SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 1, 2001
OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM________ TO_________

COMMISSION FILE NUMBER 0-31051

SMTC CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

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

As of July 1, 2001, SMTC Corporation had 22,318,820 shares of common stock, par value $0.01 per share, and one share of special voting stock, par value $0.01 per share, outstanding. As of July 1, 2001, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 6,370,959 exchangeable shares outstanding, each of which is exchangeable into one share of common stock of SMTC Corporation.

SMTC Corporation
Form 10-Q

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SMTC CORPORATION

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

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

	July 1, 2001	December 31, 2000
	(unaudited)	
<S>	<C>	<C>
Assets		
Current assets:		
Cash and short-term investments	$ 1,556	$ 2,698
Accounts receivable	111,606	194,749
Inventories (note 2)	126,397	191,821
Prepaid expenses	6,427	5,233
Deferred income taxes	1,062	1,044
	247,048	395,545
Capital assets	62,687	58,564
Goodwill	75,927	80,149
Other assets	11,487	9,859
Deferred income taxes	18,246	3,359
	$ 415,395	$ 547,476
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 71,652	$ 141,574
Accrued liabilities	39,454	51,695
Income taxes payable	4,611	5,458
Current portion of long-term debt	10,000	7,500
Current portion of capital lease obligations	198	995
	125,915	207,222
Long-term debt (note 3)	91,825	108,305
Capital lease obligations	507	1,242
Deferred income taxes	2,221	2,221
Shareholders' equity:		
Capital stock	77,431	77,427
Warrants	--	367
Loans receivable	(13)	(27)
Additional paid-in-capital	152,072	151,396
Deficit	(34,563)	(677)
	194,927	228,486
	$ 415,395	$ 547,476

</TABLE>

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

Consolidated Statements of Earnings (Loss)
(Expressed in thousands of U.S. dollars, except share quantities and per share

amounts)

(Unaudited)

	Three months ended		Six months ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
Revenue	$ 151,875	$ 167,136	$ 352,790	$ 291,469
Cost of sales (including restructuring charges of $9,044 for the three months ended July 1, 2001 and $15,944 for the six months ended July 1, 2001, 2000 - nil) (note 8)	156,019	153,391	355,420	266,518
Gross profit (loss)	(4,144)	13,745	(2,630)	24,951
Selling, general and administrative expenses	8,251	7,265	18,046	14,944
Amortization	2,353	1,230	4,705	2,502
Restructuring charge (note 8)	--	--	15,754	--
Operating income (loss)	(14,748)	5,250	(41,135)	7,505
Interest	2,561	4,115	5,453	7,904
Earnings (loss) before inncome taxes	(17,309)	1,135	(46,588)	(399)
Income tax expense (recovery)	(3,435)	1,016	(12,702)	925
Net earnings (loss)	$ (13,874)	$ 119	$ (33,886)	$ (1,324)
Loss per share:				
Basic	$ (0.48)	$ (0.53)	$ (1.19)	$ (1.69)
Diluted	$ (0.48)	$ (0.53)	$ (1.19)	$ (1.69)
Weighted average number of common shares used in the calculations of loss per share:				
Basic	28,689,779	2,422,927	28,525,916	2,422,927
Diluted	28,689,779	2,422,927	28,525,916	2,422,927

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

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

Six months ended July 1, 2001
(Unaudited)

<TABLE>
<CAPTION>

Additional

	Capital stock	Warrants	paid-in capital	Loans receivable	Deficit	Shareholders' equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 2000	$ 77,427	$ 367	$ 151,396	$ (27)	$ (677)	$ 228,486
Warrants exercised	4	(367)	363	--	--	--
Options exercised	--	--	313	--	--	313
Repayment of loans receivable	--	--	--	14	--	14
Loss for the period	--	--	--	--	(33,886)	(33,886)
Balance, July 1, 2001	$ 77,431	$ --	$ 152,072	$ (13)	$ (34,563)	$ 194,927

</TABLE>

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

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

(Unaudited)

<TABLE>
<CAPTION>

	Three months ended		Six months ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
<S>	<C>	<C>	<C>	<C>
Cash provided by (used in):				
Operations:				
Net earnings (loss)	$(13,874)	$ 119	$(33,886)	$ (1,324)
Items not involving cash:				
Amortization	2,353	1,230	4,705	2,502
Depreciation	2,900	2,365	5,796	4,840
Deferred income tax provision (benefit)	(5,326)	253	(14,905)	478
Loss on disposition of capital assets	--	--	--	(44)
Impairment of assets	--	--	5,023	--
Change in non-cash operating working capital:				
Accounts receivable	63,065	(39,889)	83,143	(48,943)
Inventories	31,694	(36,673)	65,424	(61,387)
Prepaid expenses	(740)	224	(1,936)	(1,470)
Accounts payable, accrued liabilities and income taxes payable	(36,599)	67,201	(81,164)	74,595
	43,473	(5,170)	32,200	(30,753)
Financing:				
Increase in long-term debt	--	--	--	30,554
Decrease in long-term debt	(32,462)	(921)	(13,980)	--
Principal payments on capital leases	(49)	(303)	(253)	(721)
Proceeds from warrants	--	2,500	--	2,500
Issuance of subordinated notes	--	5,200	--	5,200
Loans to shareholders (note 7)	(5,236)	--	(5,236)	--
Proceeds from issuance of common stock	--	--	313	--
Repayment of loans receivable	--	--	14	--
	(37,747)	6,476	(19,142)	37,533
Investments:				
Purchase of capital assets	(5,870)	(4,664)	(14,200)	(7,154)
Proceeds from sale of capital assets	--	--	--	44
	(5,870)	(4,664)	(14,200)	(7,110)
Decrease in cash and cash equivalents	(144)	(3,358)	(1,142)	(330)

Cash and cash equivalents, beginning of period	1,700	5,111	2,698	2,083
Cash and cash equivalents, end of period	$ 1,556	$ 1,753	$ 1,556	$ 1,753

</TABLE>

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

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

(Unaudited)

<TABLE>
<CAPTION>

	Three months ended		Six months ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
<S>	<C>	<C>	<C>	<C>
Supplemental disclosures:				
Cash paid during the period:				
Income taxes	$ --	$6,765	$3,502	$1,602
Interest	2,418	3,976	5,244	7,895
Non-cash investing and financing activities:				
Cash released from escrow	3,125	--	3,125	--
Acquisition of equipment under capital lease	--	248	--	541
Value of warrants issued in excess of proceeds received	--	1,098	--	1,098

</TABLE>

Cash and cash equivalents is defined as cash and short-term investments.

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

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

Three and six months ended July 1, 2001 and July 2, 2000
(Unaudited)

1. Basis of presentation:

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

The accompanying unaudited consolidated balance sheet as at July 1, 2001, the unaudited consolidated statements of earnings (loss) for the three and six month periods ended July 1, 2001 and July 2, 2000, the unaudited consolidated statement of changes in shareholders' equity for the six month period ended July 1, 2001, and the unaudited consolidated statements of cash flows for the three and six month periods ended July 1, 2001 and July 2, 2000 have been prepared on substantially the same basis as the annual consolidated financial statements. Management believes the financial statements reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the Company's financial position, operating results and cash flows for the periods presented. The results of operations for the three and six month periods ended July 1, 2001 are not necessarily indicative of results to be expected for the entire year. These unaudited

interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2000.

2. Inventories:

	July 1, 2001	December 31, 2000
Raw materials	$ 88,021	$107,767
Work in process	22,233	56,521
Finished goods	14,556	25,493
Other	1,587	2,040
	$126,397	$191,821

3. Long-term debt:

The Company's credit agreement contains certain financial covenants. The Company complied with all required covenants as at July 1, 2001 and accordingly the related debt is classified as long-term. However, it is unlikely the Company will earn sufficient EBITDA (earnings before interest expense, income taxes, depreciation and amortization) during the third quarter to satisfy the requirements of the credit agreement. If the Company fails to meet the covenants, the lenders will have the right to demand repayment of the debt or to modify the existing credit agreement. The Company has notified the lenders of the possible future violation and is in the process of discussing the circumstances under which the lenders would be willing to waive or modify the financial covenants included in the credit agreement.

4. Loss per share:

The following table sets forth the calculation of basic and diluted loss per common share:

<TABLE>
<CAPTION>

	Three months ended		Six months ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
<S>	<C>	<C>	<C>	<C>
Numerator:				
Net earnings (loss)	$ (13,874)	$ 119	$ (33,886)	$ (1,324)
Less Class L preferred entitlement	--	(1,408)	--	(2,774)
Loss available to common shareholders	$ (13,874)	$ (1,289)	$ (33,886)	$ (4,098)
Denominator:				
Weighted-average shares				
Basic	28,689,779	2,422,927	28,525,916	2,422,927
Diluted	28,689,779	2,422,927	28,525,916	2,422,927

Loss per share:

Basic	$ (0.48)	$ (0.53)	$ (1.19)	$ (1.69)
Diluted	$ (0.48)	$ (0.53)	$ (1.19)	$ (1.69)

</TABLE>

For the three and six month periods ended July 1, 2001 and July 2, 2000 options and warrants to purchase common stock were outstanding during those periods but were not included in the computation of diluted loss per share because their effect would be anti-dilutive on the loss per share for the period.

5. Income taxes:

The Company's effective tax rate differs from the statutory rate primarily due to non-deductible goodwill amortization and operating losses not tax effected in certain jurisdictions.

6. 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 ten 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) before restructuring charges. Prior to 2001, the Company had not incurred any restructuring charges. 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:

<TABLE>
<CAPTION>

	Three months ended July 1, 2001			Six months ended July 1, 2001		
	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue
<S>	<C>	<C>	<C>	<C>	<C>	<C>
United States	$ 155,417	$ (30,998)	$ 124,419	$ 313,892	$ (38,414)	$ 275,478
Canada	15,739	(633)	15,106	42,680	(1,520)	41,160
Europe	7,199	(951)	6,248	14,996	(951)	14,045
Mexico	24,119	(18,017)	6,102	48,588	(26,481)	22,107
	$ 202,474	$ (50,599)	$ 151,875	$ 420,156	$ (67,366)	$ 352,790

	Three months ended July 1, 2001	Six months ended July 1, 2001
EBITA (before restructuring charges):		
United States	$ 255	$ 1,687
Canada	(368)	212
Europe	(365)	(566)
Mexico	(2,873)	(6,065)
	(3,351)	(4,732)
Interest	2,561	5,453
Amortization	2,353	4,705
Loss before income taxes and restructuring charges	(8,265)	(14,890)
Restructuring charges	9,044	31,698
Loss before income taxes	$ (17,309)	$ (46,588)

Capital expenditures:		
United States	$ 3,592	$ 8,221
Canada	809	1,565
Europe	220	243
Mexico	1,249	4,171
	$ 5,870	$ 14,200

</TABLE>

6. Segmented information (continued):

<TABLE>
<CAPTION>

	Three months ended July 2, 2000			Six months ended July 2, 2000		
	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue
<S>	<C>	<C>	<C>	<C>	<C>	<C>
United States	$ 133,224	$ (2,895)	$ 130,329	$ 240,020	$ (3,569)	$ 236,451
Canada	16,967	(1,437)	15,530	30,005	(2,422)	27,583
Europe	4,638	(685)	3,953	9,365	(2,161)	7,204
Mexico	18,549	(1,225)	17,324	21,470	(1,239)	20,231
	$ 173,378	$ (6,242)	$ 167,136	$ 300,860	$ (9,391)	$ 291,469

EBITA:		
United States	$ 5,500	$ 9,077
Canada	1,500	2,228
Europe	(728)	(1,222)
Mexico	208	(76)
	6,480	10,007
Interest	4,115	7,904
Amortization	1,230	2,502
Earnings (loss) before income taxes	$ 1,135	$ (399)

Capital expenditures:		
United States	$ 2,701	$ 3,965
Canada	192	857
Europe	41	219
Mexico	1,978	2,654
	$ 4,912	$ 7,695

</TABLE>

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

	Three months ended		Six months ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000

Geographic revenue:				
United States	$128,602	$147,703	$300,743	$258,584
Canada	9,698	5,190	23,744	8,494
Europe	10,620	10,655	22,680	18,450
Asia	2,955	3,588	5,623	5,941
	$151,875	$167,136	$352,790	$291,469

6. Segmented information (continued):

	July 1, 2001	December 31, 2000
Long-lived assets:		
United States	$ 77,234	$ 79,136
Canada	23,824	24,540
Europe	19,305	20,410
Mexico	18,251	14,627
	$138,614	$138,713

7. Loans to shareholders:

Pursuant to agreements in connection with the share reorganization and the acquisition of Pensar Corporation, the Company loaned $5,236 to certain shareholders. The loans are non-interest bearing and are 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. The amounts are included in other assets.

8. Restructuring charge:

During the first quarter, in response to the slowing technology end market, the Company announced that, along with its work force reduction initiatives, it would close its assembly facility in Denver, Colorado. As a result, the Company recorded a restructuring charge of $22,654 pre-tax during the first quarter and $9,044 pre-tax during the second quarter. The following tables detail the components of the restructuring charges, and the related amounts included in accrued liabilities:

Restructuring charges:

<TABLE>
<CAPTION>

<S>	<C> Three months ended April 1, 2001	<C> Three months ended July 1, 2001	<C> Six months ended July 1, 2001
Inventory reserves included in cost of sales	$ 6,900	$ 9,044	$15,944
Lease and other contract obligations	5,178	--	5,178
Severance	2,526	--	2,526
Asset impairment	5,023	--	5,023
Other	3,027	--	3,027
	15,754	--	15,754
	$22,654	$ 9,044	$31,698

</TABLE>

Amounts included in accrued liabilities:

<TABLE>
<CAPTION>

<S>	<C> Restructuring reserve as at April 1, 2001	<C> Payments for three months ended July 1, 2001	<C> Restructuring reserve as at July 1, 2001
Lease and other contract obligations	$5,127	$ 362	$4,765
Severance	1,678	1,437	241
Other	2,827	861	1,966
	$9,632	$2,660	$6,972

</TABLE>

8. Restructuring charge (continued):

The closure of the assembly facility in Denver involves the severance of employees, the disposition of assets and the decommissioning, exiting and subletting of the facility. The severance costs related to Denver include all 429 employees. The severance costs also include 847 plant and operational employees at our Mexico facility and 45 plant and operational employees at our Cork, Ireland facility. Of the total severance costs, $848 was paid out during the first quarter.

The asset impairment reflects the write-down of certain long lived assets primarily at the Denver location that became impaired as a result of the rationalization of facilities. The asset impairment was determined based on undiscounted projected future net cash flows relating to the assets resulting in a write-down to estimated salvage values.

Other facility exit costs include personnel costs and other fees directly related to exit activities at the Denver location.

The major components of the restructuring are estimated to be complete by early fiscal year 2002.

9. Implementation of Recently Issued Accounting Standards:

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, 2000. The Company implemented SFAS No. 133 for the first quarter of 2001. As a result of implementing SFAS No. 133, the Company has recorded the interest rate swaps in the balance sheet at fair value and recorded a $410 charge to earnings representing the change in fair value of the swaps for the six month period. The fair value of the interest rate swaps at the date of implementation of SFAS No. 133 was not significant.

9. Implementation of Recently Issued Accounting Standards (continued):

In July 2001 the FASB issued SFAS No. 141 and SFAS No. 142. The new standards mandate the purchase method of accounting for business combinations and require that goodwill no longer be amortized but instead be tested for impairment at least annually. Upon adoption of the standards beginning January 1, 2002, the Company will discontinue amortization of goodwill and test for impairment using the new standards. Effective July 1, 2001 and for the remainder of the fiscal year, goodwill acquired in business combinations completed after June 30, 2001, will not be amortized and impairment testing will be based on existing standards. The Company is currently determining the impact of the new standards. It is likely that the elimination of the amortization of goodwill will have a material impact on the Company's financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

SELECTED CONSOLIDATED FINANCIAL DATA

The consolidated financial statements of SMTC are prepared in accordance with United States GAAP, which conforms in all material respects to Canadian GAAP.

Consolidated Statement of Operations Data (excluding $9.0 million of pre-tax restructuring charges for the three months ended July 1, 2001 and $31.7 million of pre-tax restructuring charges for the six months ended July 1, 2001):
(in millions, except share and per share amounts)

<TABLE>
<CAPTION>

	Three months ended		Six months ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
Revenue	$ 151.9	$ 167.1	$ 352.8	$ 291.4
Cost of sales	147.0	153.4	339.5	266.6
Gross profit	4.9	13.7	13.3	24.8
Selling, general and administrative expenses	8.2	7.2	18.0	14.9
Amortization	2.4	1.3	4.7	2.5
Operating income (loss)	(5.7)	5.2	(9.4)	7.4
Interest	2.6	4.1	5.5	7.8
Earnings (loss) before income taxes	(8.3)	1.1	(14.9)	(0.4)
Income tax expense (recovery)	(1.6)	1.0	(3.6)	0.9
Net earnings (loss)	$ (6.7)	$ 0.1	$ (11.3)	$ (1.3)

Net loss per common share:				
Basic	$ (0.23)	$ (0.53)	$ (0.39)	$ (1.69)
Diluted	$ (0.23)	$ (0.53)	$ (0.39)	$ (1.69)
Weighted average number of shares outstanding:				
Basic	28,689,779	2,422,927	28,525,916	2,422,927
Diluted	28,689,779	2,422,927	28,525,916	2,422,927

</TABLE>

Consolidated Statement of Operations Data (including $9.0 million of pre-tax restructuring charges for the three months ended July 1, 2001 and $31.7 million of pre-tax restructuring charges for the six months ended July 1, 2001):

(in millions, except share and per share amounts)

<TABLE>
<CAPTION>

	Three Months Ended		Six months ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
<S>	<C>	<C>	<C>	<C>
Revenue	$ 151.9	$ 167.1	$ 352.8	$ 291.4
Cost of sales (including restructuring charges of $9.0 million for the three months ended July 1, 2001 and $15.9 million for the six months ended July 1, 2001)	156.0	153.4	355.4	266.6
Gross profit	(4.1)	13.7	(2.6)	24.8
Selling, general and administrative expenses	8.2	7.2	18.0	14.9
Amortization	2.4	1.3	4.7	2.5
Restructuring charge	--	--	15.8	--
Operating income (loss)	(14.7)	5.2	(41.1)	7.4
Interest	2.6	4.1	5.5	7.8
Earnings (loss) before income taxes	(17.3)	1.1	(46.6)	(0.4)
Income tax expense (recovery)	(3.4)	1.0	(12.7)	0.9
Net earnings (loss)	$ (13.9)	$ 0.1	$ (33.9)	$ (1.3)
Net loss per common share:				
Basic	$ (0.48)	$ (0.53)	$ (1.19)	$ (1.69)
Diluted	$ (0.48)	$ (0.53)	$ (1.19)	$ (1.69)
Weighted average number of shares outstanding:				
Basic	28,689,779	2,422,927	28,525,916	2,422,927
Diluted	28,689,779	2,422,927	28,525,916	2,422,927

</TABLE>

Other Financial Data - Consolidated Adjusted Net Earnings (Loss):
(in millions, except share and per share amounts)

<TABLE>
<CAPTION>

	Three months ended		Six Months Ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
<S>	<C>	<C>	<C>	<C>
Net earnings (loss)	$ (13.9)	$ 0.1	$ (33.9)	$ (1.3)
Adjustments:				
Amortization of goodwill	2.1	1.0	4.2	2.0
Restructuring charge	9.0	--	31.7	--
Income tax effect	(2.2)	(0.1)	(9.9)	(0.3)
Adjusted earnings (loss)	$ (5.0)	$ 1.0	$ (7.9)	$ (0.4)
Adjusted loss per common share:				
Basic	$ (0.17)	$ (0.18)	$ (0.28)	$ (1.00)
Diluted	$ (0.17)	$ (0.18)	$ (0.28)	$ (1.00)

Weighted average number of shares outstanding:				
Basic	28,689,779	2,422,927	28,525,916	2,422,927
Diluted	28,689,779	2,422,927	28,525,916	2,422,927

</TABLE>

As a result of the combination of Surface Mount and HTM and a number of subsequent acquisitions, we use consolidated adjusted net earnings (loss) as a measure of our operating performance. Consolidated adjusted net earnings (loss) is consolidated net earnings (loss) adjusted for acquisition related charges such as the amortization of goodwill, restructuring charges and the related income tax effect of these adjustments. Consolidated adjusted net earnings (loss) is not a measure of performance under United States GAAP or Canadian GAAP. Consolidated adjusted net earnings (loss) 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 an alternative measure of operating performance or profitability.

Consolidated Balance Sheet Data:
(in millions)

	As at July 1, 2001	As at December 31, 2000
Cash and short-term investments	$ 1.6	$ 2.7
Working capital	121.1	188.3
Total assets	415.4	547.5
Total debt, including current maturities	102.5	118.0
Shareholders' equity	194.9	228.5

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

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.

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. 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 customer relationships. 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;

- 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 public 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 fiber 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 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 $5.2 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 $5.2 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.

Due to the continued economic downturn in the technology sectors, we expect that we will be unable in the near term to maintain the historic growth we have achieved to date.

During the first quarter of 2001, in response to the slowing technology end market, we announced that we would close our Denver, Colorado facility, leaving in place a sales and marketing presence to service the Rocky Mountain region. During the second quarter of 2001, production at the Denver facility, one of the last remaining sites not recently refurbished, was migrated to SMTC facilities closer to customer locations, and to our recently retrofitted and expanded, lower cost Chihuahua facility. In connection with the closure of the Denver facility, and other cost realignment initiatives, we recorded a restructuring charge of $22.7 million pre-tax for the three months ended April 1, 2001 and

$9.0 million pre-tax for the three months ended July 1, 2001, consisting primarily of an inventory write-down, an asset impairment charge, lease and other contractual charges and employee severance and other facility exit costs. The major components of the restructuring are estimated to be complete by early fiscal year 2002.

Consistent with our past practices and normal course of business, we engage from time to time in discussions with respect to potential acquisitions that enable us to expand our geographic reach, add manufacturing capacity and diversify into new markets. 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. 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 July 1, 2001, we had borrowed $101.8 million under this facility. We intend to continue to borrow under our credit facility to finance working capital growth and any cash portion of future acquisitions.

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 ten facilities located in the United States, Canada, Europe and Mexico. In the second quarter of 2001, approximately 76.8% of our revenue was generated from operations in the United States, approximately 7.8% from Canada, approximately 3.5% from Europe and approximately 11.9% from Mexico. We expect to continue to increase revenue from our Chihuahua facility, with the transfer of certain production from other facilities and with the addition of new business and increased volume from our current business.

Our fiscal year end is December 31. The consolidated financial statements of SMTC are prepared in accordance with United States GAAP, which conforms in all material respects to Canadian GAAP.

SMTC Corporation

Results of Operations

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

(Excluding $9.0 million of pre-tax restructuring charges for the three months ended July 1, 2001 and $31.7 million of pre-tax restructuring charges for the six months ended July 1, 2001):

	Three months ended		Six months ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of sales	96.8	91.8	96.2	91.4
Gross profit	3.2	8.2	3.8	8.6
Selling, general and administrative expenses	5.4	4.3	5.1	5.1
Amortization	1.6	0.7	1.3	0.9
Operating income (loss)	(3.8)	3.2	(2.6)	2.6
Interest	1.7	2.5	1.6	2.7
Earnings (loss) before income taxes	(5.5)	0.7	(4.2)	(0.1)
Income tax expense (recovery)	(1.1)	0.6	(1.0)	0.3
Net earnings (loss)	(4.4)%	0.1%	(3.2)%	(0.4)%

(Including $9.0 million of pre-tax restructuring charges for the three months ended July 1, 2001 and $31.7 million of pre-tax restructuring charges for the six months ended July 1, 2001):

	Three months ended		Six months ended	
	July 1, 2001	July 2, 2000	July 1, 2001	July 2, 2000
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of sales (including restructuring charges of $9.0 million for the three months ended July 1, 2001 and $15.9 million for the six months ended July 1, 2001)	102.7	91.8	100.7	91.4
Gross profit (loss)	(2.7)	8.2	(0.7)	8.6
Selling, general and administrative expenses	5.4	4.3	5.1	5.1
Amortization	1.6	0.7	1.3	0.9
Restructuring charge	--	--	4.5	--
Operating income (loss)	(9.7)	3.2	(11.6)	2.6
Interest	1.7	2.5	1.6	2.7
Earnings (loss) before income taxes	(11.4)	0.7	(13.2)	(0.1)
Income tax expense (recovery)	(2.2)	0.6	(3.6)	0.3
Net earnings (loss)	(9.2)%	0.1%	(9.6)%	(0.4)%

Quarter ended July 1, 2001 compared to the quarter ended July 2, 2000

Revenue

Revenue decreased $15.2 million, or 9.1%, from $167.1 million in the second quarter of 2000 to $151.9 million in the second quarter of 2001. The decrease in revenue is due to the impact of the technology market slowdown across the customer base. We recorded approximately $11.1 million of sales of raw

materials inventory to customers, which carry no margin, during the second quarter of 2001, compared to $16.3 million in the second quarter of 2000.

Revenue from IBM of $22.1 million and Dell of $15.9 million for the second quarter of 2001 was 14.5% and 10.5% respectively, of total revenue. In the second quarter of 2000, revenue from Dell of $32.7 million represented 19.6% of

total revenue. The 2000 revenue from Dell consisted of approximately $6.0 million of revenue derived from personal computer based products and $26.7 million of revenue derived from networking based products, whereas the 2001 revenue from Dell consisted entirely of revenue derived from networking based products. No other customers represented more than 10% of revenue.

In the second quarter of 2001, 76.8% of our revenue was generated from operations in the United States, 7.8% from Canada, 11.9% from Mexico and 3.5% from Europe. In the second quarter of 2000, 76.8% of our revenue was generated from operations in the United States, 9.8% from Canada, 2.7% from Europe and 10.7% from Mexico.

Gross Profit

Gross profit, excluding a $9.0 million restructuring charge related to a write-down of inventory in connection with the closure of our Denver facility, decreased $8.8 million from $13.7 million in the second quarter of 2000 to $4.9 million in the second quarter of 2001. Our gross profit margin, excluding the restructuring charge, decreased from 8.2% in the second quarter of 2000 to 3.2% in the second quarter of 2001.

The decline in the gross profit and gross margin was due to an under-absorption of the fixed production overheads put in place to support the rapid sales increase experienced during the later half of 2000.

Gross profit including $9.0 million of the total restructuring charge was a loss of $4.1 million in the second quarter of 2001.

Selling, General & Administrative Expenses

Selling, general and administrative expenses increased $1.0 million from $7.2 million in the second quarter of 2000 to $8.2 million in the second quarter of 2001 due to the acquisitions of Pensar and Qualtron. As a percentage of revenue, selling, general and administrative expenses increased from 4.3% in the second quarter of 2000 to 5.4% in the second quarter of 2001 due to the under-absorption of fixed selling, general and administrative expenses as a result of the general technology market slowdown.

Amortization

Amortization of intangible assets of $2.4 million in the second quarter of 2001 included the amortization of $0.6 million of goodwill related to the combination of Surface Mount and HTM, $0.4 million of goodwill related to the acquisition of W.F. Wood, $0.7 million related to the acquisition of Pensar and $0.4 million related to the acquisition of Qualtron. Amortization of intangible assets in the second quarter of 2001 also included the amortization of $0.2 million of deferred finance costs related to the establishment of our senior credit facility in July 2000 and $0.1 million of deferred equipment lease costs.

Amortization of $1.3 million in the second quarter of 2000 included the amortization of $0.6 million of goodwill related to the combination of Surface Mount and HTM, $0.4 million of goodwill related to the acquisition of W.F. Wood, $0.2 million of deferred finance costs related to the establishment of our senior credit facility in July 1999 and $0.1 million of deferred equipment lease costs.

Restructuring Charge

In response to the economic slowdown, we announced during the first quarter of 2001 that along with other cost realignment initiatives, we would close our assembly facility located in Denver, Colorado. As such a restructuring charge of $22.7 million pre-tax was recorded during the first quarter, consisting of an inventory write-down of $6.9 million, lease and other contractual obligations of $5.2 million, severance costs of $2.5 million, asset impairment charges of $5.0 million and other facility exit charges of $3.1 million. An additional $9.0 million pre-tax charge was recorded during the second quarter relating to a further inventory write-down at our now closed Denver facility.

The cash component of the restructuring charge accrued for at the end of the first quarter of $9.6 million was drawn down by $2.7 million during the second quarter, consisting of $0.4 million in lease and other contract obligation payments, $1.4 million in severance payments and $0.9 million in other payments. We believe the restructuring accrual remaining of $7.0 million at July 1, 2001 will be sufficient to satisfy the remaining obligations associated with the restructuring charge.

The major components of the restructuring are estimated to be complete by early

fiscal year 2002.

Interest Expense

Interest expense decreased $1.5 million from $4.1 million in the second quarter of 2000 to $2.6 million in the second quarter of 2001. The weighted average interest rates with respect to the debt for the second quarter of 2000 and the second quarter of 2001 were 9.6% and 8.5%, respectively.

Income Tax Expense

In the second quarter of 2001 an income tax recovery of $3.4 million was recorded on a pre-tax loss of $17.3 million resulting in an effective tax recovery rate of 19.7%, as losses in certain jurisdictions were not tax effected due to the uncertainty of our ability to utilize such losses and we are unable to deduct $1.0 million of goodwill related to the combination of Surface Mount and HTM and the acquisition of Qualtron.

In the second quarter of 2000, an income tax expense of $1.0 million was recorded on a pre-tax income of $1.1 resulting in an effective income tax rate of 89.5%, as we were not able to claim a recovery on losses of $0.7 million incurred by our Irish subsidiary or deduct $0.6 million of goodwill expense related to the combination of Surface Mount and HTM.

Six months ended July 1, 2001 compared to six months ended July 2, 2000

Revenue

Revenue increased $61.4 million, or 21.1%, from $291.4 million for the six month period ended July 2, 2000 to $352.9 million for the six month period ended July 1, 2001. The increase in revenue is due to the acquisitions of Pensar and Qualtron and the transition of our Chihuahua facility from consignment to turnkey, both of which were offset by a reduction in organic revenue due to the impact of the technology market slowdown. Pensar and Qualtron contributed $49.8 million and $15.6 million, respectively, to the increase in revenue. Revenue at our Chihuahua facility increased $27.1 million from $21.5 million for the six months ended July 2, 2000 to $48.6 million for the six months ended July 1, 2001. We recorded approximately $22.6 million of sales of raw materials inventory to customers, which carry no margin, during the first six months of 2001, compared to $20.5 million during the first six months of 2000.

Revenue from IBM of $52.6 million and Dell of $38.4 million for the six month period ended July 1, 2001 was 14.9% and 10.9%, respectively, of total revenue for the period. Revenue from Dell for the six months ended July 2, 2000 was $65.3 million, or 22.4% of total revenue for the period. The decline in the revenue from Dell is due to the elimination of revenue earned from PC based products, which contributed $18.3 million to revenue for the six months ended July 2, 2000, and the general decline in the technology market conditions. No other customers represented more than 10% of revenue.

For the six month period ended July 1, 2001, 74.7% of our revenue was generated from operations in the United States, 10.2% from Canada, 3.6% from Europe and 11.5% from Mexico. During the six month period ended July 2, 2000, 79.8% of our revenue was generated from operations in the United States, 10.0% from Canada, 3.1% from Europe and 7.1% from Mexico.

Gross Profit

Gross profit, excluding the $15.9 million portion of our restructuring charge that related to a write-down of inventory in connection with the closure of our Denver facility, decreased $11.5 million from $24.8 million for the six months ended July 2, 2000 to $13.3 million for the six months ended July 1, 2001. Our gross profit margin, excluding the restructuring charge, decreased from 8.6% in the first six months of 2000 to 3.8% in the first six months of 2001.

The decline in the gross profit was due to the lower sales base and an under-absorption of the fixed production overheads. The gross margin decreased due to lower utilization of fixed costs and a change in revenue mix to include a lower proportion of consignment sales.

Gross profit for the first six months of 2001, including the $15.9 million restructuring charge, was a loss of $2.6 million.

Selling, General & Administrative Expenses

Selling, general and administrative expenses increased $3.1 million from $14.9 million for the six months ended July 2, 2000 to $18.0 million for the six months ended July 1, 2001 due to the acquisitions of Pensar and Qualtron. Selling, general and administrative expenses were 5.1% of revenue for each of the six months ended July 2, 2000 and July 1, 2001.

Amortization

Amortization of intangible assets of $4.7 million in the first six months of 2001 included the amortization of $1.2 million of goodwill related to the combination of Surface Mount and HTM, $0.8 million of goodwill related to the acquisition of W.F. Wood, $1.4 million related to the acquisition of Pensar and $0.8 million related to the acquisition of Qualtron. Amortization of intangible assets in the first six months of 2001 also included the amortization of $0.3 million of deferred finance costs related to the establishment of our senior credit facility in July 2000 and $0.2 million of deferred equipment lease costs.

Amortization of $2.5 million in the first six months of 2000 included the amortization of $1.2 million of goodwill related to the combination of Surface Mount and HTM, $0.8 million of goodwill related to the acquisition of W.F. Wood, $0.4 million of deferred finance costs related to the establishment of our senior credit facility in July 1999 and $0.1 million of deferred equipment lease costs.

Restructuring Charge

In response to the economic slowdown, we announced during the first quarter of 2001 that along with other cost realignment initiatives, we would close our assembly facility located in Denver, Colorado. As such a restructuring charge of $31.7 million pre-tax was recorded, consisting of an inventory write-down of $15.9 million, lease and other contractual obligations of $5.2 million, severance costs of $2.5 million, asset impairment charges of $5.0 million and other facility exit charges of $3.1 million. Of the total restructuring charge, $28.1 million relates to the closure of our Denver facility. The closure of the assembly facility in Denver involves the severance of employees, the disposition of assets and the decommissioning, exiting and subletting of the facility. The severance costs related to Denver include all 429 employees. The severance costs also include 847 plant and operational employees at our Mexico facility and 45 plant and operational employees at our Cork, Ireland facility. Of the total severance costs, $0.8 million was paid during the first quarter of 2001. The asset impairment reflects the write-down of certain long lived assets primarily at the Denver location that became impaired as a result of the rationalization of facilities. The asset impairment was determined based on undiscounted projected future net cash flows relating to the assets resulting in a write-down to estimated salvage values. Other facility exit costs include personnel costs and other fees directly related to exit activities at the Denver location.

The non-cash component of the write-down is $20.9 million. We recorded an income tax recovery of $9.1 million related to the restructuring charge at an effective rate of 28.7%.

The cash component of the restructuring charge accrued for at the end of the first quarter of $9.6 million was drawn down by $2.7 million during the second quarter, consisting of $0.4 million in lease and other contract obligation payments, $1.4 million in severance payments and $0.9 million in other payments. We believe the

restructuring accrual remaining of $7.0 million at July 1, 2001 will be sufficient to satisfy the remaining obligations associated with the restructuring charge.

The major components of the restructuring are estimated to be complete by early fiscal year 2002.

Interest Expense

Interest expense decreased $2.3 million from $7.8 million for the six months ended July 2, 2000 to $5.5 million for the six months ended July 1, 2001 due to a reduction of debt as a result of the initial public offering . The weighted average interest rates with respect to the debt for the six months ended July 2, 2000 and the six months ended July 1, 2001 were 9.8% and 8.3%, respectively.

Income Tax Expense

For the six month period ended July 1, 2001 an income tax recovery of $12.7 million was recorded on a pre-tax loss of $46.6 million resulting in an

effective tax recovery rate of 27.3%, as losses in certain jurisdictions were not tax effected due to the uncertainty of our ability to utilize such losses and we are unable to deduct $2.0 million of goodwill related to the combination of Surface Mount and HTM and the acquisition of Qualtron.

For the six month period ended July 2, 2000, we recorded an income tax expense of $0.9 million on a loss of $0.4 million as we were not able to claim a recovery on losses of $1.2 million incurred by our Irish subsidiary or deduct $1.2 million of goodwill expense related to the combination of Surface Mount and HTM.

Liquidity and Capital Resources

Our principal sources of liquidity are cash provided from operations and 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 six month period ended July 2, 2000 was $30.8 million compared to net cash generated from operating activities of $32.2 million for the six month period ended July 1, 2001. The continued focus on improving our accounts receivable and inventory levels during the period led to the reduced use of working capital.

Net cash provided by financing activities for the six month period ended July 2, 2000 was $37.5 million due to the net increase of borrowings of $30.5 million, and proceeds received from the issue of warrants and subordinated notes of $2.5 million and $5.2 million, respectively, which was offset by capital lease payments of $0.7 million. Net cash used in financing activities for the six month period ended July 1, 2001 was $19.1 million due to the repayment in long-term debt and capital leases of $14.0 million and $0.2

million, respectively, and the loans issued to shareholders of $5.2 million, both of which were offset by the proceeds from issuance of capital stock on the exercise of options of $0.3 million. As at July 1, 2001, we had borrowed $101.8 million under our credit facility. We intend to continue to borrow under our credit facility to finance working capital needs and any cash portion of future acquisitions.

Net cash used in investing activities for the six months ended July 2, 2000 and July 1, 2001 was $7.1 million and $14.2 million, respectively, due to the net purchase of capital assets. We expect our capital expenditures for the balance of the year to be between $3.0 and $4.0 million.

The Company's credit agreement contains certain financial covenants. The Company complied with all required covenants as at July 1, 2001 and accordingly the related debt is classified as long-term. However, it is unlikely the Company will earn sufficient EBITDA (earnings before interest expense, income taxes, depreciation and amortization) during the third quarter to satisfy the requirements of the credit agreement. If the Company fails to meet the covenants, the lenders will have the right to demand repayment of the debt or to modify the existing credit agreement. The Company has notified the lenders of the possible future violation and is in the process of discussing the circumstances under which the lenders would be willing to waive or modify the financial covenants included in the credit agreement.

Our management believes that cash generated from operations, available cash and amounts available under our senior credit facility will be adequate to meet our debt service requirements, capital expenditures and working capital needs at our current level of operations and organic growth, although no assurance can be given in this regard, particularly with respect to amounts available under our credit facility, as discussed above. If we experience strong growth or pursue acquisitions, 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.

RECENTLY ISSUED ACCOUNTING STANDARDS

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, 2000. We have implemented SFAS No. 133 for the first quarter of 2001. As a result of implementing SFAS No. 133, we have recorded the interest rate swaps in our balance sheet at fair value and recorded a charge to earnings representing the change in fair value of the swaps for the period.

In July 2001 the FASB issued SFAS No. 141 and SFAS No. 142. The new standards mandate the purchase method of accounting for business combinations and require that goodwill no longer be amortized but instead be tested for impairment at least annually. Upon adoption of the standards

beginning January 1, 2002, the Company will discontinue amortization for goodwill and test for impairment using the new standards. Effective July 1, 2001 and for the remainder of the fiscal year, goodwill acquired in business combinations completed after June 30, 2001, will not be amortized and impairment testing will be based on existing standards. The Company is currently determining the impact of the new standards. It is likely that the elimination of the amortization on goodwill will have a material impact on the Company's financial statements.

FORWARD-LOOKING STATEMENTS

A number of the matters and subject areas discussed in this Form 10-Q are forward-looking in nature. The discussion of such matters and subject areas is qualified by the inherent risks and uncertainties surrounding future expectations generally; these expectations may differ materially from SMTC's actual future experience involving any one or more of such matters and subject areas. SMTC cautions readers that all statements other than statements of historical facts included in this report on Form 10-Q regarding SMTC's financial position and business strategy may constitute forward-looking statements. All of these forward-looking statements are based upon estimates and assumptions made by SMTC's management, which although believed to be reasonable, are inherently uncertain. Therefore, undue reliance should not be placed on such estimates and statements. No assurance can be given that any of such estimates or statements will be realized, and it is likely that actual results will differ materially from those contemplated by such forward-looking statements. Factors that may cause such differences include: (1) increased competition; (2) increased costs; (3) the inability to 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) credit agreement covenant violations; (7) adverse state, federal or foreign legislation or regulation or adverse determinations by regulators; (8) changes in general economic conditions in the markets in which SMTC may compete and fluctuations in demand in the electronics industry; (9) the inability to manage inventory levels efficiently in light of changes in market conditions; and (10) the inability to sustain historical margins as the industry develops. SMTC has attempted to identify certain of the factors that it currently believes may cause actual future experiences to differ from SMTC's current expectations regarding the relevant matter or subject area. In addition to the items specifically discussed in the foregoing, SMTC's business and results of operations are subject to the risks and uncertainties described under the heading "Factors That May Affect Future Results" below. The operations and results of SMTC's business may also be subject to the effect of other risks and uncertainties. Such risks and uncertainties include, but are not limited to, items described from time to time in SMTC's reports filed with the Securities and Exchange Commission.

FACTORS THAT MAY AFFECT FUTURE RESULTS

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

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 the six months ended July 1, 2001 was IBM, which represented approximately 14.9% of our total revenue for such period. Our next five largest customers collectively represented an

additional 34.8% of our total revenue in the first six months of 2001. 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 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 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 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 industry is subject to economic cycles and has in the past experienced downturns. The downturn in the electronics industry that began in the first quarter of 2001 has adversely affected us. A future recession or a downturn in the electronics industry would also likely have a material adverse effect on our business, financial condition and results of operations.

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

A substantial portion of our revenue is derived from "turnkey" manufacturing. In turnkey manufacturing, we provide both the materials and the manufacturing services. If we fail to manage our inventory effectively, we may bear the risk of fluctuations in materials costs, scrap and excess inventory, all of which can have a material adverse effect on our business, financial condition and results of operations. We are required to forecast our future inventory needs based upon the anticipated demands of our customers. Inaccuracies in making these forecasts or estimates could result in a shortage or an excess of materials. In addition, delays, cancellations or reductions of orders by our customers could result in an excess of materials. A shortage of materials could lengthen production schedules and increase costs. An excess of materials may increase the costs of maintaining inventory and may increase the risk of inventory obsolescence, both of which may increase expenses and decrease profit margins and operating income. Many of the products we manufacture require one or more components that we order from sole-source suppliers. Supply shortages for a particular component can delay productions of all products using that component or cause cost increases in the services we provide. In addition, in the past, some of the materials we use, such as memory and logic devices, have been subject to industry-wide shortages. As a result, suppliers have been forced to allocate available quantities among their customers and we have not been able to obtain all of the materials desired. Our inability to obtain these needed materials could slow production or assembly, delay shipments to our customers, increase costs and reduce operating income. Also, we may bear the risk of periodic component price increases. Accordingly, some component price increases could increase costs and reduce operating income. Also we rely on a variety of common carriers for materials transportation, and we route materials through various world ports. A work stoppage, strike or shutdown of a major port or airport could result in manufacturing and shipping delays or expediting charges, which could have a material adverse effect on our business, financial condition and results of operations.

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

Since 1995, 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.

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 operations. 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 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.

In the first half of 2001, we responded to the downturn in the electronics industry by reducing our workforce from 6,173 at December 31, 2000 to 2,818 at July 1, 2001. If demand for our products and services grows, we may find it difficult to expand our workforce to meet that demand.

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;
- 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.

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 July 1, 2001 we had $101.8 million of indebtedness under our senior credit facility. We may 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;

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

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

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

- o We could be limited by financial and other restrictive covenants in our credit arrangements in our borrowing of additional funds; and

- o 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. The Company complied with all required covenants as at July 1, 2001 and accordingly the related debt is classified as long-term. However, it is unlikely the Company will earn sufficient EBITDA (earnings before interest expense, income taxes, depreciation and amortization) during the third quarter to satisfy the requirements of the credit agreement. If the Company fails to meet the covenants, the lenders will have the right to demand repayment of the debt or to modify the existing credit agreement. The Company has notified the lenders of the possible future violation and is in the process of discussing the circumstances under which the lenders would be willing to waive or modify the financial covenants included in the credit agreement. There can be no assurance that those discussions will be successful.

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 13.4%, 12.1%, 7.1% and 13.2%, respectively, of our outstanding shares as of June 30, 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 matters submitted to our stockholders, including the election of our directors, and exercise significant control over our business policies and affairs. Such concentration of voting

power could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our senior credit facility bears interest at a floating rate. The weighted average interest rate on our senior credit facility for the quarter ended July 1, 2001 was 8.6%. We reduce our exposure to interest rate risks through swap agreements. We have entered into swap agreements to hedge $65.0 million of our outstanding debt. Under the terms of our current swap agreement expiring on September 22, 2001, the maximum annual rate we would pay on approximately $65.0 million of our debt is 8.7%, as of July 1, 2001. The remainder of our debt of $36.8 million bore interest at 6.3% on July 1, 2001 based on the Eurodollar base rate. If the Eurodollar base rate increased by 10% to 6.9%, our interest expense on the unhedged portion of our debt would increase by approximately $0.2 million and the fair value of our interest rate swap would increase by approximately $0.4 million for the balance of 2001.

Foreign Currency Exchange Risk

Most of our sales and purchases are denominated in U.S. dollars, and as a result we have relatively little exposure to foreign currency exchange risk with respect to sales made. As a result of our Qualtron acquisition, we have assumed forward exchange contracts to sell U.S. dollars for Irish punts. The aggregate principal amount of the contracts was $1.3 million at July 1, 2001 and was valued at the closing dollar exchange rate of $1.08 for financial statement purposes. These contracts matured at various dates through July 31, 2001. If the U.S. dollar strengthened by 10% against the Irish punt, we would experience an exchange loss of approximately $0.1 million in 2001.

PART II OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

(a) The Company held its annual meeting on May 9, 2001.
(c) Results of annual meeting votes:

<TABLE>
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Proposal	For	Against	Withheld	Abstentions	Broker Non-Votes
<S>	<C>	<C>	<C>	<C>	<C>
To elect as director David Dominik to hold office until 2004 and in accordance with the by-laws of the Company	16,333,194		8,650		
To elect as director Gary Walker to hold office until 2004 and in accordance with the by-laws of the Company	16,330,962		10,882		
To elect as director Paul Walker to hold office until 2004 and in accordance with the by-laws of the Company	15,917,762		424,082		

To ratify the appointment of KPMG LLP as independent auditors of the Company for the fiscal year ending December 31, 2001	16,335,272	2,590	3,982	0

</TABLE>

ITEM 5. OTHER INFORMATION

On July 27, 2001, David Dominik resigned from our Board of Directors and from the Audit Committee of the Board. The Board accepted his resignation and appointed Blair Hendrix to fill the vacancy created by Mr. Dominik's resignation from each of the Board and the Audit Committee and to serve for the remainder of Mr. Dominik's term, which expires at the annual meeting of stockholders in 2004.

On August 14, 2001, Prescott Ashe informed the Company that he was resigning as a member of the Board of Directors of the Company, effective as of that same date.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) List of Exhibits:

10.1 Real Property Lease dated as of November 24, 2000 between Udaras Na Gaeltachta and Qualtron Teoranta.

10.2 First Amendment to Real Estate Sale Agreement dated July 31, 2001 between Flextronics International USA, Inc. and SMTC Manufacturing Corporation of Texas.

10.3 First Amendment to Real Property Lease dated July 31, 2001 between Flextronics International USA, Inc. and SMTC Manufacturing Corporation of Texas.

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

SIGNATURES

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

SMTC CORPORATION

By: /s/ Paul Walker

Name: Paul Walker
Title: President and CEO

By: /s/ Richard Smith

Name: Richard Smith
Title: Chief Financial Officer

Date: August 15, 2001

EXHIBIT INDEX

Exhibit Number	Description
10.1	Real Property Lease dated as of November 24, 2000 between Udaras Na Gaeltachta and Qualtron Teoranta.
10.2	First Amendment to Real Estate Sale Agreement dated July 31, 2001 between Flextronics International USA, Inc. and SMTC Manufacturing Corporation of Texas.
10.3	First Amendment to Real Property Lease dated July 31, 2001 between Flextronics International USA, Inc. and SMTC Manufacturing

Corporation of Texas.

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Exhibit 10.1

THIS LEASE made the 24th day of November Two Thousand BETWEEN UDARAS NA GAELTACHTA having its Principal Office in the State at Na Forbacha in the County of Galway, Statutory Body (hereinafter called "the Lessor" which expression shall where the context so admits include its successors and assigns) of the One part AND QUALTRON TEORANTA having its Registered Office at Unit 10 Eastat Tionsclaioch na Doiri Beaga in the County of Donegal a Limited Liability Company (hereinafter called "the Lessee" which expression shall where the context so admits include its successors and permitted assigns) of the Other part.

In these presents and in the schedules hereto (save where the context otherwise requires or implies) the following words and expressions shall have the meanings assigned to them hereunder:

"the Lessor's Industrial Estate" means the hereditaments and premises described in the First Schedule hereto.

"the demised premises" means the premises hereby demised and more particularly described in clause 1 hereof.

"Common Parts" mean those parts of the Lessor's Industrial Estate not for the time being demised to nor in the exclusive occupation of any Lessee or Licensee of the Lessor nor for the time being intended or (as the case may be) designed for letting as such the use/or benefit of which is common to the Lessee and others authorised by the Lessor and shall include (but not by way of exception) the structure, exterior and structural walls floors and ceilings foundations structural supports and columns roof window frames lifts machinery and (save where the same shall have been for the time being demised by the Lessor) the entrance doors gates foyers landings staircases hallways corridors toilets car parks, estate roads, grassed areas and other common facility areas within the curtilage of the Lessor's Industrial Estate.

"conduits" mean gutters gullies pipes drains sewers watercourses channels ducts flues mains wires cables and other conducting media.

"Utilities" mean water water-tanks soils effluent and waste of all kinds gas electricity telephone fire fighting equipment and other services including any plant machinery apparatus and equipment to operate or required for the utilities.

"systems" mean the fire prevention and fire detection system the burglar alarm and security system.

WITNESSETH as follows:

1. In consideration of the rents, covenants and conditions hereinafter reserved and contained and on the part of the Lessee to be paid observed and performed, the Lessor hereby demises unto the Lessee ALL THAT AND THOSE the lands with the factory premises

   containing 2663 square metres or thereabouts situate thereon and comprising part of Folio 40947 County Donegal being more particularly described on the map attached hereto and surrounded by a red verge line.

   TOGETHER WITH:

   (1) The Lessor's fixtures therein or thereon (all which said land buildings and fixtures are hereinafter collectively called the "demised premises") and;

   (2) full and free right of access (in common with the Lessor and other persons having the like right) at all times and for all purposes connected with the demised premises but not for any other purpose along and over the area shown coloured yellow on the said map.

EXCEPTING AND RESERVING unto the Lessor and the person or persons for the time being occupying any other part or parts of the Lessor's Industrial Estate of which the demised premises are a portion:

   (1) The free and uninterrupted passage and running of water soil and

effluent drainage gas water and electricity steam telephone or any other services or supplies from the other buildings and lands of the Lessor and its tenants adjoining or near to the demised premises through the sewers drains watercourses conduits pipes and cables which now are or may hereafter during the term hereby granted be in or over under or upon the demised premises.

(2) At any time hereafter or from time to time full right and liberty to execute works services and building upon or to alter or rebuild any of the erections services and buildings erected on its adjoining and neighbouring lands and to use its adjoining and neighboring lands and buildings, works, services and erections as it may think fit notwithstanding that the access of light and air to the demised premises may be interfered with.

TO HOLD the same unto the Lessee for the term of 21 years commencing on the 1st day of August 2000 YIELDING AND PAYING therefor and thereout during each of the first 5 years plus one day of the said term the yearly rent of (pound)68,785 and thereafter during each of the successive periods of 5 years of which the first shall begin on the 2nd day of August 2005 a yearly rent equal to (a) the yearly rent payable hereunder during the preceding period or (b) such revised yearly rent as may from time to time be ascertained in accordance with the provisions in that behalf contained in the Second Schedule hereto (whichever shall be the greater).

The said rents in all cases are to be paid without any deductions in advance by equal quarterly installments by way of Bankers Standing Order on the 1st day of January, 1st day of April, 1st day of July, and on the 1st day of October, in every year during the term hereby granted.

2. The Lessee hereby covenants with the Lessor as follows:

(1) To pay the said yearly rents at the times and in manner aforesaid clear of all deductions.

(2) To bear pay and discharge all rates (including any water rate for the time being imposed by the Lessor) taxes assessments duties charges and impositions whatsoever which now are or during the said term shall be charged assessed or imposed upon the demised premises or any part thereof or upon the owner or occupier in respect thereof except the Lessors liability for Income Tax and to indemnify the Lessor against all actions suites claims and demands whatsoever made in respect thereof.

(3) To repair and keep in good and substantial repair and condition using suitable materials of good quality the whole of the demised premises and every part thereof and the Lessors fixtures therein and such parts of the drains pipes wires and sanitary apparatus serving the demised premises as are situate within same and from time to time as required and in any event in every fifth year of the term and in the last year thereof to paint and colour all the outside and inside parts of the demised premises as are actually painted and coloured and all additions thereto in proper and workmanlike manner and with suitable materials of their several kinds.

(4) To keep such parts of the land forming part of the demised premises as are from time to time undeveloped and the grass and any trees shrubs and hedges in proper and neat order and condition and any ditches streams culverts and watercourses properly cleared and cleaned and in particular not to deposit or permit to be deposited any rubbish or refuse nor without the prior consent in writing of the Lessor (and then only on such parts of the said land and subject to such conditions as the Lessor may stipulate or impose) to store stack or lay out any material used for the purpose of manufacture or otherwise on any part of the said land.

(5) To bear with the owners or occupiers of each other unit in the said Industrial Estate the cost and expense of all necessary maintenance, repair and up-keep (and operating cost where applicable) of access roads, footpaths, common parts, drainage and water services and

public lighting in the same proportion as the gross area of the buildings erected on the demised premises bears to:

a) where the Lessor's Industrial Estate is fully completed the total gross areas of all the industrial units in the estate and

b) In the case of a non completed or part completed estate the total gross areas of all the completed units in the estate and where roads and services have been provided to un-developed areas of the estate, the gross area of buildings in the course of erection and proposed buildings fronting onto such services until such time as same are taken in charge by the Local Authority.

(6) At all times during the term to observe and comply in all respects with the requirements of any enactment (which expression shall for the purpose of this covenant include every existing or future statute and every existing or future directive of the Commission of the European Communities as well as any regulation order or bye-law made under or in pursuance of any statute or of any said EU Directive so far as the same may relate to or affect the demised premises or any part thereof or the user thereof or the use or employment therein of any chattel or substance) and to execute all works and provide and maintain all arrangements which by or under any enactment or by any Government Department or other authority or by the Court are or may be directed or required to be executed provided or maintained in respect of the demised premises or any improvements thereto or in respect of any user thereof or in respect of any chattel or substance at any time therein AND WITHOUT PREJUDICE to the generality of the foregoing not to do or omit or permit to be done or omitted anything on or in connection with the Demised Premises the doing or omission of which shall be a contravention of the Planning Acts, Factories Acts, Public Health Acts, Water Pollution Acts, Air Pollution Acts, Safety, Health and Welfare at Work Act, 1989, Dangerous Substances Act, 1972 Fire Services Act 1981, Building Control Act 1990 or of any notices orders licences consents permissions and conditions (if any) served made granted or imposed thereunder or under any enactment repealed thereby and not to do or suffer to be done or omitted in or about the demised premises any act or thing in respect of which the Lessor may under any enactment have imposed upon it or become liable to pay any penalty damages compensation costs and charges or expenses and to indemnify (as well after the expiration of the said term by effluxion of time or otherwise as during its continuance) and keep indemnified the Lessor against all actions, proceedings, damages, penalties, costs, charges, claims, and demands, made against, or suffered, or incurred, by the Lessor, arising directly or indirectly, out of such acts and omissions, or any of them, and against the costs of any application for the Planning Permission and the works and things done in pursuance thereof.

(7) To perform and observe all the obligations which the Lessor in respect of being the owner or Lessor of the said demised premises may be liable to perform or observe during the said term by virtue of any Act or Acts of the Oireachtais or of any direction or requirements of any public or local authority.

(8) To permit the Lessor or it duly authorised agents to enter the demised premises for the purpose of inspecting and noting the readings on any meter or other measuring devices installed in the demised premises by the Lessor and upon giving previous notice in writing at all reasonable and convenient times to enter the demised premises and examine the state of repair and condition thereof and to check and take inventories of the Lessor's Fixtures fittings and equipment therein and that the Lessee will repair and make good all defects decays and wants of repair of which notice in writing shall be given by the Lessor to the Lessee and for which the Lessee may be liable hereunder within two calendar months after the giving of such notice provided that in case of default by the Lessee the Lessor

may make good such defects decays and wants of repair and the cost of the same shall be repayable by the Lessee to the Lessor on demand.

(9) Not to make any alterations or additions to the demised premises or erect any new buildings thereon without the prior written consent of the Lessor and the approval of the Lessor to the plans and specifications thereof and if such consent and approval is given to make such alterations or additions in conformity with such plans and specifications and to the approval of the Lessor and upon such terms as the Lessor may consider reasonable.

(10) To use the demised premises for the purpose of the manufacture of telecommunications equipment and components and light electronic assemblies and not to use the demised premises or suffer or permit same to be used for any other purpose whatsoever except with the previous consent in writing of the Lessor which consent shall not be unreasonably withheld so however that the Lessor's consent shall not be treated or construed as being unreasonably withheld if it is withheld on any of the grounds following, that is to say:

a) that the trade or business to be carried on is not one which the Lessor considers to be quiet and inoffensive;

b) that the trade or business to be carried on is considered by the Lessor to be one which would be in conflict with the Lessor's interpretation of good estate management;

c) that the giving of its consent would result in a change of user constituting development within the provisions of any Planning Act order plan regulation permission consent or direction at the time being in force or any change of use which although not constituting development would prevent reversion to the present use of the demised premises.

(11) Not to use the demised premises or suffer or permit the same to be used for any offensive noisy or dangerous trade business manufacture or occupation or for any purpose or in any manner which may be a nuisance to the Lessor or the owners or occupiers of neighbouring or adjacent premises provided that the carrying on in a proper manner and in such a way as to cause as little nuisance to the Lessor or the owners or occupiers of neighbouring or adjacent premises as is reasonably possible of the trade or business as is hereinbefore in sub-paragraph (10) of this clause provided for, shall not be deemed to be a breach of this covenant.

(12) Not to exhibit on the outer wall or roof of the demised premises or of any building or structure thereon any sign signboard or hanging sign fascia advertisement placard or lettering except such as may previously have been approved in writing by the Lessor such approval not to be unreasonably withheld.

(13)

a) To take such measures as may be necessary to ensure that any effluent discharged into the drains or sewers which belong to or are used for the demised premises in common with other premises will not be corrosive or in any way harmful to the said drains or sewers or cause any obstruction or deposit therein and to obtain such licenses authorisations and consents as may be required by law for the discharge of such effluents;

b) not to discharge or allow to be discharged any solid matter from the demised premises into the drains or sewers as aforesaid nor to discharge or allow to be discharged therein

any fluid of a poisonous or noxious nature or of a kind calculated to or that does in fact destroy sicken or injure the fish or contaminate or pollute the water of any stream or river and not to do or omit or allow or suffer to be done or omitted any act or thing whereby any land or the waters of any stream or river may be polluted or the composition thereof so changed as to render the Lessor liable to any action or proceedings by any person whomsoever;

c) without prejudice to the generality of the foregoing to discharge only domestic sewage/effluent into the drains and sewers serving the demised premises.

(14) To permit the Lessor and all persons authorised by it and their respective surveyors agents and workmen at all reasonable and convenient times in the daytime to enter on the demised premises or any part thereof for the purpose of repairing, rebuilding, carrying out structural alterations and building works of every description to or on any adjoining buildings or lands as occasion shall require and for the purpose of making repairing maintaining cleansing lighting and keeping in order and good condition all ways roads sewers drains pipes gutters watercourses ditches culverts fences hedges or other conveniences which shall belong to or be used for the demised premises in common with other premises and also for the purpose of laying down maintaining repairing and testing drainage gas and water pipes and electric wires or cables or for other similar purposes the Lessor or such persons as aforesaid making such entry doing as little damage as may be and making good any damage occasioned thereby to the demised premises.

(15) Not to assign underlet or grant any licence in respect of the demised premises or any part thereof nor part with or share the possession hereof or of any part thereof.

(16) To effect and maintain at all times throughout this demise through the agency of Gaelarachas Teoranta, Insurance Brokers, Na Forbacha, Gaillimh provided Gaelarachas' rates are competitive or alternatively through the Agency of a reputable insurance broker:

a) insurance of the demised premises throughout the tenancy in the joint names of the Lessor and the Lessee against loss or damage by fire flood explosion storm tempest and other risks and special perils normally insured under a policy or policies of insurance on property of the same nature as the demised premises in a sum equal to the full reinstatement value thereof from time to time and which reinstatement value shall be determined by the lessor throughout the said term together with architect's and surveyor's fees and two year's rent and to make all payments necessary for the above purposes within seven days after the same shall respectively become due and to produce to the Lessor or its agent on demand the policy or policies of such insurance and the receipt for each such payment and to cause all monies received by virtue of any such insurance (other than monies received in respect of loss of rent) to be forthwith laid out in rebuilding and reinstating the demised premises or any part thereof in respect of which such monies shall have become payable or have been received in accordance with the original plans elevations and details thereof with such variations (if any) as may be agreed by the Lessor or may be necessary having regard to the then existing statutory provisions bye-laws and regulations affecting the same and any necessary planning approval (which it shall be the Lessee's obligation to obtain) and to the satisfaction in all respect of the surveyor for the time being of the Lessor and to make up any deficiency out of its own monies PROVIDED ALWAYS that if the Lessee shall at any time fail to keep the demised premises insured as aforesaid the Lessor may do all things necessary to effect and maintain such insurance and any monies expended by it for that purpose shall be repayable by the Lessee on demand and be recoverable forthwith by action;

b) Public Liability Insurance cover for an amount satisfactory to the Lessor but for not less than IR(pound)1 million;

c) Employers Liability Insurance.

(17) To be responsible for, and to keep the Lessor fully indemnified against all damage, damages, losses, costs, expenses, actions, demands, proceedings, claims and liabilities made against or suffered or incurred by the Lessor arising directly or indirectly out of:

a) any act, or omission, of the Lessee or any persons at the demised premises expressly or impliedly with the Lessee's authority;

b) any breach or non observance by the Lessee of the covenants conditions or other provisions of this Lease.

(18) To make adequate arrangements for the frequent removal from the demised premises of all trade refuse.

(19) Not to cause or permit to be caused any emission from the demised premises of an excessive amount of smoke or fumes or any discharge of any other nature which may in the reasonable opinion of the Lessor cause any risk or hazard or nuisance or annoyance to the Lessor and/or the owners or occupiers of any adjoining premises or which would be contrary to any statutory provision for the time being in force and regulating such emissions or discharges.

(20) To yield up the demised premises with the fixtures (except Lessee's fixtures) and additions thereto at the determination of the said term in good and tenantable repair fair wear and tear accepted in accordance with the Lessee's covenants herein contained.

(21) To pay the Stamp Duty payable in respect of this Lease and the Counterpart thereof and all other charges and taxes for which the Lessee is legally liable including those arising under the provisions of the Value Added Tax Act 1972 and all acts amending or extending the same.

(22) To complete and sign a Bankers Standing Order forthwith on the signing of this Lease.

3. In the event that the Lessor shall have installed or at any time install or cause to installed an Effluent Treatment Plan (or additional or alternative plant) (hereinafter called "the Plant") or provide an Effluent Treatment Service (hereinafter called "the Treatment Service") for the treatment of effluent being discharged from the demised premises or from the demised premises in common with other premises, for the avoidance of doubt, it is hereby acknowledged by the parties that the Plan and Treatment Service are for the treatment of domestic sewage/effluent only and are not for the treatment of trade effluent.

4. The Lessor covenants with the Lessee that the Lessee paying the rents hereinbefore reserved and performing and observing the several covenants conditions and agreements herein contained and on its part to be performed and observed may peaceably hold and enjoy the demised premises during the term hereby granted without any interruption or disturbance from the Lessor or any person or persons lawfully claiming under or in trust for the Lessor PROVIDED ALWAYS and it is hereby agreed and declared that if the rents hereinbefore reserved or any part thereof shall at any time be in arrear and unpaid for twenty one days after the same shall become due (whether legally demanded or not) or if the Lessee shall at any time fail or neglect to perform or observe any of the covenants or agreements herein contained and on the Lessee's part to be performed and observed or if the Lessee for the time being shall become bankrupt or being a company shall enter into liquidation whether compulsory or voluntary (other than for the purpose of reconstruction or amalgamation) or if the Lessee for the time being shall enter into any agreement or composition for the benefit of the

Lessee's creditors or if a Receiver shall be appointed over any or all of the assets of the company or if an Examiner of the Affairs of the Company shall be appointed or if the Lessee shall fail or cease to carry on the business of the manufacture of telecommunications equipment and components and light electronic assemblies or any other manufacturing business for which the prior written consent of the Lessor has been obtained in the demised premises or other such business

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of the Lessor may have approved then and in any such case it shall be lawful for the Lessor or any person or persons duly authorised by the Lessor in that behalf to re-enter into and upon the demised premises or any part thereof in the name of the whole and thereupon this demise shall absolutely determine but without prejudice to any right of action or remedy of the Lessor in respect of any antecedent breach by the Lessee of any of the covenants or agreements herein contained.

5. If at such time as the Lessee has vacated the demised premises after the determination of the term hereby granted either by effluxion of time or otherwise any property of the Lessee remaining in or on the demised premises and which the Lessee shall have failed to remove the same within seven days after being requested in writing by the Lessor so to do then and in such case the Lessor (without being obliged so to do and in any event without prejudice to such other rights as the Lessor may have in that behalf) may as agent of the Lessee (and the Lessor is hereby appointed by the Lessee to act as such agent and in its capacity as such agent to act as the Lessor in its absolute discretion shall think fit) sell such property and shall then hold the proceeds of sales after deducting the costs and expenses of removal storage (including loss of or reduction in rent received by the Lessor on account of such property remaining by way of storage pending sale in the demised premises) and sale reasonably and properly incurred or suffered by it to the order of the Lessee PROVIDED however that if any monies payable by the Lessee to the Lessor under this Agreement shall be unpaid the Lessor may apply such proceeds of sale (after deducting any costs of storage and/or sale reasonably incurred by the Lessor) in or towards the discharge or partial discharge (as the case may be) of such monies PROVIDED FURTHER THAT the Lessee shall indemnify the Lessor against any liability incurred by the Lessor to any third party whose property shall have been sold by the Lessor in the bona fide mistaken belief (which shall be presumed unless the contrary is proved) that such property belonged to the Lessee and was liable to be dealt with as such pursuant to this clause.

6. The Lessee shall have the option of surrendering this Lease on the 30/10/2006, 30/10/2011 or on the 30/10/2016 on giving the Lessor at least six months notice in writing of its intention to vacate the demised premises. In the event of the Lessee serving such a notice the Lessor shall accept vacant possession of the demised premises from the Lessee on the date therein specified whereupon this Lease shall be at an end but without prejudice to the right of the Lessor to proceed on foot of any antecedent breach of covenant.

7. Any notice under this Lease shall be in writing and may be served on the person on whom it is to be served either personally or by leaving it for him at the demised premises or (if the Lessee be a Limited Company) by leaving it at its registered office or in either case by ordinary prepaid post and in the case of notice to be served on the Lessor it may be served in like manner at the Lessor's Head Office at Na Forbacha in the County of Galway.

8. The Lessor hereby consents to the registration of this Lease as a burden on the property comprised in Folio 40947 of the Register County Donegal and to the use of the Land Certificate of such folio for such registration.

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9. It is hereby certified for the purpose of the stamping of this instrument that this is an instrument to which the provisions of Section 112 of the Finance Act 1990 do not apply by reason of the fact that there is an

existing building on the land.

FIRST SCHEDULE

ALL THAT AND THOSE the Lessor's Industrial Estate situate at Gweedore in the County of Donegal which said Industrial Estate is more particularly delineated on the map attached hereto, and surrounded by a green verge line.

SECOND SCHEDULE

1. The revised rent referred to in the within Lease in respect of any of the periods therein mentioned may be agreed at any time between the Lessor and the Lessee or (in the absence of agreement) be determined not earlier than the date of commencement of such period (the "review date") by an independent valuer (being a member of the Irish Auctioneers and Valuer's Institute or of the Society of Chartered Surveyors in the Republic of Ireland or of such body of professional Valuers or Surveyors as shall for the time being have undertaken in Ireland the functions in the activity of property valuation currently performed by said Institute or Society) such independent valuer to be nominated (in the absence of agreement between the parties) upon the application (made not more than two calendar months before or at any time after the review date) of the Lessor (or, if the Lessor fails to make such application, within twenty-eight days of being requested in writing so to do by the Lessee then on the application of the Lessee) by either the President of the Incorporated Law Society of Ireland or the President of the Irish Auctioneers and Valuers Institute or the Chairman of the Society of Chartered Surveyors in the Republic of Ireland at the discretion of the party entitled to make the application

AND

the revised rent so to be determined by the independent valuer shall be such as in his opinion represents at the review date the full open market yearly rent for the demised premises let as a whole without fine or premium:

(1) ON THE BASIS of a letting with vacant possession thereof by a willing Lessor to a willing Lessee for a term (commencing on the review date) equal to the greater of fifteen years or the residue then unexpired of the term granted by the within-written lease and subject to the provisions therein set forth (other than as to the amount of the initial rent thereby reserved but including such of said provisions as pertain to the review of rent).

(2) ON THE ASSUMPTIONS that:

a) at and until the review date all the covenants on the part of the Lessee and the conditions contained in the within lease have been fully performed and observed

b) in the event of the demised premises having been damaged or destroyed and not having been fully repaired reinstated or rebuilt (as the case may be) such damage or destruction had not occurred

AND

(3) HAVING REGARD to other open market rental values current at the review date insofar as the independent valuer may deem same to be pertinent to the determination

(4) BUT DISREGARDING any effect on letting value of:

a) the fact that the Lessee is or has been in occupation of the demised premises or any part thereof

b) the goodwill which shall have attached to the demised premises by reason of the business carried on thereat

c) any works executed by and at the expense of the Lessee in, on,

to or in respect of the demised premises other than required works PROVIDED that in the interpretation of this sub-paragraph (c):

the expression "the Lessee" shall extend to include the Lessee or any predecessor in title of the Lessee or any party lawfully occupying the demised premises or any part thereof under the Lessee

AND

the expression "required works" shall mean works executed by the Lessee in pursuance of an obligation imposed on the Lessee (i) by the within lease or by any lease of which the within is renewal OR (ii) by an agreement for the granting of the within lease or of any lease of which the within is a renewal or by virtue of any licence or deed of variation relating to the demised premises.

(5) AND PROVIDED FURTHER that in no circumstances shall the rent payable hereunder following such review be less than the rent payable by the Lessee immediately prior to the review date.

2. In the event of the President or Chairman or other office endowed with the functions of the President or Chairman of such Society or Institute as shall be relevant for the purposes of paragraph 1 of this Schedule being unable or unwilling to make the nomination therein mentioned the same may be made by the next senior officer of that Society or Institute who shall be so able and willing.

3. An independent valuer in relation to any matter so to be determined by him shall:

(1) give notice of his nomination to the Lessor and the Lessee;

(2) be entitled to enter the demised premises as often as he may reasonably require for the purpose of inspection and examination;

(3) afford to each of the parties concerned a reasonable opportunity of stating (whether in writing or otherwise as may be decided by him and within such time as he may stipulate in that behalf) reasons in support of such contentions as each party may wish to make relative to the matter or matters under consideration;

(4) act as an expert and not as an arbitrator and so that his determination or determinations shall be final and conclusive between the parties;

(5) be entitled to seek and pay for advice on any matter which he reasonably considers pertinent to the reference or to his determination thereof;

(6) be empowered to fix his reasonable fees in relation to any such reference and determination and matters incidental thereto which said fees and any reasonable expenses incurred by the independent valuer in or about the said reference and determination shall be shared equally between the Lessor and the Lessee;

(7) give notice in writing on his determination to the Lessor and the Lessee within such time as may be stipulated by the terms of his appointment or in the event of there being no such stipulation within six calendar months of the acceptance by him of the nomination to act in the matter PROVIDED ALWAYS that the independent valuer may defer the giving of such notice until such time as his fees and expenses as aforesaid shall have been discharged.

4. Either party shall be at liberty to pay the entire of the fees and expenses as aforesaid of the independent valuer in which event the party so paying shall be entitled to be reimbursed by and to recover from the other on demand any proportion so paid on behalf of such other.

5. If an independent valuer in relation to any matter for determination by him shall fail to conclude such determination and give notice thereof within such time as may be relevant or if he shall relinquish his appointment or die or if it shall become apparent that for any reason he shall be unable or shall have become unfit or unsuited (whether because of bias or otherwise) to complete the duties of his nomination a substitute may be nominated in his place and in relation to any such nomination the procedures hereinbefore set forth shall be deemed to apply as though the substitution were a nomination de novo which said procedures may be repeated as many times as may be necessary.

6. If the revised rent in respect of any period ("the current period") shall have been ascertained on or before the review date referable thereto rent shall continue to be payable up to the gale day next succeeding the ascertainment of the revised rent at the rate payable during the preceding period AND on such gale day the Lessee shall pay to the Lessor the appropriate installment of the revised rent together with any shortfall between (i) the aggregate of rents (including such instalment if payable in arrear) actually paid for any part of the current period and (ii) rent at the rate of the revised rent attributable to the interval between the review date and such gale day and together also

with interest on said shortfall such interest to be computed on a day to day basis and to be assessed at such a rate as shall be equivalent to the yield (at issue and before deduction of tax if any) on the security of the Government last issued before the commencement of the current period (allowance having been made in the calculation of the said yield for any profit or loss which may occur on the redemption of the security). For the purposes of this paragraph the revised rent shall be deemed to have been ascertained on the date when the same shall have been agreed between the parties or as the case may be on the date of the notification to the Lessee of the determination of the independent valuer.

7. If there should be in force at the commencement or during the currency of any particular relevant period any Statute or Order (directly or indirectly) prohibiting or restricting an increase of rent in respect of the demised premises the provision of this schedule and of the within lease may nevertheless be invoked or reinvoked to determine the rent which would but for the said prohibition or restriction be payable during such relevant period but (if appropriate) the further implementation thereof shall be suspended in effect for such period as may be required by law.

8. When and so often as the revised rent shall have been ascertained pursuant to the provisions herein set forth memoranda recording the same shall thereupon be signed by or on behalf of the Lessor and the Lessee and shall be annexed to the within lease and its counterpart and the parties shall bear their own costs in relation to the preparation and completion of such memoranda.

IN WITNESS whereof the parties hereto have caused their respective seals to be affixed hereto the day and year first herein written.

[SEAL APPEARS HERE.]

PRESENT when the seal of
UDARAS NA GAELTACHTA
was affixed hereto:

/s/ signature appears here CATHAOIRLEACH

/s/ signature appears here RUNAI

PRESENT when the seal of
QUALTRON TEORANTA
was affixed hereto:

/s/ Patrick Dunne DIRECTOR

/s/ Cillian Feiritear DIRECTOR/SECRETARY

[SITE MAP APPEARS HERE.]

[FLOOR PLAN APPEARS HERE.]

[LEGEND APPEARS HERE.]

Dated the day of 2000

UDARAS NA GAELTACHTA

First part

QUALTRON TEORANTA

Second part

L E A S E

Udaras na Gaeltachta,
Na Forbacha,
Gaillimh

Tag: DB/2704

Exhibit 10.2

FIRST AMENDMENT TO REAL ESTATE SALE AGREEMENT

This First Amendment to Real Estate Sale Agreement ("First Amendment") is made and entered into effective as of the 31st day of July, 2001, by and between Flextronics International USA, Inc., a California corporation ("Seller"), and SMTC Manufacturing Corporation of Texas, a Texas corporation ("Purchaser"), in light of the following recitals, to wit:

R E C I T A L S:

Seller and Purchaser heretofore entered into that certain Real Estate Sale Agreement (the "Contract") dated February 23, 2001, providing for sale by Seller and purchase by Purchaser of the land (together with all improvements situated thereon) described as follows:

> Lots 1, 2 and 3, of ROLM BUSINESS PARK, a subdivision of Travis County, Texas, according to the map or plat recorded in Volume 89, Pages 263-265, of the Plat Records of Travis County, Texas.

Seller and Purchaser now desire to amend the Contract in certain respects. All defined terms used in this First Amendment shall have the same meaning ascribed in the Contract unless otherwise set forth herein.

NOW, THEREFORE, for and in consideration of the premises and of the mutual agreements set forth herein, Seller and Purchaser hereby agree as follows:

1. Closing Date. The Closing Date of the transaction contemplated by the Contract (as defined in Section 4.1 of the Contract) is hereby extended to a date not later than August 31, 2001. The closing of the sale and purchase of the Project as provided in the Contract shall be consummated at a Closing to be held at the office of the Title Company on August 31, 2001, or on such earlier date specified by Purchaser to Seller in writing on not less than five (5) business days advance notice to Seller.

2. Earnest Money. By execution of this First Amendment, Seller acknowledges that Title Company holds Five Hundred Thousand and No/100's Dollars ($500,000.00) as Earnest Money.

Seller and Purchaser ratify and confirm the Contract as amended by this First Amendment.

Executed on the dates indicated below to be effective as of the date first written above.

Flextronics International USA, Inc.,
a California corporation

By: /s/Mike Carney

Name: Mike Carney
Title: General Manager

Date: 7/31/01

SMTC Manufacturing Corporation of Texas,
a Texas corporation

By: /s/Richard N. Winter

Richard N. Winter
Director of Finance

Date: 7/31/01

Exhibit 10.3

FIRST AMENDMENT TO LEASE

This First Amendment to Lease ("First Amendment") is made and entered into effective as of the 31st day of July, 2001, by and between Flextronics International USA, Inc., a California corporation ("Landlord"), and SMTC Manufacturing Corporation of Texas, a Texas corporation ("Tenant"), in light of the following recitals, to wit:

R E C I T A L S:

Landlord and Tenant heretofore entered into that certain Lease dated February 23, 2001, covering premises hereinafter described (including the improvements situated thereon);

> Lots 1, 2 and 3, of ROLM BUSINESS PARK, a subdivision of Travis County, Texas, according to the map or plat recorded in Volume 89, Pages 263-265, of the Plat Records of Travis County, Texas.

Landlord and Tenant now desire to amend the Lease in certain respects. All defined terms used in this First Amendment shall have the same meaning ascribed in the Lease unless otherwise set forth herein.

NOW, THEREFORE, for and in consideration of the premises and of the mutual agreements set forth herein, Landlord and Tenant hereby agree as follows:

1. The Termination Date (as defined in the Lease) is hereby extended to August 31, 2001.

2. During the period from August 1, 2001, through the Termination Date, as extended, Tenant shall pay rent to Landlord in an amount equal to $130,000.00 per month during the extension period, which shall be prorated on a daily basis in the event that the Termination Date does not occur on the last day of the month.

Landlord and Tenant ratify and confirm the Lease as amended by this First Amendment.

Executed on the dates indicated below to be effective as of the date first written above.

Flextronics International USA, Inc.,
a California corporation

By: /s/Mike Carney

Name: Mike Carney
Title: General Manager

Date: 7/31/01

SMTC Manufacturing Corporation of Texas,
a Texas corporation

By: /s/Richard N. Winter

Richard N. Winter
Director of Finance

Date: 7/31/01