profit on ordinary activities.....	7	(308)	(418)	(281)
		-----	-----	-----
Profit on ordinary activities after taxation.....		2,655	4,303	2,999
Minority interests.....	25	(32)	(1)	23
		-----	-----	-----
Profit for the financial year.....		2,623	4,302	3,022
Dividends paid--equity.....	8	--	(673)	(341)
--non equity.....		(46)	--	--
Dividends proposed--equity....	8	(142)	(313)	(680)
		-----	-----	-----
Retained profit for the financial year.....		2,435	3,316	2,001
		=====	=====	=====

The accompanying notes are an integral part of these financial statements.

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QUALTRON TEORANTA AND SUBSIDIARIES

CONSOLIDATED MOVEMENTS ON PROFIT AND LOSS ACCOUNTS
for the years ended 30 September

	1999	2000
	-----	-----
	US\$	US\$
	-----	-----
	(in thousands)	
Profit for the financial year.....	4,302	3,022
Dividends--paid.....	(673)	(341)
--proposed.....	(313)	(680)
Profit and loss account at beginning of year.....	6,092	9,408
	-----	-----
Profit and loss account at end of financial year.....	9,408	11,409
	=====	=====

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CONSOLIDATED STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES for the years ended 30 September

	1999	2000
	-----	-----
	US\$	US\$
	-----	-----
	(in thousands)	
Retained profit for the financial year.....	3,316	2,001
Currency translation adjustment.....	(762)	(1,968)
	-----	-----
Total recognised gains and losses for the year.....	2,554	33
	=====	=====

The accompanying notes are an integral part of these financial statements.

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QUALTRON TEORANTA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS At 30 September

	Note	1999	2000
		-----	-----
		US\$	US\$
		-----	-----
		(in thousands)	
Fixed assets			
Tangible assets.....	9	2,163	1,958
Intangible fixed assets--goodwill.....	10	--	361
		-----	-----
		2,163	2,319
Current assets			
Current assets Stocks.....	11	3,847	3,994
Debtors.....	12	4,145	3,990
Cash at bank and in hand.....		5,408	4,484
		-----	-----
		13,400	12,468
Creditors: amounts falling due within one year.....	13	(5,530)	(4,781)
		-----	-----
Net current assets.....		7,870	7,687
		-----	-----
Total assets less current liabilities.....		10,033	10,006
Creditors: amounts falling due after more than one year...	14	(64)	(21)
Provisions for liabilities and charges--deferred tax.....	15	--	(10)
		-----	-----
Net assets.....		9,969	9,975
		=====	=====
Capital and reserves			
Called up share capital.....	16	--	--
Additional paid in capital.....	18	508	508

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Capital reserve.....	18	509	509
Profit and loss account.....	18	9,408	11,409
Foreign currency reserve.....	18	(489)	(2,457)
		-----	-----
Shareholders' funds--equity.....		9,936	9,969
Minority interests--equity.....	25	33	6
		-----	-----
		9,969	9,975
		=====	=====

The accompanying notes are an integral part of these financial statements.

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QUALTRON TEORANTA AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS
for the year ended 30 September

	Note	1998	1999	2000
		-----	-----	-----
		US\$	US\$	US\$
		-----	-----	-----
		(in thousands)		
Cash inflow from operating activities.....	21	788	4,652	1,982
Returns on investments and servicing of finance...	22	178	124	87
Taxation.....	22	(292)	(297)	(356)
Capital expenditure and financial investment.....	22	(890)	(1,312)	(1,087)
Dividends paid.....	22	(171)	(812)	(618)
Management of liquid resources.....	22	(1,826)	1,296	384
Financing activities.....	22	(542)	(80)	(35)
		-----	-----	-----
Increase/(decrease) in cash in the year.....		(2,755)	3,571	357
		=====	=====	=====

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS
for the year ended 30 September

	Note	1998	1999	2000
		-----	-----	-----
		US\$	US\$	US\$
		-----	-----	-----
		(in thousands)		
Increase/(decrease) in cash for the year.....		(2,755)	3,571	357
Cash outflow from decrease in debt and lease financing.....		34	80	35
Cash (inflow)/outflow from movement in liquid resources.....		1,826	(1,296)	(384)
Foreign exchange difference.....		97	(308)	(894)
		-----	-----	-----
Movement in net funds in the year.....		(798)	2,047	(886)
Net funds at beginning of year.....	23	4,164	3,366	5,307
New finance leases.....		--	(106)	--

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Net funds at end of year.....	23	----- 3,366 =====	----- 5,307 =====	----- 4,421 =====
-------------------------------	----	-------------------------	-------------------------	-------------------------

The accompanying notes are an integral part of these financial statements.

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1 Turnover

All turnover derives from the manufacture of telecommunications equipment and components in Ireland and the United States.

	Year ended 30 September		
	----- 1998 -----	----- 1999 -----	----- 2000 -----
	US\$	US\$	US\$
	(in thousands)		
By geographical area			
Republic of Ireland.....	16	11	2,325
Rest of Europe.....	583	1,245	2,301
United States.....	15,494	26,725	17,500
Asia.....	--	--	1,277
	----- 16,093 =====	----- 27,981 =====	----- 23,403 =====

2 Statutory and other information

	Year ended 30 September		
	----- 1998 -----	----- 1999 -----	----- 2000 -----
	US\$	US\$	US\$
	(in thousands)		
Depreciation of tangible assets.....	175	371	479
Amortisation of goodwill.....	--	--	139
Auditors' remuneration, including expenses.....	20	22	26
Government grants amortised.....	(268)	(146)	(99)
	----- ----- =====	----- ----- =====	----- ----- =====

3 Employees

The aggregate payroll costs of these persons were as follows:

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	Year ended 30 September		
	1998	1999	2000
	US\$	US\$	US\$
	(in thousands)		
Wages and salaries.....	4,319	7,447	6,487
Social welfare costs.....	358	586	487
Pensions cost.....	179	176	219
	4,856	8,209	7,193
	=====	=====	=====
Excluding non-executive directors, the average number of persons employed in each financial year was.....	202	316	269
	=====	=====	=====

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

4 Directors' remuneration

	Year ended 30 September		
	1998	1999	2000
	US\$	US\$	US\$
	(in thousands)		
Directors' remuneration			
Other remuneration.....	920	1,474	352
Pension contributions.....	152	147	189
	1,072	1,621	541
	=====	=====	=====

5 Interest receivable and similar income

	Year ended 30 September		
	1998	1999	2000
	US\$	US\$	US\$
	(in thousands)		
Bank deposit interest.....	188	130	92
	=====	=====	=====

6 Interest payable and similar charges

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	Year ended 30 September		
	1998	1999	2000
	US\$	US\$	US\$
	(in thousands)		
On bank loans and overdraft repayable within 5 years....	4	5	4
On finance leases.....	6	1	1
	10	6	5
	=====	=====	=====

7 Taxation on profit on ordinary activities

The taxation charge on the profit on ordinary activities as adjusted for tax purposes for the year is as follows:

	Year ended 30 September		
	1998	1999	2000
	US\$	US\$	US\$
	(in thousands)		
Corporation tax.....	870	1,150	642
Manufacturing relief.....	(562)	(732)	(371)
	308	418	271
Deferred tax (net).....	--	--	10
	308	418	281
	=====	=====	=====

Qualtron Teoranta is entitled to claim 10% Manufacturing Relief until 31 December 2010 in accordance with Section 448 of the Irish Taxes Consolidation Acts, 1997.

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

8 Dividends

Dividends paid

	Year ended 30 September		
	1998	1999	2000

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	US\$	US\$	US\$
	(in thousands)		
8% cumulative redeemable preference shares (Series 1).....	39	--	--
8% cumulative redeemable preference shares (Series 2).....	7	--	--
Equity dividends paid undertaking.....	--	673	341
	----	----	----
	46	673	341
	====	====	====

Dividends proposed--equity

	Year ended		
	30 September		
	1998	1999	2000
	US\$	US\$	US\$
	(in thousands)		
Proposed dividend.....	142	313	680
	====	====	====

9 Tangible assets

Group	Plant & equipment	Fixtures & fittings	Computer equipment	Motor vehicles	Total
	US\$	US\$	US\$	US\$	US\$
	(in thousands)				
Cost					
At beginning of year.....	1,939	322	294	282	2,837
Additions.....	432	37	97	21	587
Exchange difference.....	(308)	(49)	(53)	(43)	(453)
	-----	---	---	---	-----
At end of year.....	2,063	310	338	260	2,971
	=====	===	===	===	=====
Accumulated depreciation					
At beginning of year.....	382	127	135	31	675
Charge for the year.....	304	55	67	53	479
Exchange difference.....	(79)	(25)	(28)	(9)	(141)
	-----	---	---	---	-----
At end of year.....	607	157	174	75	1,013
	=====	===	===	===	=====
Net book value					
At 30 September 2000.....	1,456	153	164	185	1,958
	=====	===	===	===	=====
At 30 September 1999.....	1,557	195	159	251	2,163
	=====	===	===	===	=====

The net book amount of the tangible assets includes US\$130,315 (1999:US\$200,972; 1998:US\$127,340) in respect of assets held under finance leases. The depreciation charge for the year in respect of these assets amounts to US\$39,387 (1999: US\$16,105; 1998: US\$36,096).

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

10 Goodwill

	2000

	US\$
	(in thousands)
Cost	
At beginning of year.....	--
Acquisition in year.....	500

At end of year.....	500

Amortisation	
At beginning of year.....	--
Amortisation in year.....	139

At end of year.....	139

Net book value	
At 30 September 2000.....	361
	===
At 30 September 1999.....	--
	===

On 21 October 1999, the Group, through its wholly owned subsidiary Qualtron Inc., acquired certain assets and the customer list of Belden Equipment Company for cash. The payment of US\$500,000 in respect of the customer list, in accordance with Irish GAAP, has been capitalised as goodwill and is being written off over its estimated useful life of 3 years on a straight line basis.

11 Stocks

	At 30 September	
	-----	-----
	1999	2000
	-----	-----
	US\$	US\$
	(in thousands)	
Raw materials.....	1,944	2,635
Work in progress.....	536	334
Finished goods.....	1,367	1,025
	-----	-----
	3,847	3,994
	=====	=====

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There are no material differences between the replacement cost of stock and the balance sheet amounts.

12 Debtors

	At 30 September	
	-----	-----
	1999	2000
	-----	-----
	US\$	US\$
	(in thousands)	
Amounts falling due within one year		
Trade debtors.....	3,982	3,858
Prepayments.....	54	81
Other debtors.....	139	51
	-----	-----
	4,175	3,990
	=====	=====

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

13 Creditors: amounts falling due within one year

	At 30 September	
	-----	-----
	1999	2000
	-----	-----
	US\$	US\$
	(in thousands)	
Bank overdraft.....	--	12
Obligations under finance leases (note 20).....	37	30
Trade creditors and accruals.....	4,617	3,730
Tax and social welfare.....	525	390
Government grants deferred (note 19).....	46	--
Dividend proposed.....	305	619
	-----	-----
	5,530	4,781
	=====	=====

Tax and social welfare included in other creditors

At 30 September	
-----	-----
1999	2000
-----	-----
US\$	US\$
(in thousands)	

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Value added tax.....	31	53
Payroll taxes.....	87	80
Corporation tax.....	407	257
	-----	-----
	525	390
	=====	=====

14 Creditors: amounts falling due after more than one year

	At 30 September	
	-----	-----
	1999	2000
	-----	-----
	US\$	US\$
	(in thousands)	
Obligations under finance leases (note 20).....	64	21
	=====	=====

15 Provision for liabilities and charges

Deferred tax

	1999	2000
	-----	-----
	US\$	US\$
	(in thousands)	
At beginning of year.....	--	--
Charged during the year (net).....	--	10
	-----	-----
At end of year.....	--	10
	=====	=====

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

16 Called up share capital

	At 30 September	
	-----	-----
	1999	2000
	-----	-----
	US\$	US\$
	(in thousands)	
Equity shares		
Authorised		
900,000 ordinary shares of IR(Pounds)1 each.....	1,145	1,145
	=====	=====
Allotted called up and fully paid		
136 ordinary shares of IR(Pounds)1 each.....	--	--
	=====	=====

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Non equity shares

Authorised

300,000 cumulative redeemable preference shares of		
IR(Pounds)1 each (series 1).....	382	382
100,000 cumulative redeemable preference shares of		
IR(Pounds)1 each (series 2).....	127	127
	-----	-----
	509	509
	=====	=====

17 Redemption of preference shares (Series 1) and (Series 2)

On 1 June 1998 the preference shares were redeemed at par. On the same date US\$509,000 was transferred from the profit and loss account to a capital reserve.

18 Reserve movements

	Capital reserve	Additional paid in capital	Foreign currency reserve	Profit and loss account
	US\$	US\$ (in thousands)	US\$	US\$
	-----	-----	-----	-----
At 1 October 1998.....	509	508	273	6,092
Profit for the year.....	--	--	--	3,316
Currency translation difference on foreign exchange net investment....	--	--	(762)	--
	---	---	-----	-----
At 30 September 1999.....	509	508	(489)	9,408
Profit for the year.....	--	--	--	2,001
Currency translation difference on foreign exchange net investment....	--	--	(1,968)	--
	---	---	-----	-----
At 30 September 2000.....	509	508	(2,457)	11,409
	---	---	-----	-----

19 Government grants

	At 30 September	
	1999	2000
	US\$	US\$
	(in thousands)	
	-----	-----
Included as accruals and deferred income under creditors		
--amounts falling due within one year.....	46	--
--amounts falling due after more than one year.....	--	--
	-----	-----
	46	--
	=====	=====

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

20 Finance leases

Finance lease obligations are due for repayment as follows:

	At 30 September	
	1999	2000
	US\$	US\$
	(in thousands)	
Within one year.....	37	30
Between two and five years.....	64	21
	-----	-----
	101	51
	=====	=====

21 Reconciliation of operating profit to net cash inflow from operating activities

	At 30 September		
	1998	1999	2000
	US\$	US\$	US\$
	(in thousands)		
Operating profit.....	2,785	4,863	3,212
Depreciation charges.....	175	372	479
Government grants amortised.....	(268)	(146)	(99)
Goodwill amortised.....	--	--	139
Increase in stocks.....	(996)	(1,107)	(892)
Increase in debtors.....	(3,173)	(32)	(730)
(Decrease)/increase in creditors.....	2,372	939	(100)
Profit on disposal of fixed assets.....	--	(27)	--
Unrealised exchange gain.....	(107)	(210)	(27)
	-----	-----	-----
Cash inflow from operating activities.....	788	4,652	1,982
	=====	=====	=====

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

22 Gross cash flows

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	At 30 September		
	1998	1999	2000
	US\$	US\$	US\$
	(in thousands)		
Returns on investments and servicing of finance			
Interest received.....	188	130	92
Interest paid.....	(4)	(4)	(1)
Interest element on finance lease payments.....	(6)	(2)	(4)
	-----	-----	-----
Net cash inflow from returns on investments and servicing of finance.....	178	124	87
	=====	=====	=====
Taxation			
Corporation tax paid.....	(292)	(297)	(356)
	-----	-----	-----
Net cash outflow from the payment of taxation.....	(292)	(297)	(356)
	=====	=====	=====
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets.....	(890)	(1,312)	(587)
Payments to acquire intangible fixed assets.....	--	--	(500)
	-----	-----	-----
Net cash outflow from investing activities and servicing of finance.....	(890)	(1,312)	(1,087)
	=====	=====	=====
Dividends paid			
Dividends on equity shares.....	(125)	(812)	(618)
Dividends on non-equity shares.....	(46)	--	--
	-----	-----	-----
Equity dividends paid.....	(171)	(812)	(618)
	=====	=====	=====
Management of liquid resources			
Cash taken off/(placed on) one month deposit.....	(1,826)	1,296	384
	-----	-----	-----
Cash inflow/(outflow) from management of liquid resources.....	(1,826)	1,296	384
	=====	=====	=====
Financing			
Capital element of finance lease rentals.....	(34)	(80)	(35)
Preference shares redeemed.....	(509)	--	--
Shares issued for cash.....	1	--	--
	-----	-----	-----
Net cash outflow from financing.....	(542)	(80)	(35)
	=====	=====	=====

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

23 Analysis of changes in net funds

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	At 30 September 1999	Cash flow	Exchange rate movement	At 30 September 2000
	US\$	US\$	US\$	US\$
	(in thousands)			
Cash at bank.....	4,934	369	(860)	4,443
Current asset investments.....	474	(384)	(49)	41
	-----	-----	-----	-----
Cash at bank and in hand.....	5,408	(15)	(909)	4,484
Bank overdraft.....	--	(12)	--	(12)
Finance leases.....	(101)	35	15	(51)
	-----	-----	-----	-----
Total.....	5,307			4,421
	=====			=====

24 Reconciliation of movement in shareholders' funds

	1999	2000
	US\$	US\$
	(in thousands)	
Opening shareholders' funds.....	7,382	9,936
Total recognised gains and losses for the year.....	2,554	33
	-----	-----
Closing shareholders' funds.....	9,936	9,969
	=====	=====

25 Minority interest--equity

	1999	2000
	US\$	US\$
	(in thousands)	
At beginning of year.....	34	33
Share of (loss)/profit after taxation for the year.....	1	(23)
Exchange difference.....	(2)	(4)
	-----	-----
At end of year.....	33	6
	=====	=====

The minority interest relates to the "B" to "J" ordinary shares in Qualtron R & D Teoranta, which are held by certain directors and managers of Qualtron Teoranta.

Qualtron Teoranta holds all of the "A" ordinary shares in Qualtron R & D Teoranta, amounting to 91.7% of the issued ordinary share capital.

26 Pensions

The Group operates defined contribution pension schemes for employees

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and executive directors. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable to the funds and amounted to US\$218,764 (1999: US\$176,463; 1998: US\$179,122).

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

27 Charge over property

The bank facilities of Qualtron Teoranta are secured by a floating debenture over the assets of the Group in the amount of US\$808,012. The Group had no borrowings at 30 September 2000.

28 Related party disclosures

The company is availing of the exemption under Financial Reporting Standard No. 8 "Related Party Disclosures" not to disclose details of transactions with companies within the Qualtron Teoranta Group.

Dividends of US\$1,021,000 (1999: US\$986,000; 1998: US\$Nil) were paid and proposed during the financial year from Qualtron R & D Teoranta to directors and managers employed by Qualtron Teoranta.

29 Post balance sheet events

There have been no events since the year end which require disclosure in the financial statements.

30 Foreign exchange hedge contracts

The Group has entered into forward foreign currency contracts to eliminate the currency exposures that arise on sales denominated in foreign currencies immediately after those sales are translated. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedge position matures. The unrecognised loss on hedges at 30 September 2000 amounted to US\$1,279,000.

31 Summary of differences between Irish and United States generally accepted accounting principles

(a) Significant differences

The financial statements of Qualtron are prepared in accordance with generally accepted accounting principles ("GAAP") applicable in Ireland which differ significantly in certain respects from those generally accepted in the United States (US). These significant differences are described below:

(i) Forward exchange contracts

Certain outstanding foreign currency forward exchange contracts which hedge anticipated future transactions and qualify for hedge contracts treatment under Irish GAAP would not qualify as hedges under US GAAP. Such contracts would be recorded at fair value at each balance sheet date based on the forward rates of exchange ruling at that date and the corresponding unrealised gain or loss would be included in the

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determination of net income.

(ii) Executive Compensation

Under Irish GAAP dividends paid to management and directors by a subsidiary are shown as a distribution from net income. Under US GAAP these payments are shown as executive compensation.

(iii) Minority Interests

The Company is entitled to all of the undistributed profits of its subsidiary Qualtron R & D Teoranta. Accordingly the minority interest presented under Irish GAAP has been eliminated.

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

31 Summary of differences between Irish and United States generally accepted accounting principles (continued)

(b) Net Income under US GAAP

	Year ended 30 September 1999	Year ended 30 September 2000
	----- US\$ (in thousands)	----- US\$ (in thousands)
Net income (Irish GAAP).....	4,302	3,022
Adjustments		
Unrealised loss on forward exchange contracts....	(88)	(1,192)
Dividend treated as executive compensation.....	(608)	(960)
Deferred tax asset arising on recognition of foreign exchange losses.....	--	128
Elimination of minority interest.....	1	(23)
	-----	-----
Net income as adjusted to accord with US GAAP....	3,607	975
	=====	=====

(c) Shareholders' equity under US GAAP

	Year ended 30 September 1999	Year ended 30 September 2000
	----- US\$ (in thousands)	----- US\$ (in thousands)
Shareholders' equity as reported in the consolidated balance sheets (Irish GAAP).....	9,936	9,969
Adjustments		
Unrealised loss on forward exchange contracts....	(88)	(1,280)
Deferred tax.....	--	128

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Elimination of minority interest.....	33	6
	-----	-----
Shareholders' equity as adjusted.....	9,881	8,823
	=====	=====

(d) Cash flows

In accordance with UK and Irish GAAP, the Group complies with Financial Reporting Standard No. 1--"Cash flow statements" (FRS 1). Its objective and principles are similar to those set out in SFAS No. 95 "Statement of Cash Flows". The principal difference between the standards is in respect of classification. Under FRS 1, the Group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) capital expenditure; (e) acquisitions and disposals; and (f) financing activities. SFAS No. 95 requires only three categories of cash flow activity (a) operating; (b) investing; and (c) financing.

Cash flows arising from taxation and returns on investments and servicing of finance under FRS 1 are included as operating activities under SFAS No. 95. In addition, under FRS 1, cash and liquid resources included short term borrowings repayable on demand. SFAS No. 95 requires movements in such borrowings to be included in financing activities.

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

31 Summary of differences between Irish and United States generally accepted accounting principles (continued)

(e) Profit and loss account as restated under US GAAP in US Dollars

	For the year ended 30 September		
	1998	1999	2000
	US\$	US\$	US\$
	(in thousands)		
Turnover.....	16,093	27,981	23,403
Cost of sales.....	(10,024)	(19,636)	(18,199)
Gross profit.....	6,069	8,345	5,204
Distribution costs.....	(236)	(274)	(264)
Administrative expenses.....	(3,384)	(3,594)	(2,537)
Research and development costs.....	(97)	(368)	(247)
Other operating income.....	268	146	99
Foreign exchange loss.....	(355)	(354)	(1,214)
Operating profit.....	2,265	3,901	1,041
Interest receivable and similar income.....	188	130	92
Interest payable and similar charges.....	(10)	(6)	(5)

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Profit on ordinary activities before taxation....	2,443	4,025	1,128
Taxation on profit on ordinary activities.....	(308)	(418)	(153)
	-----	-----	-----
Profit on ordinary activities after taxation.....	2,135	3,607	975
	=====	=====	=====

The Irish pound profit and loss accounts for each of the years ended 30 September have been converted at the average US Dollar exchange rates for each year.

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QUALTRON TEORANTA AND SUBSIDIARIES

NOTES FORMING PART OF THE FINANCIAL STATEMENTS--(Continued)

31 Summary of differences between Irish and United States generally accepted accounting principles (continued)

(f) Balance Sheet as restated under US GAAP in US Dollars

	For the year ended 30 September	
	1999	2000
	US\$	US\$
	(in thousands)	
Fixed assets		
Tangible assets.....	2,163	1,958
Intangible assets--goodwill.....	--	361
	-----	-----
	2,163	2,319
Current assets		
Deferred tax asset.....	--	118
Stocks.....	3,847	3,994
Debtors.....	4,254	4,141
Cash at bank and in hand.....	5,474	4,492
	-----	-----
	13,575	12,745
Creditors: amounts falling due within one year.....	(5,793)	(6,220)
	-----	-----
Net current assets.....	7,782	6,525
	-----	-----
Total assets less current liabilities.....	9,945	8,844
Creditors: amounts falling due after more than one year.....	(64)	(21)
	-----	-----
Net assets.....	9,881	8,823
	=====	=====
Capital and reserves		
Called up share capital.....	--	--
Additional paid-in capital.....	508	508
Capital reserve.....	509	509
Profit and loss account.....	9,353	10,267

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Foreign currency reserve.....	(489)	(2,461)
	-----	-----
Shareholders' funds--equity.....	9,881	8,823
	=====	=====

The Irish pound balance sheets for each of the years ended 30 September have been converted at the closing US Dollar exchange rates for each year end.

(g) New Accounting Pronouncements

In 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). This is effective for the Company's financial statements beginning September 1, 2000. SFAS No. 133 requires a Company to recognize all derivative instruments as assets or liabilities in its balance sheet and measure them at fair value. The Company does not expect that the adoption of this statement will have any material effect on the Company's financial statements.

In December 1999 the SEC issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 provides guidance on revenue recognition and related disclosures in financial statements. The SEC issued guidance on October 12, 2000 with respect to the interpretation of SAB 101. The adoption of SAB 101 did not have any material effect on the Company's financial statements.

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4,375,000 Shares

[LOGO OF SMTC]
SMTC Corporation

Common Stock

PROSPECTUS
April 4, 2001

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the various expenses in connection with the sale and distribution of the securities registered in connection with our initial public offering, other than the underwriting discounts and commissions. All amounts shown are estimates, except the Securities and Exchange Commission registration fee and the National Association of Securities Dealers, Inc. filing fee.

Securities and Exchange Commission Registration fee.....	\$	53,434
National Association of Securities Dealers, Inc. filing fee.....		13,000
Nasdaq National Market listing fee.....		95,000

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Printing and engraving expenses.....	800,000
Legal fees and expenses.....	2,615,000
Accounting fees and expenses.....	950,000
Blue sky fees and expenses.....	5,000
Transfer agent and Registrar fees.....	3,500
Miscellaneous.....	63,500

Total.....	\$4,598,434
	=====

Item 14. Indemnification of Directors and Officers.

The Registrant's Certificate of Incorporation provides that the Registrant's directors shall not be liable to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that the exculpation from liabilities is not permitted under the Delaware General Corporation Law as in effect at the time such liability is determined. The By-Laws provide that the Registrant shall indemnify its directors to the full extent permitted by the laws of the State of Delaware.

Prior to the consummation of this offering, the Company will enter into indemnification agreements with each of its directors and executive officers that provide for indemnification and expense advancement to the fullest extent permitted under the Delaware General Corporation Law.

Item 15. Recent Sales of Unregistered Securities.

Since its incorporation in 1998, SMTC has issued the following securities without registration under the Securities Act of 1933, as amended (the "Securities Act"):

(1) In connection with the combination of Surface Mount and HTM, which was completed on July 30, 1999, SMTC issued an aggregate of 2,447,782 shares of its Class A common stock, 154,167.8 shares of its Class L common stock, 113,407.9 shares of its Class N common stock and warrants exercisable for an aggregate of 103,894.9 shares of its Class A common stock and 12,088.2 shares of its Class L common stock to pre-combination stockholders of Surface Mount, including certain members of management of Surface Mount and other investors and pre-combination stockholders of HTM, including affiliates of Bain Capital, Inc., affiliates of Celerity Partners, L.L.C., certain members of management of HTM and other investors, in exchange for pre-combination securities of Surface Mount, pre-combination securities of HTM and an aggregate of approximately \$16.7 million.

(2) On July 30, 1999, pursuant to an employee stock option plan, SMTC issued an aggregate of 33,140.2 options to purchase its Class A common stock and 3,855.9 options to purchase its Class L common stock. The options to purchase Class A common stock were fully vested when granted, and were immediately exercised for an aggregate of 33,140.2 shares of Class A common stock at an aggregate

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exercise price of \$60,374. These shares are subject to certain restrictions on transferability and certain repurchase rights.

(3) On September 30, 1999, pursuant to an employee stock option plan, SMTC issued an aggregate of 116,860 shares of its Class A common stock.

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(4) On May 18, 2000, we issued warrants to purchase 41,666.67 shares of Class L common stock and 375,000.03 shares of Class A common stock, subject to adjustment provisions in the warrants and sold notes in the aggregate amount of \$5 million. The issuance of the notes and warrants was exempt from registration under the Securities Act because the purchasers of the notes and warrants included only foreign persons, qualified institutional buyers and three large institutional accredited investors.

All shares referred to in (1) through (4) were exempt from registration under the Securities Act pursuant to Section 4(2) thereof or Rule 701 thereunder.

(5) On July 27, 2000, simultaneously with the closing of our initial public offering, we acquired Pensar Corporation (now SMTC Manufacturing Corporation of Wisconsin), an EMS company specializing in design services and located in Appleton, Wisconsin. The purchase consideration consisted of \$18 million in cash and the balance in shares of common stock of the Company. We issued 1,188,682 shares of common stock valued at \$16 per share to five accredited investors to finance the share portion of the purchase price of the Pensar Corporation acquisition. The cash portion of the acquisition was financed with a portion of the proceeds from the initial public offering. The total purchase price, including transaction costs, was approximately \$37 million. The 1,188,682 shares issued were exempt from registration under the Securities Act pursuant to Section 4(2) thereof and Rule 506 thereunder.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits:

- 1.1# Form of Underwriting Agreement.
- 2.1.1#+ Reorganization and Merger Agreement dated as of July 26, 1999.
- 2.1.2 Amendment to Reorganization and Merger Agreement dated as of July 27, 2000.(1)
- 2.2#+ Stock Purchase Agreement dated as of September 3, 1999.
- 2.3#+ Stock Purchase Agreement dated as of May 23, 2000.
- 2.4 Stock Purchase Agreement dated as of November 22, 2000.(2)
- 3.1 Amended and Restated Certificate of Incorporation.(3)
- 3.2 Amended and Restated By-laws.(3)
- 3.3 Certificate of Designation.(3)
- 4.1.1 Stockholders Agreement dated as of July 27, 2000.(4)
- 4.1.2 Amended and Restated Stockholders Agreement dated as of November 22, 2000.(1)
- 4.2# Form of certificate representing shares of common stock.
- 4.3# Warrant to purchase shares of Class L common stock and schedule of warrants attached thereto.
- 4.4# Warrant to purchase shares of Class A-1 common stock and schedule of warrants attached thereto.
- 4.5# Warrant to purchase units of Class A-1 common stock and Class L common stock and schedule of warrants attached thereto.
- 4.6# 15% Senior Subordinated Note and schedule of notes attached thereto..
- 4.7 Exchangeable Share Provisions attaching to the exchangeable shares of SMTC Manufacturing Corporation of Canada.(3)
- 4.8 Exchangeable Share Support Agreement among SMTC, SMTC Nova Scotia Company and SMTC Manufacturing Corporation of Canada.(3)
- 4.9 Voting and Exchange Trust Agreement among SMTC, SMTC Nova Scotia Company, SMTC Manufacturing Corporation of Canada and CIBC Mellon Trust Company.(3)
- 4.10# Secured Demand Note of SMTC Manufacturing Corporation of Canada dated July 3, 2000.

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- 4.11# Secured Demand Note of HTM Holdings, Inc. dated July 3, 2000.
- 4.12# Secured Demand Note of HTM Holdings, Inc. dated July 3, 2000.

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- 4.13# Demand Note of SMTC Manufacturing Corporation of Canada dated July 3, 2000.
- 4.14# Secured Demand Note of HTM Holdings, Inc. dated July 3, 2000.
- 4.15# Secured Demand Note of HTM Holdings, Inc. dated July 3, 2000.
- 4.16# Demand Note of HTM Holdings, Inc. dated July 3, 2000.
- 5.1# Opinion of Ropes & Gray.
- 10.1.1#+ Credit and Guarantee Agreement dated as of July 28, 1999.
- 10.1.2# First Amendment dated as of November 4, 1999 to the Credit and Guarantee Agreement dated as of July 28, 1999.
- 10.1.3# Second Amendment dated as of December 14, 1999 to the Credit and Guarantee Agreement dated as of July 28, 1999.
- 10.1.4# Third Amendment dated as of May 15, 2000 to the Credit and Guarantee Agreement dated as of July 28, 1999.
- 10.1.5 Amended and Restated Credit and Guarantee Agreement dated as of July 27, 2000.(3)
- 10.1.6 Amended and Restated Guarantee and Collateral Agreement dated as of July 27, 2000.(3)
- 10.1.7 First Amendment dated as of November 17, 2000 to the Amended and Restated Credit and Guarantee Agreement.(1)
- 10.1.8 Second Amendment dated as of December 28, 2000 to the Amended and Restated Credit and Guarantee Agreement.(1)
- 10.1.9 Third Amendment dated as of February 6, 2001 to the Amended and Restated Credit and Guarantee Agreement.(1)
- 10.2# Amended and Restated SMTC (HTM) 1998 Equity Incentive Plan dated as of September 30, 1999.
- 10.3.1# Management Agreement dated July 30, 1999.
- 10.3.2 Termination Agreement dated as of July 27, 2000.(1)
- 10.4.1# Real Property Lease dated September 1, 1993 between Ogden Atlantic Design Company, Inc. and Garrett and Garrett.
- 10.4.2# Lease Renewal Agreement dated as of September 1, 1996 between Atlantic Design Company, Inc. and Garrett and Garrett.
- 10.4.3# Assignment of Lease dated as of September 16, 1997 between Ogden Atlantic Design Company, Inc. and The SMT Centre S.E. Inc.
- 10.5# Form of Real Property Lease dated December 22, 1998 between Third Franklin Trust and W.F. Wood, Incorporated.
- 10.6# Real Property Lease dated May 9, 1995 between Logitech Ireland Limited and Ogden Atlantic Design (Europe) Limited.
- 10.7# Real Property Sublease Agreement dated March 29, 1996 between Radian International, LLC and The SMT Centre of Texas Inc.
- 10.8# Real Property Lease dated August 11, 1997 between Edwin A. Helwig and Barbara G. Helwig and The SMT Centre, Inc., Lease Addendum and Work Letter Agreement.
- 10.9# Real Property Lease dated as of September 15, 1998 between Warden-McPherson Developments Ltd. and The Surface Mount Technology Centre Inc.
- 10.10# Real Property Lease dated September 3, 1999 between Airedale Realty Trust and W. F. Wood, Incorporated.
- 10.11.1# Real Property Revised Lease Agreement dated January 14, 1994 between HTM Building Investors, LLC and Hi-Tech Manufacturing, Inc.
- 10.11.2# First Amendment to Lease.
- 10.11.3# Second Amendment to Lease.

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- 10.12#* Derek D'Andrade Employment Agreement dated July 30, 1999.
- 10.13#* Edward Johnson Employment Agreement dated May 18, 2000.
- 10.14#* Gary Walker Employment Agreement dated July 30, 1999.
- 10.15#* Paul Walker Employment Agreement dated July 30, 1999.
- 10.16#* Philip Woodard Employment Agreement dated July 30, 1999.
- 10.17* Stanley Plzak Employment Agreement dated as of July 27, 2000.(1)
- 10.18# Warrant Subscription Agreement dated as of May 18, 2000.
- 10.19# Senior Subordinated Loan Agreement dated as of May 18, 2000.

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- 10.20 SMTC Corporation/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan.(3)
- 10.21# Letter Agreement dated June 19, 2000 regarding Stockholders Agreement Lock-Up.
- 10.22 Lease Agreement dated as of June 1, 2000 between SMTC Manufacturing Corporation of North Carolina and Garrett and Garrett.(3)
- 10.23 Lease Agreement dated as of August 11, 2000 between SMTC Manufacturing Corporation of Massachusetts and Lincoln-Franklin LLC.(3)
- 10.24 Class N Common Stock Redemption Agreement dated July 26, 2000.(1)
- 10.25 Lease Agreement dated as of May 12, 1998 between the Haverdyne Company, LLC and Qualtron, Inc.(1)
- 10.26 Share Purchase Agreement dated July 26, 2000 for the purchase of Gary Walker's Class Y shares.(1)
- 10.27 Funding Agreement dated July 26, 2000.(1)
- 10.28 Promissory Note dated July 26, 2000.(1)
- 10.29 Pledge Agreement dated July 26, 2000 with respect to shares of common stock of SMTC owned by Gary Walker.(1)
- 10.30 Class N Common Stock Redemption Agreement dated July 26, 2000.(1)
- 10.31 Real Estate Agreement between Flextronics International USA, Inc., as Seller, and SMTC Manufacturing Corporation of Texas, as Purchaser, dated February 23, 2001.(1)
- 16.1# Letter from PricewaterhouseCoopers LLP regarding change in certifying accountants.
- 16.2# Letter from Arthur Andersen LLP regarding change in certifying accountants.
- 21.1 Subsidiaries of the registrant.(1)
- 23.1 Consent of KPMG LLP, Toronto, Canada.
- 23.2 Consent of Arthur Andersen LLP.
- 23.3 Consent of Canby, Maloney & Co., Inc.
- 23.4# Consent of Ropes & Gray (included in the opinion filed as Exhibit 5.1).
- 23.5 Consent of KPMG LLP, Milwaukee, Wisconsin.
- 23.6 Consent of KPMG LLP, Ireland.
- 24.1# Power of attorney pursuant to which amendments to this registration statement may be filed.

Previously filed in connection with this registration statement.

+ The registrant agrees to furnish supplementally to the SEC a copy of any omitted schedule or exhibit to such agreement upon request by the SEC.

* Management contract or compensatory plan.

- (1) Filed as an Exhibit to the Company's Report on Form 10-K filed on April 2, 2001 (File No. 0-31051) and incorporated by reference herein.
- (2) Filed as an Exhibit to the Company's Report on Form 8-K filed on December 7, 2000 (File No. 0-31051) and incorporated by reference herein.
- (3) Filed as an Exhibit to the Company's Report on Form 10-Q for the quarterly period ended October 1, 2000 filed on November 15, 2000 (File No. 0-31051) and incorporated by reference herein.

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(4) Filed as an Exhibit to the Company's Registration Statement on Form S-8 filed on August 22, 2000 (File No. 333-44250) and incorporated by reference herein.

(b) Financial Statement Schedules.

Schedule II-Valuation and Qualifying Accounts

The schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission (other than the schedule listed above) are not required under the related instructions, are inapplicable or not material, or the information called for thereby is otherwise included in the financial statements.

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Item 17. Undertakings.

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such manner as requested by the underwriters to permit prompt delivery to each purchaser.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) For purposes of determining any liability under the Securities Act,

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the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(5) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described under "Item 14--Indemnification of Directors and Officers" above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, SMTC Corporation has duly caused this Post-Effective Amendment to the Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Markham, Province of Ontario, on this 2nd day of April, 2001.

SMTC Corporation

By: /s/ Paul Walker

Name: Paul Walker

Title: President

* * * *

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated:

Signature -----	Title -----	Date ----
/s/ Paul Walker _____ Paul Walker	President, Chief Executive Officer (Principal Executive Officer) and	April 2, 2001

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	Director	
/s/ Richard Smith	Vice President, Chief Financial Officer	April 2, 2001
Richard Smith	(Principal Financial and Accounting Officer)	
/s/ *	Executive Vice President, Business Programs Manager and Director	April 2, 2001
Gary Walker		
/s/ *	Director	April 2, 2001
David Dominik		
/s/ *	Director	April 2, 2001
Prescott Ashe		
/s/ *	Director	April 2, 2001
Stephen Adamson		
/s/ *	Director	April 2, 2001
Mark Benham		
/s/ *	Director	April 2, 2001
Michael Griffiths		
/s/ *	Director	April 2, 2001
Anthony Sigel		

*See Power of Attorney executed by each such officer and/or director on the Registration Statement on Form S-1 previously filed with the SEC on March 24, 2000, appointing Paul Walker and Richard Smith, and each of them singly, as true and lawful attorney-in-fact and agent with full power to sign this and any and all amendments (including post-effective amendments) to this Registration Statement.

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Report of Independent Public Accountants

To the Board of Directors of SMTC Corporation (formerly HTM Holdings, Inc.):

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements as of and for the year ended December 31, 1998, of SMTC Corporation (a Delaware corporation, formerly HTM Holdings, Inc.) and its subsidiary included in this registration statement and have issued our report thereon dated March 10, 1999. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule II--Valuation and Qualifying Accounts is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the 1998 financial data

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required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Denver, Colorado
March 10, 1999

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The Board of Directors of SMTC Corporation

The audit referred to in our report dated February 9, 2001 included the related financial statement schedule of SMTC Corporation (formerly HTM Holdings, Inc.) for the years ended December 31, 1999 and 2000 included in the registration statement. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein for the years ended December 31, 1999 and 2000.

We consent to the use of our reports included herein and to the reference to our firm under the heading "Experts" in the prospectus.

/s/ KMPG LLP

Chartered Accountants

Toronto, Canada
May 23, 2000

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SMTC CORPORATION
(FORMERLY HTM HOLDINGS, INC.)

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

	Years ended December 31,		
	1998	1999	2000
Reserves for Inventory			
Balance, beginning of year.....	\$ (354)	\$ (521)	\$ (1,828)
Charge to expense	(255)	(915)	(2,222)
Written off.....	88	560	272
Added through acquisition.....	--	(952)	(261)
	-----	-----	-----
Balance, end of year.....	\$ (521)	\$ (1,828)	\$ (4,039)
	=====	=====	=====
	Years ended December 31,		

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	1998	1999	2000
Reserves for Accounts Receivable			
Balance, beginning of year.....	\$ (180)	\$ (195)	\$ (514)
Charge to expense	(120)	(120)	(2,003)
Written off.....	105	50	169
Added through acquisition.....	--	(249)	(20)
	-----	-----	-----
Balance, end of year.....	\$ (195)	\$ (514)	\$ (2,368)
	=====	=====	=====

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EXHIBIT INDEX

Exhibit No. Description of Exhibit

-
- 1.1# Form of Underwriting Agreement.
 - 2.1.1#+ Reorganization and Merger Agreement dated as of July 26, 1999.
 - 2.1.2 Amendment to Reorganization and Merger Agreement dated as of July 27, 2000.(1)
 - 2.2#+ Stock Purchase Agreement dated as of September 3, 1999.
 - 2.3#+ Stock Purchase Agreement dated as of May 23, 2000.
 - 2.4 Stock Purchase Agreement dated as of November 22, 2000.(2)
 - 3.1 Amended and Restated Certificate of Incorporation.(3)
 - 3.2 Amended and Restated By-laws.(3)
 - 3.3 Certificate of Designation.(3)
 - 4.1.1 Stockholders Agreement dated as of July 27, 2000.(4)
 - 4.1.2 Amended and Restated Stockholders Agreement dated as of November 22, 2000.(1)
 - 4.2# Form of certificate representing shares of common stock.
 - 4.3# Warrant to purchase shares of Class L common stock and schedule of warrants attached thereto.
 - 4.4# Warrant to purchase shares of Class A-1 common stock and schedule of warrants attached thereto.
 - 4.5# Warrant to purchase units of Class A-1 common stock and Class L common stock and schedule of warrants attached thereto.
 - 4.6# 15% Senior Subordinated Note and schedule of notes attached thereto..
 - 4.7 Exchangeable Share Provisions attaching to the exchangeable shares of SMTC Manufacturing Corporation of Canada.(3)
 - 4.8 Exchangeable Share Support Agreement among SMTC, SMTC Nova Scotia Company and SMTC Manufacturing Corporation of Canada.(3)
 - 4.9 Voting and Exchange Trust Agreement among SMTC, SMTC Nova Scotia Company, SMTC Manufacturing Corporation of Canada and CIBC Mellon Trust Company.(3)
 - 4.10# Secured Demand Note of SMTC Manufacturing Corporation of Canada dated July 3, 2000.
 - 4.11# Secured Demand Note of HTM Holdings, Inc. dated July 3, 2000.
 - 4.12# Secured Demand Note of HTM Holdings, Inc. dated July 3, 2000.
 - 4.13# Demand Note of SMTC Manufacturing Corporation of Canada dated July 3, 2000.
 - 4.14# Secured Demand Note of HTM Holdings, Inc. dated July 3, 2000.
 - 4.15# Secured Demand Note of HTM Holdings, Inc. dated July 3, 2000.
 - 4.16# Demand Note of HTM Holdings, Inc. dated July 3, 2000.

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5.1# Opinion of Ropes & Gray.
10.1.1#+ Credit and Guarantee Agreement dated as of July 28, 1999.
10.1.2# First Amendment dated as of November 4, 1999 to the Credit and Guarantee Agreement dated as of July 28, 1999.
10.1.3# Second Amendment dated as of December 14, 1999 to the Credit and Guarantee Agreement dated as of July 28, 1999.
10.1.4# Third Amendment dated as of May 15, 2000 to the Credit and Guarantee Agreement dated as of July 28, 1999.
10.1.5 Amended and Restated Credit and Guarantee Agreement dated as of July 27, 2000.(3)
10.1.6 Amended and Restated Guarantee and Collateral Agreement dated as of July 27, 2000.(3)
10.1.7 First Amendment dated as of November 17, 2000 to the Amended and Restated Credit and Guarantee Agreement.(1)
10.1.8 Second Amendment dated as of December 28, 2000 to the Amended and Restated Credit and Guarantee Agreement.(1)
10.1.9 Third Amendment dated as of February 6, 2001 to the Amended and Restated Credit and Guarantee Agreement.(1)
10.2# Amended and Restated SMTC (HTM) 1998 Equity Incentive Plan dated as of September 30, 1999.
10.3.1# Management Agreement dated July 30, 1999.
10.3.2 Termination Agreement dated as of July 27, 2000.(1)
10.4.1# Real Property Lease dated September 1, 1993 between Ogden Atlantic Design Company, Inc. and Garrett and Garrett.

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10.4.2# Lease Renewal Agreement dated as of September 1, 1996 between Atlantic Design Company, Inc. and Garrett and Garrett.
10.4.3# Assignment of Lease dated as of September 16, 1997 between Ogden Atlantic Design Company, Inc. and The SMT Centre S.E. Inc.
10.5# Form of Real Property Lease dated December 22, 1998 between Third Franklin Trust and W.F. Wood, Incorporated.
10.6# Real Property Lease dated May 9, 1995 between Logitech Ireland Limited and Ogden Atlantic Design (Europe) Limited.
10.7# Real Property Sublease Agreement dated March 29, 1996 between Radian International, LLC and The SMT Centre of Texas Inc.
10.8# Real Property Lease dated August 11, 1997 between Edwin A. Helwig and Barbara G. Helwig and The SMT Centre, Inc., Lease Addendum and Work Letter Agreement.
10.9# Real Property Lease dated as of September 15, 1998 between Warden-McPherson Developments Ltd. and The Surface Mount Technology Centre Inc.
10.10# Real Property Lease dated September 3, 1999 between Airedale Realty Trust and W. F. Wood, Incorporated.
10.11.1# Real Property Revised Lease Agreement dated January 14, 1994 between HTM Building Investors, LLC and Hi-Tech Manufacturing, Inc.
10.11.2# First Amendment to Lease.
10.11.3# Second Amendment to Lease.
10.12#* Derek D'Andrade Employment Agreement dated July 30, 1999.
10.13#* Edward Johnson Employment Agreement dated May 18, 2000.
10.14#* Gary Walker Employment Agreement dated July 30, 1999.
10.15#* Paul Walker Employment Agreement dated July 30, 1999.
10.16#* Philip Woodard Employment Agreement dated July 30, 1999.
10.17* Stanley Plzak Employment Agreement dated as of July 27, 2000.(1)
10.18# Warrant Subscription Agreement dated as of May 18, 2000.
10.19# Senior Subordinated Loan Agreement dated as of May 18, 2000.

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- 10.20 SMTC Corporation/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan.(3)
- 10.21# Letter Agreement dated June 19, 2000 regarding Stockholders Agreement Lock-Up.
- 10.22 Lease Agreement dated as of June 1, 2000 between SMTC Manufacturing Corporation of North Carolina and Garrett and Garrett.(3)
- 10.23 Lease Agreement dated as of August 11, 2000 between SMTC Manufacturing Corporation of Massachusetts and Lincoln-Franklin LLC.(3)
- 10.24 Class N Common Stock Redemption Agreement dated July 26, 2000.(1)
- 10.25 Lease Agreement dated as of May 12, 1998 between the Haverdyne Company, LLC and Qualtron, Inc.(1)
- 10.26 Share Purchase Agreement dated July 26, 2000 for the purchase of Gary Walker's Class Y shares.(1)
- 10.27 Funding Agreement dated July 26, 2000.(1)
- 10.28 Promissory Note dated July 26, 2000.(1)
- 10.29 Pledge Agreement dated July 26, 2000 with respect to shares of common stock of SMTC owned by Gary Walker.(1)
- 10.30 Class N Common Stock Redemption Agreement dated July 26, 2000.(1)
- 10.31 Real Estate Agreement between Flextronics International USA, Inc., as Seller, and SMTC Manufacturing Corporation of Texas, as Purchaser, dated February 23, 2001.(1)
- 16.1# Letter from PricewaterhouseCoopers LLP regarding change in certifying accountants.
- 16.2# Letter from Arthur Andersen LLP regarding change in certifying accountants.
- 21.1 Subsidiaries of the registrant.(1)
- 23.1 Consent of KPMG LLP, Toronto, Canada.
- 23.2 Consent of Arthur Andersen LLP.
- 23.3 Consent of Canby, Maloney & Co., Inc.

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- 23.4# Consent of Ropes & Gray (included in the opinion filed as Exhibit 5.1).
- 23.5 Consent of KPMG LLP, Milwaukee, Wisconsin.
- 23.6 Consent of KPMG LLP, Ireland.
- 24.1# Power of attorney pursuant to which amendments to this registration statement may be filed

-
- # Previously filed in connection with this registration statement.
 - + The registrant agrees to furnish supplementally to the SEC a copy of any omitted schedule or exhibit to such agreement upon request by the SEC.
 - * Management contract or compensatory plan.
 - (1) Filed as an Exhibit to the Company's Report on Form 10-K filed on April 2, 2001 (File No. 0-31051) and incorporated by reference herein.
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