FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the fiscal year ended December 31, 2002

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

For the transition period from to

Commission File Number 0-31051

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

Delaware
(State or other jurisdiction of incorporation or organization)

635 Hood Road, Markham, Ontario, Canada
(Address of Principal Executive Offices)

98-0197680
(IRS Employer Identification Number)

L3R 4N6
(Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
Common stock, par value $.01 per share.
(Title of Class)

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

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

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

The aggregate market value of common stock of the registrant held by non-affiliates of the registrant was approximately $31,000,000, on June 28, 2002, including the value of exchangeable shares of the registrant's subsidiary, SMTC Manufacturing Corporation of Canada, exchangeable for common stock of the registrant. For purposes of the foregoing sentence, the term "affiliate" includes each director and executive officer of the registrant and each holder of more than 10% of the registrant's common stock. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The computation of the aggregate market value is based upon the closing prices of the common stock and the exchangeable shares as reported on The Nasdaq National Market and The Toronto Stock Exchange, respectively, on June 28, 2002, the last business day of the registrant's most recently completed second fiscal quarter.

As of March 17, 2003, SMTC Corporation had 23,196,543 shares of common stock, par value $0.01 per share, and one share of special voting stock, par value $0.01 per share, outstanding. As of March 17, 2003, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 5,493,236 exchangeable shares outstanding, excluding exchangeable shares owned by SMTC Nova Scotia Company, each of which is exchangeable into one share of common stock of SMTC Corporation.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the registrant's 2003 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A are incorporated by reference in Part III of this Report.

PART I

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements as defined under the federal securities laws. Actual results could vary materially. Factors that could cause actual results to vary materially are described herein and in other documents. Readers should pay particular attention to the considerations described in the section of this report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors that May Affect Future Results.” Readers should also carefully review any risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

Item 1: Business

BUSINESS

Overview

SMTC Corporation (“We” or “SMTC” or the “Company”) provides advanced electronics manufacturing services, or EMS, to electronics industry original equipment manufacturers, or OEMs, primarily in the networking, industrial and communications market segments. We currently service our customers through eight manufacturing and technology centers strategically located in key technology corridors in the United States, Canada and the cost-effective location of Mexico. Our full range of value-added supply chain services include product design, procurement, prototyping, 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.

We have customer relationships with industry leading OEMs such as IBM and Alcatel. We developed these relationships by capitalizing on the continuing trend of OEMs to outsource manufacturing services to consolidate their supply base and to form long-term strategic partnerships with selected high quality EMS providers. We work closely with our customers and are highly responsive to them throughout the design, manufacturing and distribution process, providing services that allow them to focus on their core competencies of sales, marketing and research and development. We seek to grow our business through the addition of new, high quality customers and the expansion of our relationships with existing customers.

We believe that our key competitive advantages include our commodity management capabilities, leading edge equipment and processes that are consistent from site to site, customer focused team-based approach, global supply chain management capabilities and web-based systems that electronically link us with our customers and suppliers in real time, enhancing our supply chain management capabilities.

During fiscal year 2001, in response to excess capacity caused by the slowing technology end market, we commenced a restructuring program aimed at reducing our cost structure. Actions taken by management to improve capacity utilization included closing our Denver, Colorado assembly facility and our Haverhill, Massachusetts interconnect facility, re-sizing our Mexico and Ireland facilities and addressing our excess equipment.

In response to the continuing industry economic downturn in 2002, the Company took further steps to realign its cost structure and plant capacity. In February, 2002 the main customer of our Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, we announced that we were closing our Cork, Ireland facility and that we were taking steps to place the subsidiary that operated that facility in voluntary administration.

We have also determined to close our interconnect facility in Donegal, Ireland, primarily due to decreased revenues generated by that facility as a result of customer losses and reduced volume with existing customers. We expect to cease manufacturing at our Donegal site during the second quarter of 2003. Additionally, we have concluded that operations at our Austin, Texas location have become too expensive to justify continued operation. We expect to cease manufacturing at our Austin site by the end of the first quarter of 2003. Following the closure of our Donegal, Ireland facility and our Austin, Texas facility, we will service our customers through six manufacturing and technology centers in the United States, Canada and Mexico.

In 2002, we recorded restructuring charges of $37.4 million related to the costs associated with exiting or re-sizing facilities and other charges of $2.1 million related to inventory charges resulting from the disengagement of Dell, coupled with the effects of the continued downturn in the technology sector. The major components of our restructuring plan are estimated to be complete by the end of fiscal 2003.

Industry Background

The EMS industry provides manufacturing services to OEMs in the electronics marketplace. During 2002, the EMS industry was adversely affected by the reduced demand for electronics products. We believe the EMS market will return to growth over time, fueled by the increased outsourcing of manufacturing by OEMs, by OEMs’ need for increasing flexibility to respond to rapidly changing markets, technologies and accelerating product life cycles and the divestiture of OEM manufacturing assets to EMS businesses. We believe that OEMs decide to outsource manufacturing in order to take advantage of the technology and manufacturing expertise of EMS companies, eliminate manufacturing overhead, reduce time-to-market of products, improve supply chain efficiency, and access worldwide manufacturing capabilities.

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

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

- *Reducing Time-to-Market.* Electronics products are experiencing increasingly shorter product life cycles, requiring OEMs to continually reduce the time required to bring new products to market. OEMs can significantly improve product development cycles and enhance time-to-market by benefiting from the expertise and infrastructure of EMS providers. This expertise includes capabilities relating to design, quick-turn prototype development and rapid ramp-up of new products to high volume production, with the critical support of worldwide supply chain management.
- *Improving Supply Chain Management.* OEMs who manufacture internally are faced with greater complexities in planning, procurement and inventory management due to frequent design changes, short product life cycles and product demand fluctuations. OEMs can address these complexities by outsourcing to EMS providers which possess sophisticated supply chain management capabilities and can leverage significant component procurement advantages to lower product costs.

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

The SMTC Customer Solution

SMTC has developed and implemented unique operating models and management systems to offer greater efficiency, flexibility and cost effectiveness. The goal of these systems is to provide a higher level of employee and team accountability and an enhanced ability to exceed customers' expectations. Our customers benefit from the following components of the SMTC solution:

Commodity Management. The Commodity Management Group provides customers with product life cycle analysis identifying high risk components due to obsolescence or technology upgrades and provides recommendations to maintain a continuous production flow.

Copy Exact Model. All of SMTC's sites operate under the same model with identical systems, processes and equipment. This enables customers to seamlessly transfer their production to alternative sites to reduce costs and meet shifts in demand.

Team Oriented Production System. Our customer focused model defines each customer as a separate business unit with dedicated equipment, a dedicated materials and program management team, quality personnel and focused business systems. This approach enables teams to be tailored to specific customer requirements, allowing the smallest and largest customers to receive the same level of focus and breadth of service.

eBusiness. SMTC has implemented web-based systems through which it can communicate, collaborate and plan throughout the entire supply chain in real-time with its customers and suppliers. These systems accelerate the timeliness and effectiveness of decision making and efficiently reach SMTC's geographically dispersed facilities.

Supply Chain Management. SMTC works with its customers to set up customized inventory, logistics and distribution services to ensure that any unique delivery requirements are met. These systems focus on minimizing the risk of inventory shortfalls or excesses and improve overall cost effectiveness.

The SMTC Strategy

Our objective is to provide OEM customers worldwide a complete EMS solution which offers the advantages of electronics outsourcing, such as access to advanced manufacturing technologies, reduced costs and faster time-to-market. We intend to achieve this objective by pursuing the following business strategies:

Leverage our Global Presence in Strategic Markets. We have established facilities in several regions of the world. Each assembly facility we operate is held to the same high standards of excellence and uses a similar plant layout. This allows us to continue to enjoy the benefits of fully integrated factories and allows our customers to have choices in manufacturing locations to best suit their needs. Since 1995, we have expanded from our first facility located in Toronto, Ontario to numerous facilities located in the United States, Canada and Mexico.

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

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

Our Services

Our full range of value-added supply chain services include product design, procurement, prototyping, 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. More specifically, our services include:

Product Development. We provide services across the entire product life cycle including product design, prototyping, qualification testing, value and sustaining engineering.

Product Assembly. We provide advanced product assembly and test services combined with leading edge manufacturing equipment and processes. Our flexible environment can support low to high volume production and a wide range of product mix and complexity requirements.

Interconnect. We are experienced in the design, development and manufacture of interconnect assemblies such as optical and electrical cable and harness assemblies.

Enclosures. We offer customers sheet metal fabrication services used in the assembly of a full range of electronic enclosures.

System Integration. We offer a broad range of full system build capabilities to support our end-to-end solutions. The system integration process is designed to meet all customer requirements and deliver a final product directly to the end user.

Our Customers

We target OEMs primarily in the networking, industrial and communications sectors. 2002 revenue from customers was allocated by industry as follows: 51.6% from networking, 25.8% from industrial and 22.6% from communications.

We have customer relationships with industry leading OEMs such as IBM and Alcatel. The electronic products we assemble and manufacture can be found in a wide array of end-products including:

- High-end storage devices
- Mid-range servers
- High-end computing components
- Linux servers
- Redundant backup systems
- Point of sale terminals
- Power supplies
- Semiconductor test equipment
- Industrial controls
- Currency recognition systems
- DSL equipment
- Switches
- Wireless handheld devices
- Voice-over IP gear
- Voice messaging equipment

Marketing and Sales

We market our services through a focused strategy that emphasizes our team based approach to servicing our customers. In addition to developing relationships with established industry leading OEMs, we also target selected emerging companies. We target prospective customers in the networking, industrial and communications markets. We are focused on building relationships with customers that require a volume of production that complements our customer-focused team-based approach and supply chain offerings. In all cases, our goal is to allocate our program management, engineering and manufacturing resources, business systems and assets on a customer-by-customer basis, enabling each of our customers to have a dedicated environment that operates as a virtual extension of its business.

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

Supply Chain Management

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

We believe that in order to continue to offer our customers leading services, we and our customers and suppliers must create virtual enterprises, sharing information and making joint decisions to ensure a fast and cost-effective response to the market. Through a web-based user interface, our customers and suppliers have direct access to our supply chain management database. Customers are able to monitor the availability and supply of component parts in real time. Communication is streamlined throughout the supply chain, allowing our customers to receive timely feedback from us and allowing us to receive real time input from our suppliers. WebPLAN and Lotus Notes are the foundation for our e-business solution.

Technology, Processes and Development

We use advanced technology in the assembly and testing of the products we manufacture. We believe that our processes and skills are among the most sophisticated in the industry. Surface mount technology is the principal technology for the assembly of printed circuit boards. Our customer-focused factories include predominantly surface mount technology lines, which are highly flexible and are continually reconfigured to meet customer-specific product requirements. We also work with a wide range of substrate types from thin flexible printed circuit boards to highly complex, dense multilayer boards. In addition, our assembly capabilities are complemented by advanced test capabilities. We believe that our inspection technology is among the most sophisticated in the EMS industry. In addition to expertise in surface mount assembly, we have extensive capabilities in box and system build, customer order fulfillment, design, enclosure and cable/interconnect manufacturing.

Our Suppliers

With the implementation of our web-based collaborative planning systems, our customers' needs are integrated with our suppliers in a more efficient and cost effective manner than is achievable through traditional electronic data interchange. In 2002 we purchased approximately $400 million in materials. We believe this volume of procurement enhances our ability to obtain better pricing, influence component packaging and design and obtain supply of components in constrained markets.

We generally order materials and components under our agreements with customers only to the extent necessary to satisfy existing customer orders or forecasts. We have implemented specific inventory management strategies with certain suppliers such as supplier owned inventory and other SMTC supply chain velocity and flexibility programs. Fluctuations in material costs 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 recently have forged a relationship with Alco Electronics, a Hong Kong based ODM (Original Design Manufacturing) and EMS provider. (See "Recent Developments").

During 2002, no supplier represented more than 10.0% of our total purchases.

Competition

The EMS industry is highly fragmented and comprised of a large number of domestic and foreign companies, several of which have achieved substantial market share. The intense competition we face is provided by many independent companies as well as in-house manufacturing capabilities of current and potential customers who evaluate our capabilities against the merit of manufacturing products internally. We compete with different companies depending on the type of service or geographic area. Our competitors include Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., Sanmina-SCI, Inc., Solectron Corporation, Benchmark and Plexus, as well as numerous other smaller EMS providers. Certain of our competitors may have greater manufacturing, financial, research and development and marketing resources than we do. We believe that the principal competitive factors in our segments of the EMS industry are product quality, flexibility and timeliness in responding to design and schedule changes, reliability in meeting product delivery schedules, pricing, technological sophistication, the provision of value-added services and geographic locations. Failure to satisfy any of the foregoing requirements could seriously harm our business.

Governmental Regulation

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

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

Recent Developments

In February 2003, we entered into an agreement with Alco Electronics, a Hong Kong based ODM (Original Design Manufacturing) and EMS provider, whereby Alco has agreed to supply EMS and ODM services to SMTC and its customers on an as-required basis. Alco will produce product for SMTC from its Chang An campus in the Dongguan region of China and also will supply plastics, cables and custom metal products to SMTC and its customers.

We have determined to close our interconnect facility in Donegal, Ireland, primarily due to decreased revenues generated by that facility as a result of customer losses and reduced volume with existing customers. We expect to cease manufacturing at our Donegal site during the second quarter of 2003.

Additionally, we have concluded that operations at our Austin, Texas location have become too expensive to justify continued operation. We expect to cease manufacturing at our Austin site by the end of the first quarter of 2003.

Employees

As of December 31, 2002, we employed approximately 1,600 full time employees worldwide. In addition, we employ varying levels of temporary employees as our production demands. Given the variable nature of our project flow and the quick response time required by our customers, it is critical that we be able to quickly ramp-up and ramp-down our production to maximize efficiency. To achieve this, our strategy has been to employ a skilled temporary labor force, as required. We use outside contractors to qualify our temporary employees on a site-by-site basis. Our production level temporary employees are compensated by the hour. We believe we are team-oriented, dynamic and results-oriented with an emphasis on customer service and quality at all levels. We believe this environment is a critical factor for us to be able to fully utilize the intellectual capital of our employees. From time to time we relocate our management level employees as needed to fill open positions at our sites. Because of our training programs, we have not experienced difficulty in adequately staffing skilled employees.

As of December 31, 2002, our only unionized employees were at our Mexico facility (371 employees) and our Donegal, Ireland facility (32 employees). In March 2002, we terminated all of the 154 unionized employees in Cork, Ireland. We have never experienced a work stoppage or strike and believe that our employee relations are good.

Our Structure and Our History

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

SMTC Corporation (Delaware)
HTM Holdings, Inc. (Delaware)
Qualtron, Inc. (Massachusetts)
SMTC de Chihuahua S.A. de C.V. (Mexico)
SMTC Ireland Company (Ireland)
SMTC Manufacturing Corporation of California (California)
SMTC Manufacturing Corporation of Canada (Ontario, Canada)
STMC Manufacturing Corporation of Colorado (Delaware)
SMTC Manufacturing Corporation of Ireland Limited (Ireland)
SMTC Manufacturing Corporation of Massachusetts (Massachusetts)
SMTC Manufacturing Corporation of North Carolina (North Carolina)
SMTC Manufacturing Corporation of Texas (Texas)
SMTC Manufacturing Corporation of Wisconsin (Wisconsin)
SMTC Mex Holdings, Inc. (Delaware)
SMTC Nova Scotia Company (Nova Scotia, Canada)
SMTC R&D Teoranta (Ireland)
SMTC Teoranta (Ireland)

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

Since the combination, we acquired Zenith's facility in Chihuahua, Mexico, a transaction which expanded our cost-effective manufacturing capabilities in an important geographic region. In September 1999, we acquired the Boston, Massachusetts based systems integration and precision enclosures business of W.F. Wood, which expanded our operations into the Northeastern United States. In July 2000, we acquired Appleton, Wisconsin based Pensar Corporation, which provided us with an enhanced design engineering and test capability, additional partnerships with leading technology suppliers, a diversification of our customer base and an expanded geographic presence in the Midwestern United States. In November 2000, we acquired Haverhill, Massachusetts based Qualtron, Inc. in connection with the acquisition of its parent company, Qualtron Teoranta, by SMTC Canada. In June 2001, in response to the slowing technology end market, we closed our Denver facility. In September 2001, we closed our Haverhill facility. And in March 2002, we announced that we were closing our Cork, Ireland facility. As a result, we have placed the subsidiary that operated that facility, SMTC Manufacturing Corporation of Ireland Limited, in voluntary administration. We have also determined to close our interconnect facility in Donegal, Ireland, primarily due to decreased revenues generated by that facility as a result of customer losses and reduced volume with existing customers. We expect to cease manufacturing at our Donegal site during the second quarter of 2003. Additionally, we have concluded that operations at our Austin, Texas location have become too expensive to justify continued operation. We expect to cease manufacturing at our Austin site by the end of the first quarter of 2003.

Backlog

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

Item 2: Properties

Facilities

We conduct our operations within approximately 737,500 square feet of building space. We believe our facilities are currently adequate for our operating needs. Our principal service at all locations is assembly of electronic components, with the exception of the Boston facility where we manufacture precision enclosures. Our operating facilities are as follows:

Location	Approx. Square Footage	Leased/Owned
Toronto, Ontario	100,000	Leased
San Jose, California	37,500	Leased
Boston, Massachusetts	150,000	Leased
Charlotte, North Carolina	125,000	Leased
Appleton, Wisconsin	75,000	Owned
Chihuahua, Mexico	250,000	Owned

SMTC subsidiaries continue to have the following facilities under lease as of March 17, 2003, but have exited, or are in the process of exiting, operations and are seeking to exit the leases:

Location	Approx. Square Footage	Leased/Owned
Austin, Texas	75,000	Leased
Donegal, Ireland	50,000	Leased

In June 2001, we closed our assembly facility in Denver, Colorado, and in September 2001, we closed our interconnect facility in Haverhill, Massachusetts. In March 2002, we announced that were closing our facility in Cork, Ireland. We have also determined to close our interconnect facility in Donegal, Ireland, primarily due to decreased revenues generated by that facility as a result of customer losses and reduced volume with existing customers. We expect to cease manufacturing at our Donegal site during the second quarter of 2003. Additionally, we have concluded that operations at our Austin, Texas location have become too expensive to justify continued operation. We expect to cease manufacturing at our Austin site by the end of the first quarter of 2003. Following the closure of our Donegal, Ireland facility and our Austin, Texas facility, we will service our customers through six manufacturing and technology centers in the United States, Canada and Mexico.

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

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

Item 3: Legal Proceedings

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

SMTC Manufacturing Corporation of Ireland Limited is currently in voluntary liquidation (since April 8, 2002) until the liquidator has finished collecting all of its assets and distributing them to the creditors, after which the company will be dissolved.

Item 4: Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5: Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common stock began trading on The Nasdaq National Market under the symbol SMTX on July 21, 2000. The following table sets forth, for the periods indicated, the high and low per share sales prices for the common stock as reported on Nasdaq. On March 17, 2003, the Company's common stock closed at $1.08 per share and had a high price of $1.08 and a low price of $1.05 on that date.

	2001	
	High	Low
First Quarter	$ 17.38	$ 2.94
Second Quarter	5.20	1.50
Third Quarter	3.11	1.00
Fourth Quarter	1.95	0.53

	2002	
	High	Low
First Quarter	$2.86	$ 1.10
Second Quarter	2.78	1.15
Third Quarter	1.80	0.75
Fourth Quarter	1.00	0.49

As of March 17, 2003, there were approximately 85 holders of record of the Company's common stock.

The Company's capital stock consists of 60,000,000 authorized shares of common stock, par value $.01 per share, of which, as of March 17, 2003, 23,196,543 shares were issued and outstanding; and 5,000,000 authorized shares of preferred stock, par value $.01 per share, of which, as of March 17, 2003, one share was issued and outstanding.

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

Item 6: Selected Financial Data

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

Selected Financial Data

The selected financial data includes the following:

- The results of operations, adjusted net earnings and other financial data for 1998 represent the results of operations, adjusted net earnings and financial data for HTM. For accounting purposes, HTM is considered to have acquired Surface Mount in the July 1999 combination.
- The results of operations, adjusted net earnings and other financial data for 1999 include a full year of results of HTM, as well as the results for Surface Mount from July 30, 1999 through to December 31, 1999 and results for W.F. Wood from September 4, 1999 through to December 31, 1999.
- The results of operations, adjusted net earnings and other financial data for 2000 include a full year of results for HTM, Surface Mount and W.F. Wood as well as the results for Pensar from July 27, 2000 through to December 31, 2000 and the results for Qualtron from November 22, 2000 through to December 31, 2000.
- The results of operations, adjusted net earnings and other financial data for 2001 and 2002 include a full year of results for HTM, Surface Mount, W.F. Wood, Pensar and Qualtron.

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

Our consolidated financial statements and our selected consolidated financial data have been prepared in accordance with United States GAAP. These principles conform in all material respects to Canadian GAAP except as described in Note 19 to our consolidated financial statements. In 2001 the amortization and the write-down of goodwill related to the Qualtron Teoranta acquisition are $0.2 million and $2.2 million lower, respectively, under Canadian GAAP. Under United States GAAP, the shares issued as consideration in the Qualtron Teoranta acquisition were valued using the share price at the announcement date of the acquisition and under Canadian GAAP, the shares were valued on the consummation date. In 2002, the transitional goodwill impairment charge of $55.6 million is recognized in opening retained earnings under Canadian GAAP. Under United States GAAP, the cumulative adjustment is recognized in earnings during 2002.

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

	Year Ended				
	December 31, 1998	December 31, 1999	December 31, 2000	December 31, 2001	December 31, 2002
Revenue	$ 89.7	$ 248.5	$ 766.0	$ 599.3	$ 569.5
Cost of sales (includes restructuring charges of $25.4 million and $6.5 million and other charges of $18.4 million and $0.9 million for the years ended December 31, 2001 and 2002, respectively)(a)	82.5	226.8	696.6	625.2	545.4
Gross profit (loss)	7.2	21.7	69.4	(25.9)	24.1
Selling, general and administrative expenses (includes other charges of $8.8 million and $1.0 million for the years ended December 31, 2001 and 2002, respectively)(a)	3.3	12.8	33.6	42.9	25.7
Amortization (includes other charges of $0.2 million for the year ended December 31, 2002)(a)(b)	0.2	2.0	6.2	9.5	2.5
Restructuring charges including the write-down of intangible assets(a)	—	—	—	41.8	30.5
Recapitalization expenses(c)	2.2	—	—	—	—
Operating earnings (loss)	1.5	6.9	29.6	(120.1)	(34.6)
Interest	2.0	7.1	13.8	9.3	8.3
Debt extinguishment cost(d)	—	2.1	4.3	—	—
Earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy(b)	(0.5)	(2.3)	11.5	(129.4)	(42.9)
Income tax expense (recovery)	(0.2)	(0.7)	5.7	(29.0)	(0.7)
Earnings (loss) from continuing operations	(0.3)	(1.6)	5.8	(100.4)	(42.2)
Loss from discontinued operations(e)	—	(0.5)	(2.1)	(4.4)	(10.2)
Cumulative effect of a change in accounting policy(b)	—	—	—	—	(55.6)
Net earnings (loss)	$ (0.3)	$ (2.1)	$ 3.6	$ (104.8)	$ (108.0)
Net earnings (loss) per common share:					
Basic from continuing operations	$ (0.44)	$ (2.38)	$ 0.20	$ (3.51)	$ (1.47)
Loss from discontinued operations per common share(e)	—	(0.30)	(0.16)	(0.15)	(0.36)
Cumulative effect of a change in accounting policy per common share(b)	—	—	—	—	(1.93)
Basic	$ (0.44)	$ (2.68)	$ 0.04	$ (3.66)	$ (3.76)
Diluted	$ (0.44)	$ (2.68)	$ 0.03	$ (3.66)	$ (3.76)
Weighted average number of shares outstanding:					
Basic	2.1	1.6	13.2	28.6	28.7
Diluted	2.1	1.6	13.7	28.6	28.7

(a) During fiscal year 2001, in response to excess capacity caused by the slowing technology end market, the Company commenced a restructuring program aimed at reducing its cost structure. Accordingly, the

Company recorded restructuring charges of $67.2 million consisting of a write-down of goodwill and other intangible assets and the costs associated with exiting or re-sizing facilities, and other charges of $27.2 million related primarily to accounts receivable, inventory and asset impairment charges for the year ended December 31, 2001.

In response to the continuing industry economic downturn during 2002, the Company took further steps to realign its cost structure and plant capacity and recorded restructuring charges of $37.4 million related to the costs associated with exiting or re-sizing facilities, and other charges of $2.1 million related to inventory charges resulting from the disengagement of Dell, coupled with the effects of the continued downturn in the technology sector, for the year ended December 31, 2002. Refer to note 17 to our consolidated financial statements.

(b) During 2002, the Company completed its transitional goodwill impairment test resulting in a goodwill impairment charge of $55.6 million. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 10 years. Effective January 1, 2002, the Company discontinued amortization of all existing goodwill as a result of a new accounting standard issued in 2001. Refer to note 2(p)(i) to our consolidated financial statements. Refer to Note 19 to our consolidated financial statements for a description of differences between United States GAAP and Canadian GAAP.

(c) Leveraged recapitalization expenses of $2.2 million include transaction costs and compensation expense related to our leveraged recapitalization.

(d) Debt extinguishment cost of $2.1 million in 1999 arises from debt prepayment penalties of $0.8 million, the write-off of unamortized debt financing fees of $1.0 million and the write off of the unamortized debt discount of $0.3 million. Debt extinguishment cost of $4.3 million in 2000 arises from debt prepayment penalties of $0.3 million, the write-off of unamortized debt financing fees of $2.9 million and the write off of the value of the warrants issued in excess of the proceeds received of $1.1 million.

(e) In February, 2002 the main customer of the Cork, Ireland facility was placed into administration as part of a financial restructuring. As a result, on March 19, 2002, the Company announced that it was closing the Cork, Ireland facility and that it was taking steps to place the subsidiary that operated that facility in voluntary administration. Refer to note 18 to our consolidated financial statements.

Consolidated Adjusted Net Earnings (Loss):
(in millions, except per share amounts)

	Year Ended				
	December 31, 1998	December 31, 1999	December 31, 2000	December 31, 2001	December 31, 2002
Net earnings (loss)	$ (0.3)	$ (2.1)	$ 3.6	$ (104.8)	$ (108.0)
Adjustments:					
Amortization of goodwill	—	1.5	5.3	8.4	—
Restructuring and other charges	—	—	—	94.4	39.1
Write-down of goodwill	—	—	—	—	55.6
Recapitalization expenses	2.2	—	—	—	—
Management fees	0.1	0.7	—	—	—
Debt extinguisment cost	—	2.1	4.3	—	—
Loss from discontinued operations	—	0.5	2.1	4.4	10.2
Income tax effect	(0.9)	(1.3)	(2.7)	(19.4)	—
Adjusted net earnings (loss)	$ 1.1	$ 1.4	$ 12.6	$ (17.0)	$ (3.1)
Adjusted net earnings (loss) per common share:					
Basic	$ 0.52	$ (0.51)	$ 0.72	$ (0.59)	$ (0.11)
Diluted	$ 0.52	$ (0.51)	$ 0.69	$ (0.59)	$ (0.11)
Weighted average number of shares outstanding:					
Basic	2.1	1.6	13.2	28.6	28.7
Diluted	2.1	1.6	13.7	28.6	28.7

The Company has provided information on adjusted net earnings to supplement its GAAP financial information. Adjusted net earnings do not have any standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures presented by other issuers. The Company believes that adjusted net earnings is a meaningful measure of operating performance due to the history of acquisitions and recent restructurings. Adjusted net earnings exclude the effects of discontinued operations, amortization of goodwill, restructuring and other charges (most significantly the write-down of goodwill, the cost associated with closing facilities, inventory and accounts receivable exposures and severance costs) and income tax adjustments. Adjusted net earnings are not a measure of operating performance or profitability under US GAAP or Canadian GAAP and should not be considered in isolation or as a substitute for net earnings prepared in accordance with US GAAP or Canadian GAAP.

Consolidated Balance Sheet Data and Other Financial Data:
(in millions)

	Year Ended				
	December 31, 1998	December 31, 1999	December 31, 2000	December 31, 2001	December 31, 2002
Cash	$ 0.5	$ 2.1	$ 2.7	$ 12.1	$ 0.4
Working capital (deficiency)	8.1	53.4	188.3	75.3	(8.2)
Total assets	44.2	228.1	547.5	341.4	191.0
Total debt, including current maturities	35.5	134.0	118.0	122.8	82.6
Shareholders’ equity (deficiency)	(10.5)	7.8	228.5	124.7	18.0
Capital expenditures	3.2	4.1	25.7	19.1	2.8
Cash flows from operating activities	(3.8)	(6.6)	(104.9)	28.3	34.8
Cash flows from financing activities	4.3	49.6	159.1	0.2	(44.1)
Cash flows from investing activities	(0.5)	(41.4)	(53.6)	(19.2)	(2.4)

Quarterly Results

The following tables set forth our unaudited historical quarterly results for the eight quarters ended December 31, 2002. This information has been prepared on the same basis as our annual consolidated financial statements and it includes all adjustments necessary for a fair presentation of the financial results of such periods. This information should be read in conjunction with our annual consolidated financial statements for the years ended December 31, 2001 and 2002. The operating results for any previous quarter are not necessarily indicative of results for any future periods.

(in millions, except per share amounts)

	Quarter Ended							
	Apr 1, 2001	**July 1, 2001**	**Sept 30, 2001**	**Dec 31, 2001**	**Mar 31, 2002**	**June 30, 2002**	**Sept 29, 2002**	**Dec 31, 2002**
Revenue	$197.8	$149.9	$125.7	$125.9	$138.9	$161.6	$152.9	$116.1
Gross profit (loss) (a)	2.2	(3.6)	(19.5)	(5.0)	6.8	7.0	1.6	8.7
Earnings (loss) from continuing operations (b)	(18.8)	(13.0)	(32.7)	(35.9)	(2.5)	(1.8)	(13.4)	(24.5)
Net earnings (loss) (b)	(20.0)	(13.9)	(34.2)	(36.7)	(68.3)	(1.8)	(13.4)	(24.5)
Adjusted net earnings (loss)	(1.9)	(4.1)	(6.2)	(4.8)	(2.5)	(1.8)	0.3	0.9
Net earnings (loss) per share from continuing operations (c)	$(0.67)	$(0.45)	$(1.14)	$(1.25)	$(0.09)	$(0.06)	$(0.47)	$(0.85)
Adjusted net earnings (loss) per share—diluted (c)	$(0.07)	$(0.14)	$(0.22)	$(0.17)	$(0.09)	$(0.06)	$ 0.01	$ 0.03
Weighted average number of shares outstanding—diluted	28.4	28.7	28.7	28.7	28.7	28.7	28.7	28.7

(a) Includes restructuring charges of $6.9 million, $9.0 million, $7.2 million and $2.3 million for the quarters ended April 1, 2001, July 1, 2001, September 30, 2001 and December 31, 2001, respectively, and other charges of $12.7 million and $5.7 million for the quarters ended September 30, 2001 and December 31, 2001, respectively. Includes restructuring charges of $6.3 million and $0.2 million for the quarters ended September 29, 2002 and December 31, 2002, respectively, and other charges of $0.9 million for the quarter ended September 29, 2002.

(b) Includes restructuring charges of $22.5 million, $9.0 million, $15.0 million and $20.7 million for the quarters ended April 1, 2001, July 1, 2001, September 30, 2001 and December 31, 2001, respectively, and other charges of $20.8 million and $6.4 million for the quarters ended September 30, 2001 and December 31, 2001, respectively. Includes restructuring charges of $12.8 million and $24.2 million for the quarters ended September 29, 2002 and December 31, 2002, respectively, and other charges of $0.9 million and $1.2 million for the quarters ended September 29, 2002 and December 31, 2002, respectively.

(c) See reconciliation of net earnings (loss) under US GAAP to adjusted net earnings (loss).

Quarterly Consolidated Adjusted Net Earnings (Loss):
(in millions)

	Quarter Ended							
	Apr 1, 2001	**July 1, 2001**	**Sept 30, 2001**	**Dec 31, 2001**	**Mar 31, 2002**	**June 30, 2002**	**Sept 29, 2002**	**Dec 31, 2002**
Net earnings (loss)	(20.0)	(13.9)	(34.2)	(36.7)	(68.3)	(1.8)	(13.4)	(24.5)
Adjustments:								
Amortization of goodwill	2.1	2.1	2.1	2.1	—	—	—	—
Restructuring and other charges	22.5	9.0	35.8	27.1	—	—	13.7	25.4
Write-down of goodwill	—	—	—	—	55.6	—	—	—
Loss from discontinued operations	1.2	0.9	1.5	0.8	10.2	—	—	—
Income tax effect	(7.7)	(2.2)	(11.4)	1.9	—	—	—	—
Adjusted net earnings (loss)	(1.9)	(4.1)	(6.2)	(4.8)	(2.5)	(1.8)	0.3	0.9

The Company has provided information on adjusted net earnings to supplement its GAAP financial information. Adjusted net earnings do not have any standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures presented by other issuers. The Company believes that adjusted net earnings is a meaningful measure of operating performance due to the history of acquisitions and recent restructurings. Adjusted net earnings exclude the effects of discontinued operations, amortization of goodwill, restructuring and other charges (most significantly the write-down of goodwill, the cost associated with closing facilities, inventory and accounts receivable exposures and severance costs) and income tax adjustments. Adjusted net earnings are not a measure of operating performance or profitability under US GAAP or Canadian GAAP and should not be considered in isolation or as a substitute for net earnings prepared in accordance with US GAAP or Canadian GAAP.

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

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

Overview

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

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

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

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

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

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

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

The Company was in compliance with the amended financial covenants at December 31, 2002. Continued compliance with the amended financial covenants through June 30, 2004 is dependent on the Company achieving the forecasts inherent in its current business plan. The Company believes the forecasts are based on reasonable assumptions and are achievable; however, the forecasts are dependent on a number of factors, many of which are outside the control of the Company. These include, but are not limited to, general economic conditions and specifically the strength of the electronics industry and the related demand for the products and services by the Company’s customers. In the event of non-compliance, the Company’s lenders have the ability to demand repayment of the outstanding amounts under the amended credit facility.

Corporate History

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

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

Results of Operations

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

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

The results of operations for the year ended December 31, 2000 include a full year of operating results for HTM, Surface Mount and W.F. Wood as well as the results of Pensar from July 27, 2000 through to December 31, 2000 and the results of Qualtron from November 22, 2000 through to December 31, 2000. The results of operations for the years ended December 31, 2001 and December 31, 2002 include a full year of operating results for HTM, Surface Mount, W.F. Wood, Pensar and Qualtron.

Our fiscal year end is December 31. The consolidated financial statements of SMTC, including the consolidated financial statements of HTM for periods prior to the combination, are prepared in accordance with United States GAAP, which conforms in all material respects to Canadian GAAP, except as disclosed in Note 19 to the consolidated financial statements. In 2001 the amortization and the write-down of goodwill related to the Qualtron Teoranta acquisition are $0.2 million and $2.2 million lower, respectively, under Canadian GAAP. Under United States GAAP, the shares issued as consideration in the Qualtron Teoranta acquisition were valued using the share price at the announcement date of the acquisition and under Canadian GAAP, the shares were valued on the consummation date. In 2002, the transitional goodwill impairment charge of $55.6 million is recognized in opening retained earnings under Canadian GAAP. Under United States GAAP, the cumulative adjustment is recognized in earnings during 2002.

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

	December 31, 2000	December 31, 2001	December 31, 2002
Revenue	100.0%	100.0%	100.0%
Cost of sales (includes restructuring charges of $25.4 million and $6.5 million and other charges of $18.4 million and $0.9 million for the years ended December 31, 2001 and 2002, respectively)	90.9	104.3	95.8
Gross profit (loss)	9.1	(4.3)	4.2
Selling, general and administrative expenses (includes other charges of $8.8 million and $1.0 million for the years ended December 31, 2001 and 2002, respectively)	4.4	7.1	4.5
Amortization (includes other charges of $0.2 million for the year ended December 31, 2002)	0.8	1.6	0.4
Restructuring charges including the write-down of intangible assets	—	7.0	5.4
Operating earnings (loss)	3.9	(20.0)	(6.1)
Interest	1.8	1.6	1.4
Debt extinguishment cost	0.6	—	—
Earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy	1.5	(21.6)	(7.5)
Income tax expense (recovery)	0.7	(4.8)	(0.1)
Earnings (loss) from continuing operations	0.8	(16.8)	(7.4)
Loss from discontinued operations	(0.3)	(0.7)	(1.8)
Cumulative effect of a change in accounting policy	—	—	(9.8)
Net earnings (loss)	0.5%	(17.5)%	(19.0)%

Year ended December 31, 2002 compared to the year ended December 31, 2001

Revenue

Revenue decreased $29.8 million, or 5.0%, from $599.3 million for the year ended December 31, 2001 to $569.5 million for the year ended December 31, 2002. The decrease in revenue is primarily due to the effects of the continued general decline in the technology market. During 2002 we recorded approximately $32.0 million of sales of raw materials inventory to customers, which carried no margin, compared to $31.2 million for the same period in 2001.

Revenue from IBM of $123.0 million, Dell of $87.7 million and Alcatel of $69.6 million for the year ended December 31, 2002 was 21.6%, 15.4% and 12.2%, respectively, of total revenue for the period. Revenue from IBM of $120.6 million, Alcatel of $63.8 million and Dell of $61.9 million for the year ended December 31, 2001 was 20.1%, 10.6% and 10.3%, respectively, of total revenue for the period. No other customers represented more than 10% of revenue in either period.

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

During the year ended December 31, 2002, 61.8% of our revenue was generated from operations in the United States, 24.2% from Mexico, 13.4% from Canada, and 0.6% from Europe. For the year ended December 31, 2001, 71.4% of our revenue was generated from operations in the United States, 17.7% from Mexico, 8.8% from Canada and 2.1% from Europe. We expect to continue to increase the portion of revenue attributable to our Chihuahua facility, with the transfer of certain production from other facilities to that location. We also expect to terminate manufacturing in Europe during the second quarter of 2003. Additionally, we expect to begin having products manufactured for us in China by the end of the second quarter 2003.

Gross Profit

Gross profit increased $50.0 million from a loss of $25.9 million for the year ended December 31, 2001 to gross profit of $24.1 million for the year ended December 31, 2002. Fiscal year 2001 gross profit includes restructuring charges of $25.4 million related to a write-down of inventory in connection with the closure of our Denver facility and $18.4 million of other inventory related charges. Fiscal year 2002 includes restructuring charges of $6.5 million related to related to an additional write-down of inventory in connection with the closure of our Denver facility and other inventory related charges of $0.9 million resulting from the costs associated with the disengagement of Dell, coupled with the effects of the continued downturn in the technology sector.

Gross profit, excluding restructuring and other charges, increased $13.6 million from $17.9 million, or 3.0% of revenue for fiscal year 2001, to $31.5 million, or 5.5% of revenue for fiscal year 2002. The improvement in the gross profit, excluding restructuring and other charges, is due to a reduction in both fixed and variable manufacturing expenses, including fixed operating lease expenses and variable labor costs. The improvement in gross margin, excluding restructuring and other charges, is due to improved utilization of the fixed manufacturing expenses and lower labor costs as a percentage of revenue, due to the continued focus on expense management.

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

Selling, General & Administrative Expenses

Selling, general and administrative expenses decreased $17.2 million from $42.9 million for the year ended December 31, 2001 to $25.7 million for the year ended December 31, 2002. Selling, general and administrative expenses for fiscal year 2001 include $8.8 million related to accounts receivable exposures recorded in response to the decline in the technology markets. Selling, general and administrative expenses for fiscal year 2002 include $1.0 million related to a write-down of certain assets. Excluding the charges noted above, selling general and administrative expenses decreased $9.4 million from $34.1 million, or 5.7% of revenue fiscal year 2001, to $24.7 million, or 4.3% of revenue for fiscal year 2002, due to our continued focus on reducing selling, general and administrative expenses.

The Company determines the allowance for doubtful accounts for estimated credit losses based on the financial condition of its customers, concentration of credit risk and industry conditions.

Amortization

Amortization of intangible assets of $2.5 million for fiscal year 2002 included the amortization of $2.2 million of deferred finance costs related to the establishment of our senior credit facility in July 2000 and subsequent amendments, and $0.3 million of deferred equipment lease costs. The costs associated with our amended and restated senior credit facility are being amortized over the remaining term of the debt.

Amortization of intangible assets of $9.5 million for fiscal 2001 included the amortization of $2.4 million of goodwill related to the combination of Surface Mount and HTM, $1.7 million of goodwill related to the acquisition of W.F. Wood, $2.7 million related to the acquisition of Pensar and $1.6 million related to the acquisition of Qualtron. We were amortizing goodwill of $24.9 million resulting from the combination of Surface Mount and HTM, $17.4 million resulting from the acquisition of W.F. Wood, $26.6 million resulting from the acquisition of Pensar and $18.2 million resulting from the acquisition of Qualtron, on a straight-line basis over a period of ten years. During fiscal year 2001, the Company recorded a write-down of goodwill associated with the acquisition of Qualtron of $16.3 million (see discussion of restructuring charges below). Amortization of intangible assets in 2001 also included the amortization of $0.7 million of deferred finance costs related to the establishment of our senior credit facility in July 2000 and $0.3 million of deferred equipment lease costs and $0.1 million of other deferred costs.

Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 10 years. Effective January 1, 2002, the Company discontinued amortization of all existing goodwill as a result of a new accounting standard issued in 2001. Refer to note 2(p)(i) to our consolidated financial statements. This change in accounting policy to not amortize goodwill has not been applied retroactively and the amounts presented for prior periods have not been restated for this change. The impact of this change, net of tax, would be an increase to net earnings of $4.2 million in 2000 and a reduction to net loss of $6.8 million in 2001.

Restructuring Charges including the Write-down of Intangible Assets

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

(in millions)

	Year ended	
	December 31, 2001	December 31, 2002
Inventory write-downs included in cost of sales	$ 25.4	$ 6.5
Lease and other contract obligations	8.6	18.7
Reversal of previously recorded lease and other contract obligations	—	(0.4)
Severance	3.6	2.9
Asset impairment	5.6	7.7
Write-down of intangible assets	17.8	—
Other facility exit costs	6.2	1.6
	$ 41.8	$ 30.5
	67.2	37.0
Other charges included in cost of sales	18.4	0.9
Other charges included in selling, general and administrative expenses	8.8	1.0
Other charges included in amortization expense	—	0.2
	$ 94.4	$ 39.1

2001 restructuring and other charges:

The write-down of inventory of $25.4 million is associated with the closure of the assembly facility in Denver.

Lease and other contractual obligations of $8.6 million include the costs associated with decommissioning, exiting and attempting to sublease the Denver facility and the costs of exiting equipment and facility leases at various other locations.

Severance costs of $3.6 million are associated with the closure of the Denver assembly facility and the Haverhill interconnect facility and the re-sizing of the Mexican and Irish facilities. The severance costs relate to all 429 employees at the Denver facility, 26 plant and operational employees at the Haverhill facility, 915 plant and operational employees at the Mexico facility and 68 plant and operational employees at the Donegal, Ireland facility.

Asset impairment charges of $5.6 million reflect 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.

The write-down of intangible assets of $17.8 million includes the write-down of goodwill associated with the Qualtron acquisition of $16.3 million and the write-down of other intangible assets of $1.5 million. In accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," accounting guidance required that long-lived assets and certain identifiable intangible assets, including goodwill, held and used by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Due to the downturn in the EMS industry, the significant operating loss incurred in fiscal 2001 and the restructuring and other charges recorded in 2001, the Company reviewed the recoverability of the carrying value of long-lived assets, including allocated goodwill and other intangible assets. An evaluation under SFAS No. 121 indicated that the estimated future net cash flows associated with the long-lived assets acquired as part of the Qualtron acquisition were less than their carrying value and accordingly, a write-down to estimated fair values was recorded for unamortized goodwill associated with the acquisition of Qualtron and certain intangible assets.

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

Other charges included in cost of sales of $18.4 million related to inventory exposures at various facilities. Other charges included in selling, general and administrative expenses include $8.8 million related to accounts receivable exposures at various facilities, other than the Denver and Haverhill facilities.

2002 restructuring and other charges:

The write-down of inventory of $6.5 million represents further costs associated with the closure of the assembly facility in Denver and costs associated with the closure of the interconnect facility in Donegal, Ireland. Lease and other contract obligations of $18.7 million represents the costs associated with decommissioning, exiting and subletting the Austin and Donegal, Ireland facilities and the costs of exiting equipment and facility leases at various other locations. The reversal of previously recorded lease and other contract obligations of $0.4 million represent the excess accrual due to the Company negotiating a final settlement on our Denver facility lease. The severance costs of $2.9 million related to 516 plant and operational employees, largely at our Mexico and Donegal, Ireland facilities. Asset impairment charges of $7.7 million reflect the write-down of certain long-lived assets, primarily at the Austin 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 of $1.6 million include other costs associated with the decommissioning and closure of the Austin and Donegal, Ireland facilities.

The major components of the current restructuring are estimated to be complete by the end of fiscal 2003.

Other charges, included in cost of sales of $0.9 million, relate to inventory charges resulting from the costs associated with the disengagement of Dell, coupled with the effects of the continued downturn in the technology sector. Other charges included in selling general and administration expenses of $1.0 million relate to a write- down of certain assets. Other charges of $0.2 million included in amortization expenses relate to additional amortization recorded to reflect the amendment to the credit facility.

The restructuring charges are based on certain estimates and assumptions using the best available information at the time and are subject to change.

Interest Expense

Interest expense decreased $1.0 million from $9.3 million for the year ended December 31, 2001 to $8.3 million for the year ended December 31, 2002 due to lower average debt outstanding during 2002 combined with lower interest rates. The weighted average interest rates with respect to the debt for the years ended December 31, 2001 and December 31, 2002 were 8.3% and 7.2%, respectively.

Income Tax Expense

For the year ended December 31, 2002, an income tax recovery of $0.7 million was recorded on a pre-tax loss before discontinued operations and the cumulative effect of a change in accounting policy of $42.9 million. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. Based upon consideration of these factors, management believes the recorded valuation allowance related to the loss carryforwards is appropriate. However, in the event that actual results differ from estimates or management adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact its financial position and results of operations.

At December 31, 2002, the Company had total net operating loss carryforwards of approximately $130.0 million, of which $3.0 million will expire in 2009, $3.0 million will expire in 2013, $81.0 million will expire in 2021 and $21.0 million will expire in 2022.

For the year ended December 31, 2001 an income tax recovery of $29.0 million was recorded on a pre-tax loss of $129.4 million resulting in an effective tax recovery rate of 22.4%, as losses in certain jurisdictions were not tax effected due to the uncertainty of our ability to utilize such losses. We also were unable to deduct $4.0 million of goodwill amortization and $17.8 million of goodwill and intangible asset write-downs.

Discontinued Operations

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

The following information relates to the discontinued operations:

(in millions)

	Year ended	
	December 31, 2001	**December 31, 2002**
Revenue	$ 12.8	$ 5.0
Loss from discontinued operations	$ 4.4	$ 10.2

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

In 2001, included in the loss from discontinued operations of $4.4 million are restructuring charges of $0.3 million and other charges of $0.1 million.

Year ended December 31, 2001 compared to the year ended December 31, 2000

Revenue

Revenue decreased $166.7 million, or 21.8%, from $766.0 million for the year ended December 31, 2000 to $599.3 million for the year ended December 31, 2001. The decrease in revenue is due to the effects of the general decline in the technology market. During 2001 we recorded approximately $31.2 million of sales of raw materials inventory to customers, which carried no margin, compared to $58.6 million for the same period in 2000.

Revenue from IBM of $120.6 million, Alcatel of $63.8 million and Dell of $61.9 million for the year ended December 31, 2001 was 20.1%, 10.6% and 10.3%, respectively, of total revenue for the period. Revenue from Dell of $124.0 million and Alcatel of $79.8 million for the year ended December 31, 2000 was 16.2% and 10.4%, respectively, of total revenue for the period. No other customers represented more than 10% of revenue in either period.

For the year ended December 31, 2001, 71.4% of our revenue was generated from operations in the United States, 17.7% from Mexico, 8.8% from Canada and 2.1% from Europe. During the year ended December 31, 2000, 79.8% of our revenue was generated from operations in the United States, 10.0% from Mexico, 10.0% from Canada, and 0.2% from Europe.

Gross Profit

Gross profit decreased $95.3 million from $69.4 million for the year ended December 31, 2000 to a loss of $25.9 million for the year ended December 31, 2001. The decline in the gross profit is due to the $25.4 million portion of our restructuring charge related to a write-down of inventory in connection with the closure of our Denver facility, $18.4 million of other charges related to inventory recorded during 2001 in response to the decline in the technology markets, and the lower sales base and an under-absorption of fixed production overhead costs. The Company writes down estimated obsolete or excess inventory for the difference between the cost of inventory and estimated market value based upon customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers and the ability to sell back inventory to customers or suppliers. If these estimates change, additional write-downs may be required.

Selling, General & Administrative Expenses

Selling, general and administrative expenses increased $9.3 million from $33.6 million for the year ended December 31, 2000 to $42.9 million for the year ended December 31, 2001. Selling, general and administrative expenses for fiscal year 2001 include $8.8 million related to accounts receivable exposures recorded in response to the decline in the technology markets. The Company determines the allowance for doubtful accounts for estimated credit losses based on the financial condition of its customers, concentration of credit risk and industry conditions.

Excluding the 2001 charges of $8.8 million related to related to accounts receivable exposures, selling general and administrative expenses increased $0.5 million from $33.6 million, or 4.4% of revenue, in the year ended December 31, 2000 to $34.1 million, or 5.7% of revenue, for the year ended December 31, 2001.

Amortization

Amortization of intangible assets of $9.5 million for fiscal 2001 included the amortization of $2.4 million of goodwill related to the combination of Surface Mount and HTM, $1.7 million of goodwill related to the acquisition of W.F. Wood, $2.7 million related to the acquisition of Pensar and $1.6 million related to the acquisition of Qualtron. We were amortizing goodwill of $24.9 million resulting from the combination of Surface Mount and HTM, $17.4 million resulting from the acquisition of W.F. Wood, $26.6 million resulting from the acquisition of Pensar and $18.2 million resulting from the acquisition of Qualtron, on a straight-line basis over a period of ten years. During fiscal year 2001, the Company recorded a write-down of goodwill associated with the acquisition of Qualtron of $16.6 million (see discussion of restructuring charges below). Amortization of intangible assets in 2001 also included the amortization of $0.7 million of deferred finance costs related to the establishment of our senior credit facility in July 2000 and $0.3 million of deferred equipment lease costs and $0.1 million of other deferred costs. The costs associated with our amended and restated senior credit facility are being amortized over the remaining term of the debt.

Amortization of intangible assets for fiscal 2000 of $6.2 million included the amortization of $2.4 million of goodwill related to the combination of Surface Mount and HTM, $1.7 million of goodwill related to the acquisition of W.F. Wood, $1.1 million related to the acquisition of Pensar and $0.1 million related to the acquisition of Qualtron. Amortization of intangible assets for the year ended December 31, 2000 also included the amortization of $0.6 million of deferred finance costs related to the establishment of our amended and restated senior credit facility in July 2000 and $0.3 million of deferred equipment lease costs.

Restructuring Charges including the Write-down of Intangible Assets

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

(in millions)

	Year ended December 31, 2001
Inventory write-downs included in cost of sales	$25.4
Lease and other contract obligations	8.6
Reversal of previously recorded lease and other contract obligations	—
Severance	3.6
Asset impairment	5.6
Write-down of intangible assets	17.8
Other facility exit costs	6.2
	$41.8
	67.2
Other charges included in cost of sales	18.4
Other charges included in selling, general and administrative expenses	8.8
Other charges included in amortization expense	—
	$94.4

2001 restructuring and other charges:

The write-down of inventory of $25.4 million is associated with the closure of the assembly facility in Denver.

Lease and other contractual obligations of $8.6 million include the costs associated with decommissioning, exiting and attempting to sublease the Denver facility and the costs of exiting equipment and facility leases at various other locations.

Severance costs of $3.6 million are associated with the closure of the Denver assembly facility and the Haverhill interconnect facility and the re-sizing of the Mexican and Irish facilities. The severance costs relate to all 429 employees at the Denver facility, 26 plant and operational employees at the Haverhill facility, 915 plant and operational employees at the Mexico facility and 68 plant and operational employees at the Donegal, Ireland facility.

Asset impairment charges of $5.6 million reflect 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.

The write-down of intangible assets of $17.8 million includes the write-down of goodwill associated with the Qualtron acquisition of $16.3 million and the write-down of other intangible assets of $1.5 million. In accordance with SFAS No. 121, “Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of,” accounting guidance required that long-lived assets and certain identifiable intangible assets, including goodwill, held and used by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Due to the downturn in the EMS industry, the significant operating loss incurred in fiscal 2001 and the restructuring and other charges recorded in 2001, the Company reviewed the recoverability of the carrying value of long-lived assets, including allocated goodwill and other intangible assets. An evaluation under SFAS No. 121 indicated that the estimated future net cash flows associated with the long-lived assets acquired as part of the Qualtron acquisition were less than their carrying value and accordingly, a write-down to estimated fair values was recorded for unamortized goodwill associated with the acquisition of Qualtron and certain intangible assets.

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

Other charges included in cost of sales of $18.4 million related to inventory exposures at various facilities. Other charges included in selling, general and administrative expenses include $8.8 million related to accounts receivable exposures at various facilities, other than the Denver and Haverhill facilities.

Interest Expense

Interest expense decreased $4.5 million from $13.8 million for the year ended December 31, 2000 to $9.3 million for the year ended December 31, 2001 due to lower average debt outstanding during 2001 combined with lower interest rates. A portion of the proceeds from the initial public offering were used to reduce the debt outstanding in fiscal year 2000, and coupled with lower working capital requirements during fiscal year 2001, this resulted in lower average debt outstanding during fiscal year 2001. The weighted average interest rates with respect to the debt for the years ended December 31, 2000 and December 31, 2001 were 9.9% and 8.3%, respectively.

Debt extinguishment costs

Debt extinguishment cost of $4.3 million in 2000 arose from debt prepayment penalties of $0.3 million, the write-off of unamortized debt financing fees of $2.9 million and the write off of the value of the warrants issued in excess of the proceeds received of $1.1 million. There were no debt extinguishment costs in fiscal year 2001.

Income Tax Expense

For the year ended December 31, 2001 an income tax recovery of $29.0 million was recorded on a pre-tax loss of $129.4 million resulting in an effective tax recovery rate of 22.4%, as losses in certain jurisdictions were not tax effected due to the uncertainty of our ability to utilize such losses. We also were unable to deduct $4.0 million of goodwill amortization and $17.8 million of goodwill and intangible asset write-downs.

For the year ended December 31, 2000, we recorded an income tax expense of $5.8 million on pre-tax income of $11.5 million, which produced an effective tax rate of 49.8% as losses in certain jurisdictions were not tax effected due to the uncertainty of our ability to utilize such losses. We also were unable to deduct $2.5 million of goodwill amortization.

Discontinued Operations

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

The following information relates to the discontinued operations:

(in millions)

	Year ended	
	December 31, 2000	December 31, 2001
Revenue	$ 16.7	$ 12.8
Loss from discontinued operations	$ 2.1	$ 4.4

In 2001, included in the loss from discontinued operations of $4.4 million are restructuring charges of $0.3 million and other charges of $0.1 million.

Liquidity and Capital Resources

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

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

2002 Liquidity: Net cash provided by operating activities for the year ended December 31, 2002 was $34.8 million. Our continued focus on improving our accounts receivable and inventory levels during the year led to the reduced working capital usage. Inventory turns improved to 11 times in the fourth quarter of 2002 from 6 times for the same period in 2001. Accounts receivable days sales outstanding improved to 46 days in the fourth quarter of 2002 from 59 days for the same period in 2001.

Net cash used in financing activities for year ended December 31, 2002 of $44.1 million consists of the repayment of long-term debt of $40.2 million, the repayment of capital leases of $0.2 million and the costs associated with the amendments to our credit agreement of $3.7 million.

Net cash used in investing activities for the year ended December 31, 2002 was $2.4 million due to the net purchase of capital and other assets.

2001 Liquidity: Net cash provided by operating activities for the year ended December 31, 2001 was $28.3 million. Lower levels of activity and our improvements in our accounts receivable and inventory levels during the year led to the reduced working capital usage. Inventory turns improved to six times in the fourth quarter of 2001 from five times for the fourth quarter of 2000. Accounts receivable days sales outstanding improved to 59 days in the fourth quarter of 2001 from 68 days for the fourth quarter of 2000.

Net cash provided by financing activities for year ended December 31, 2001 was $0.2 million due to an increase in long-term debt of $7.0 million and proceeds from the issuance of capital stock on the exercise of options of $0.3 million, both of which were offset by repayment of capital leases of $0.4 million, loans issued to shareholders of $5.2 million and the costs associated with the amendment to our credit agreement of $1.5 million.

Net cash used in investing activities for the year ended December 31, 2001 was $19.2 million due to the net purchase of capital and other assets.

Capital Resources

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

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

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

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

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

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

Continued compliance with the financial covenants is dependent on the Company achieving the forecasts inherent in its business plan. The Company believes the forecasts are based on reasonable assumptions and are achievable, however, the forecasts are dependent on a number of factors, many of which are outside the control of the Company. These include, but are not limited to, general economic conditions and specifically the strength of the electronics industry and the related demand for products and services by the Company's customers.

During the amendment period, the facility bears interest at the U.S. base rate as defined in the credit agreement plus 2.5%. As at December 31, 2002, we had borrowed $82.6 million under this facility.

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

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

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 through the next twelve months, although no assurance can be given in this regard, particularly with respect to amounts available under our credit facility, as discussed above. Further, there can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to enable us to service our indebtedness. Our future operating performance and ability to service or refinance indebtedness will be subject to future economic conditions and to financial, business and other factors, certain of which are beyond our control.

As at December 31, 2002, contractual repayments due within each of the next five years are as follows:

(in millions)

Contractual obligations	2003	2004	2005	2006	2007 and thereafter	Total
Long-term debt	$ 17.5	$ 65.1	$ —	$ —	$ —	$ 82.6
Capital lease obligations	0.3	0.2	—	—	—	0.5
Operating lease obligations	17.6	12.7	4.1	3.8	11.6	49.8
Total contractual cash obligations	$ 35.4	$ 78.0	$ 4.1	$ 3.8	$ 11.6	$ 132.9

Recently Issued Accounting Standards

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

In July 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (“Statement 146”), which nullifies Emerging Issues Task Force (“EITF”) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (“EITF 94-3”). Statement 146 recognizes the liability for an exit or disposal activity only when a liability is incurred and can be measured at fair value. Currently, a commitment to an exit or disposal plan is sufficient to record the majority of the costs. Statement 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company expects the adoption of this standard will not have a material impact on its existing restructuring plans as these plans were initiated under an exit plan that met the criteria of EITF 94-3.

In November 2002, the FASB issued Interpretation No. 45, Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others (“FIN 45”), which requires certain disclosures of obligations under guarantees. The disclosure requirements of FIN 45 are effective for the Company’s year ended December 31, 2002. Effective for 2003, FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees entered into or modified after December 31, 2002, based on the fair value of the guarantee. The Company has adopted the disclosure requirements in its 2002 consolidated financial statements (refer to Note 13 to our consolidated financial statements). The Company has not determined the impact of the measurement requirements of FIN 45.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (“FIN 46”). The consolidation provisions of FIN 46 are effective for all newly created variable interest entities created after January 31, 2003, and are applicable to exiting variable interest entities as of the Company’s third quarter beginning July 1, 2003. The Company does not have an interest in any variable interest entities and, therefore, does not expect FIN 46 to have any impact.

Critical Accounting Policies

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

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

Allowance for Doubtful Accounts

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

Inventory Valuation

Inventories are valued on a first-in, first-out basis at the lower of cost and replacement cost for raw materials and at the lower of cost and net realizable value for work in progress and finished goods. Inventories include an application of relevant overhead. Our industry is characterized by rapid technological change, short-term customer commitments and rapid changes in demand. The Company writes down estimated obsolete or excess inventory for the difference between the cost of inventory and estimated market value based on customer forecasts, shrinkage, the aging and future demand of the inventory, past experience with specific customers and the ability to sell back inventory to customers or suppliers. If actual market conditions or our customers' product demands are less favorable than those projected, additional provisions may be required.

Restructuring and Other Charges

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

Long-lived Assets

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

Income Tax Valuation Allowance

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. Based upon consideration of these factors, management believes the recorded valuation allowance related to the loss carryforwards is appropriate. However, in the event that actual results differ from estimates or management adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact its financial position and results of operations.

FORWARD-LOOKING STATEMENTS

A number of the matters and subject areas discussed in this Form 10-K are forward-looking in nature. The discussion of such matters and subject areas is qualified by the inherent risks and uncertainties surrounding future expectations generally; 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 annual report on Form 10-K regarding SMTC's financial position and business strategy may constitute forward-looking statements. All of these forward-looking statements are based upon estimates and assumptions made by SMTC's management, which although believed to be reasonable, are inherently uncertain. Therefore, undue reliance should not be placed on such estimates and statements. No assurance can be given that any of such estimates or statements will be realized, and it is likely that actual results will differ materially from those contemplated by such forward-looking statements. Factors that may cause such differences include: (1) increased competition; (2) increased costs; (3) the inability to implement our business plan and maintain covenant compliance under our credit agreement; (4) the loss or retirement of key members of management; (5) increases in SMTC's cost of borrowings or lack of availability of additional debt or equity capital on terms considered reasonable by management; (6) adverse state, federal or foreign legislation or regulation or adverse determinations by regulators; (7) changes in general economic conditions in the markets in which SMTC may compete and fluctuations in demand in the electronics industry; (8) the inability to manage inventory levels efficiently in light of changes in market conditions; and (9) the inability to sustain historical margins as the industry develops. SMTC has attempted to identify certain of the factors that it currently believes may cause actual future experiences to differ from SMTC's current expectations regarding the relevant matter or subject area. In addition to the items specifically discussed in the foregoing, SMTC's business and results of operations are subject to the risks and uncertainties described under the heading "Factors That May Affect Future Results" below. The operations and results of SMTC's business may also be subject to the effect of other risks and uncertainties. Such risks and uncertainties include, but are not limited to, items described from time to time in SMTC's reports filed with the Securities and Exchange Commission.

FACTORS THAT MAY AFFECT FUTURE RESULTS

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

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

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

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

Our largest three customers in 2002 were IBM, Dell and Alcatel which represented approximately 21.6%, 15.4% and 12.2%, respectively, of our total revenue in 2002. Our top ten largest customers (including IBM, Dell and Alcatel) collectively represented approximately 78.6% of our total revenue in 2002. During the second quarter of 2002, the Company informed Dell of its intention to terminate its supply agreement with Dell and to end production over the third quarter. The Company's decision was taken after a review of the Company's return on capital requirements indicated that the customer's programs were not generating sufficient returns and, at the same time, were utilizing a disproportionate amount of working capital. Nevertheless, we expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenue. In addition to having a limited number of customers, we manufacture a limited number of products for each of our customers. If we lose any of our largest customers or any product line manufactured for one of our largest customers, we could experience a significant reduction in our revenue. Also, the insolvency of one or more of our largest customers or the inability of one or more of our largest customers to pay for its orders could decrease revenue. As many of our costs and operating expenses are relatively fixed, a reduction in net revenue can decrease our profit margins and adversely affect our business, financial condition and results of operations.

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

The electronics manufacturing services (EMS) industry is highly competitive. We compete against numerous domestic and foreign EMS providers including Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., Sanmina-SCI, Inc., Solectron Corporation, Benchmark and Plexus. In addition, we may in the future encounter competition from other large electronics manufacturers that are selling, or may begin to sell, electronics manufacturing services. Many of our competitors have international operations, and some may have 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. A continued recession or a downturn in the electronics industry would likely have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

Revenue generated outside of the United States and Canada was approximately 14.6% in 2002. International operations are subject to inherent risks, including:

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

- longer payment cycles and greater difficulty in collecting amounts receivable;
- unexpected changes in and the burdens and costs of compliance with a variety of foreign laws;
- political and economic instability;
- increases in duties and taxation;
- imposition of restrictions on currency conversion or the transfer of funds;
- trade restrictions; and
- dependence on key customers.

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

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

RISKS RELATED TO OUR CAPITAL STRUCTURE

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

At December 31, 2002, we had $82.6 million of indebtedness under our senior credit facility. This debt could have adverse consequences for our business, including:

- We will be more vulnerable to adverse general economic conditions;
- We will be required to dedicate a substantial portion of our cash flow from operations to repayment of debt, limiting the availability of cash for other purposes;
- We may have difficulty obtaining financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes;
- We may have limited flexibility in planning for, or reacting to, changes in our business and industry;
- We could be limited by financial and other restrictive covenants in our credit arrangements in our borrowing of additional funds; and
- We may fail to comply with the covenants under which we borrowed our indebtedness which could result in an event of default. If an event of default occurs and is not cured or waived, it could result in all amounts outstanding, together with accrued interest, becoming immediately due and payable. If we were

unable to repay such amounts, the lenders could proceed against any collateral granted to them to secure that indebtedness. During the fourth quarter of 2002, we were in violation of certain covenants contained in our credit agreement. Such violation was waived and the credit agreement was amended to provide financial covenants through June 2004 consistent with our current revenues and our forecast. However, there can be no assurance that we will maintain compliance with the covenants under our credit agreement.

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

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

The terms of our current credit agreement restrict, among other things, our ability to incur additional indebtedness, complete acquisitions, pay dividends or make certain other restricted payments, consummate certain asset sales, make capital expenditures, incur cash restructuring costs, enter into certain transactions with affiliates, merge, consolidate or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets. We are also required to maintain specified financial ratios and satisfy certain monthly and quarterly financial condition tests, which further restrict our ability to operate as we choose. During the fourth quarter of 2002, we were in violation of certain covenants contained in our credit agreement. Such violation was waived and the credit agreement was amended to provide financial covenants through June 2004 consistent with our current revenues and our forecast for 2003. As a result of our non-compliance, customers may lose confidence in us and reduce or eliminate their orders with us which may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

Item 7A: Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

Our senior credit facility bears interest at a floating rate. The weighted average interest rate on our senior credit facility for the year ended December 31, 2002 was 7.2%. Our debt of $82.6 million bore interest at 6.8% on December 31, 2002 based on the U.S. base rate. If the U.S. base rate increased by 10%, our interest rate would have risen to 7.2% and our interest expense would have increased by approximately $0.4 million for fiscal year 2002.

Foreign Currency Exchange Risk

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

Item 8: Financial Statements and Supplementary Data

The information called for by this item is indexed on page F-1 of this Report and is contained on pages F-2 through F-41.

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

None.

PART III

Item 10: Directors and Executive Officers of the Registrant

The information required by this Item is included under the captions “The Proposal: Election of Directors,” “Directors and Executive Officers” and “Additional Information—Section 16(a) Beneficial Ownership Reporting Compliance” in the proxy statement for use in connection with the Company’s 2003 Annual Meeting of Stockholders (the “Proxy Statement”) and is incorporated herein by reference.

Item 11: Executive Compensation

The information required by this Item is included under the caption “Executive Compensation and Related Information” in the Proxy Statement and is incorporated herein by reference.

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

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

The Company maintains the Amended and Restated SMTC (HTM) 1998 Equity Incentive Plan (the “1998 Plan”), which was approved by the Board of Directors and the stockholders of the Company as of September 30, 1999 and which amended and restated the plan as initially adopted by the Board of Directors and the stockholders of the Company as of July 30, 1999. The Company also maintains the SMTC Corporation/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan (the “2000 Plan”), which was adopted by the Board of Directors and the stockholders of the Company in July of 2000.

The following table gives information about awards under the 1998 Plan and the 2000 Plan as of December 31, 2002 and a grant of warrants to our lenders on December 31, 2002:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by shareholders	1,855,092	$ 7.58	623,369(1),(2),(3)
Equity compensation plans not approved by shareholders	1,509,988(4)	$ 0.89(4)	(5)
Total	3,365,080	$ 4.58	623,369

Notes:

(1) Pursuant to the terms of the 2000 Plan, the Board may increase the size of the pool of shares of common stock available for the grant of awards under the 2000 Plan as of the first day of each fiscal year of the Company during the life of the 2000 Plan by an additional number of shares less than or equal to 1% of the number of shares of the Company's common stock outstanding on such date. The Board did opt to so increase the size of the pool of common stock by 230,567 shares of common stock for fiscal year 2001 and 231,965 shares of common stock for fiscal year 2002.

(2) SMTC Manufacturing Corporation of Canada, a subsidiary of the Company, may also issue up to a maximum of 1,000,000 of its exchangeable shares pursuant to the 2000 Plan.

(3) Includes 48,140 shares of Class A-1 common stock and 144 shares of Class L common stock available for issuance under the 1998 Plan; however, the Company's charter no longer provides for such classes of shares, and no further awards will be made under the 1998 Plan.

(4) Represents warrants to purchase common stock of the Company issued to the Company's lenders on December 31, 2002, as described more fully below.

(5) Future issuances depend on whether the Company meets certain EBITDA targets and are not quantifiable at this time, as described more fully below.

Issuance of Warrants to the Company's Lenders

In connection with the December 31, 2002 amendment to the Company's credit facility, the Company's lenders returned to the Company for cancellation warrants previously issued to them, and the Company agreed to issue to the lenders warrants to purchase common stock of the Company at an exercise price equal to the fair market value (defined as average of the last reported sales price of the common stock of the company for twenty consecutive trading days commencing 22 trading days before the date in question) at the date of the grant for (a) 4.0% of the total outstanding shares on December 31, 2002, which equaled 1,207,990 shares, (b) 1.0% of the total outstanding shares on December 31, 2002, which equaled 301,998 shares, (c) 0.75% of the total outstanding shares on the date that is 45 days after the end of the Company's first fiscal quarter of 2003, (d) 0.75% of the total outstanding shares on the date that is 45 days after the end of the Company's second fiscal quarter of 2003, (e) 0.75% of the total outstanding shares on the date that is 45 days after the end of the Company's third fiscal quarter of 2003, (f) 0.75% of the total outstanding shares on the date that is 90 days after the end of the Company's fourth fiscal quarter of 2003, (g) 1.0% of the total outstanding shares on the date that is 45 days after the end of the Company's first fiscal quarter of 2004 and (h) 1.0% of the total outstanding shares on the date that is 45 days after the end of the Company's second fiscal quarter of 2004; provided, however that if the Company meets certain EBITDA targets on the dates identified in (c) through (h) above, it will not issue warrants corresponding to such date. If all amounts outstanding under the credit agreement are repaid in full on or before December 31, 2003, all warrants referred to in (b) through (e) above and received by the lenders shall be returned to the Company and cancelled. The warrants will not be tradable separate from the related debt until the later of December 31, 2003 or nine months after the issuance of the warrants being transferred.

Item 13: Certain Relationships and Related Transactions

The information required by this Item is included under the caption "Directors and Executive Officers—Related Party Transactions" in the Proxy Statement and is incorporated herein by reference.

Item 14: Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*. The Company's Chief Executive Officer and Chief Financial Officer have conducted an evaluation of the Company's disclosure controls and procedures as of a date within 90 days of filing this annual report. Based on their evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms.

(b) *Changes in Internal Controls and Procedures*. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the most recent evaluation of these controls by the Company's Chief Executive Officer and Chief Financial Officer.

PART IV

Item 15: Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) **Financial Statements.**

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

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

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

SMTC CORPORATION

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

Reserves for Accounts Receivable	Years ended December 31,		
	2000	2001	2002
Balance, beginning of year	$ (514)	$ (2,368)	$ (7,258)
Recovery (charge) to expense	(2,003)	(8,218)	61
Written off	169	3,328	5,100
Added through acquisition	(20)	—	—
Balance, end of year	$ (2,368)	$ (7,258)	$ (2,097)

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

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

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

Exhibit #	Description
2.1.1	Reorganization and Merger Agreement dated as of July 26, 1999.(4)
2.1.2	Amendment to Reorganization and Merger Agreement, dated as of July 27, 2000.(9)
2.2	Stock Purchase Agreement dated as of May 23, 2000 (Pensar Corporation).(3)
2.3	Stock Purchase Agreement dated as of November 22, 2000 (Qualtron Teoranta and Qualtron, Inc.).(8)
3.1	Amended and Restated Certificate of Incorporation.(7)
3.2	Amended and Restated By-Laws.(7)
3.3	Certificate of Designation.(7)
4.1.1	Stockholders Agreement dated as of July 27, 2000.(6)
4.1.2	Amended and Restated Stockholders Agreement dated as of November 22, 2000.(9)
4.2	Form of certificate representing shares of common stock.(3)
4.3	Exchangeable Share Provisions attaching to the exchangeable shares of SMTC Manufacturing Corporation of Canada.(7)
4.4	Exchangeable Share Support Agreement dated as of July 27, 2000 among SMTC, SMTC Manufacturing Corporation of Canada and SMTC Nova Scotia Company.(7)
4.5	Voting & Exchange Trust Agreement dated as of July 27, 2000 among SMTC, SMTC Manufacturing Corporation of Canada, CIBC Mellon Trust Company and SMTC Nova Scotia Company.(7)
10.1.1	Credit and Guarantee Agreement dated as of July 28, 1999.(4)
10.1.2	First Amendment to Credit and Guarantee Agreement, dated as of November 4, 1999.(5)
10.1.3	Second Amendment to Credit and Guarantee Agreement, dated as of December 14, 1999.(5)

Exhibit #	Description
10.1.4	Third Amendment to Credit and Guarantee Agreement, dated as of May 15, 2000.(4)
10.1.5	Amended and Restated Credit and Guarantee Agreement, dated as of July 27, 2000.(7)
10.1.6	Amended and Restated Guarantee and Collateral Agreement dated as of July 27, 2000.(7)
10.1.7	First Amendment dated as of November 17, 2000 to the Amended and Restated Credit and Guarantee Agreement.(9)
10.1.8	Second Amendment dated as of December 28, 2000 to the Amended and Restated Credit and Guarantee Agreement.(9)
10.1.9	Third Amendment dated as of February 6, 2001 to the Amended and Restated Credit and Guarantee Agreement.(9)
10.1.10	Fourth Amendment and First Waiver dated as of February 11, 2002 to the Amended and Restated Credit and Guarantee Agreement.(12)
10.1.11	First Amendment dated as of February 11, 2002 to the Amended and Restated Guarantee and Collateral Agreement.(12)
10.1.12	Fifth Amendment and Second Waiver dated as of March 8, 2002 to the Amended and Restated Credit and Guarantee Agreement.(12)
10.1.13	Sixth Amendment and Third Waiver dated as of April 9, 2002 to the Amended and Restated Credit and Guarantee Agreement.(13)
10.1.14	Seventh Amendment and Fourth Waiver dated as of April 30, 2002 to the Amended and Restated Credit and Guarantee Agreement.(14)
10.1.15	Eighth Amendment and Fifth Waiver dated as of December 31, 2002 to the Amended and Restated Credit and Guarantee Agreement.
10.2	Amended and Restated SMTC (HTM) 1998 Equity Incentive Plan.(1)
10.3	SMTC Corporation/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan.(7)
10.4.1	Real Property Lease dated as of September 1, 1993 between Ogden Atlantic Design Co., Inc. and Garrett and Garrett.(5)
10.4.2	Lease Renewal Agreement dated as of September 1, 1996 between Atlantic Design Co., Inc. and Garrett and Garrett.(5)
10.4.3	Assignment of Lease dated as of September 16, 1997 between Ogden Atlantic Design Co., Inc. and The SMT Centre S.E. Inc.(5)
10.5	Form of Real Property Lease dated December 22, 1998 between Third Franklin Trust and W.F. Wood, Inc.(4)
10.6	Real Property Lease dated May 9, 1995 between Logitech Ireland Limited and Ogden Atlantic Design (Europe) Limited.(5)
10.7	Real Property Sublease Agreement dated March 29, 1996 between Radian International, LLC and The SMT Centre of Texas Inc.(5)
10.8	Real Property Lease, Work Letter Agreement and Lease Addendum between Edwin A. Helwig and Barbara G. Helwig and The SMT Centre Inc.(5)
10.9	Real Property Lease dated as of September 15, 1998 between Warden-McPherson Developments Ltd. and The Surface Mount Technology Centre Inc.(5)
10.10	Real Property Lease dated September 3, 1999 between Airedale Realty Trust and W.F. Wood, Inc.(5)
10.11.1	Real Property Revised Lease Agreement dated January 14, 1994 between HTM Building Investors LLC and Hi-Tech Manufacturing, Inc.(2)

Exhibit #	Description
10.11.2	First Amendment to Lease.(2)
10.11.3	Second Amendment to Lease.(2)
10.12	Derrick D’Andrade Employment Agreement dated July 30, 1999.(1)*
10.13	Edward Johnson Employment Agreement dated May 18, 2000.(5)*
10.14	Gary Walker Employment Agreement dated July 30, 1999.(1)*
10.15	Paul Walker Employment Agreement dated July 30, 1999.(1)*
10.16	Philip Woodard Employment Agreement dated July 30, 1999.(1)*
10.17	Stanley Plzak Employment Agreement dated as of July 27, 2000.(9)*
10.18	Lease Agreement dated as of June 1, 2000 between SMTC Manufacturing Corporation of North Carolina and Garrett and Garrett.(7)
10.19	Lease Agreement dated as of August 11, 2000 between SMTC Manufacturing Corporation of Massachusetts and Lincoln-Franklin LLC.(7)
10.20	Class N Common Stock Redemption Agreement dated July 26, 2000.(9)
10.21.1	Management Agreement dated July 30, 1999.(1)
10.21.2	Termination Agreement dated as of July 27, 2000.(9)
10.22	Share Purchase Agreement dated July 26, 2000 for the purchase of Gary Walker’s Class Y shares.(9)
10.23	Funding Agreement dated July 26, 2000.(9)
10.24	Promissory Note dated July 26, 2000.(9)
10.25	Pledge Agreement dated July 26, 2000 with respect to shares of common stock of SMTC owned by Gary Walker.(9)
10.26	Class N Common Stock Redemption Agreement dated July 26, 2000.(9)
10.27.1	Real Estate Sale Agreement between Flextronics International USA, Inc., as Seller, and SMTC Manufacturing Corporation of Texas, as Purchaser, dated February 23, 2001.(9)
10.27.2	First Amendment to Sale Agreement.(10)
10.28	Real Property Lease dated as of November 24, 2000 between Udaras Na Gaeltachta and Qualtron Teoranta.(10)
10.29.1	Lease Agreement between Flextronics International USA, Inc. and SMTC Manufacturing Corporation of Texas.(11)
10.29.2	First Amendment to Lease.(10)
10.30	Employment offer letter from SMTC to Frank Burke dated July 26, 2001.(11)*
10.31	Pledge Agreement dated April 16, 2001 between the Company and Stanley Plzak.(12)
10.32	Secured Promissory Note dated April 16, 2001 from Stanley Plzak to the Company.(12)
10.33	Pledge Agreement dated April 16, 2001 between the Company and Richard V. Baxter, Jr.(12)
10.34	Secured Promissory Note dated April 16, 2001 from Richard V. Baxter, Jr. to the Company.(12)
10.35	Pledge Agreement dated April 16, 2001 between the Company and William M. Moeller.(12)
10.36	Secured Promissory Note dated April 16, 2001 from William M. Moeller to the Company.(12)
10.37	Pledge Agreement dated April 16, 2001 between the Company and Bruce D. Backer.(12)
10.38	Secured Promissory Note dated April 16, 2001 from Bruce D. Backer to the Company.(12)
10.39	Pledge Agreement dated April 16, 2001 between the Company and David E. Steel.(12)
10.40	Secured Promissory Note dated April 16, 2001 from David E. Steel to the Company.(12)

Exhibit #	Description
10.41	Registration Rights Agreement dated February 8, 2002 between the Company and Lehman Commercial Paper Inc.(12)
10.42.1	Warrant Agreement dated as of February 8, 2002 between the Company and Mellon Investor Services LLC.(12)
10.42.2	Amendment No. 1 dated as of April 30, 2002 to Warrant Agreement between the Company and Mellon Investor Services LLC.(14)
10.43	Registration Rights Agreement dated as of December 31, 2002 between the Company and Lehman Commercial Paper Inc.
10.44	Warrant Agreement dated as of December 31, 2002 between the Company and Mellon Investor Services LLC.
21.1	Subsidiaries of the registrant.
23.1	Consent of KPMG LLP, Independent Auditors
99.1	Certification of Paul Walker, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 27, 2003.
99.2	Certification of Frank Burke, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 27, 2003.

(1) Filed as an Exhibit to the Company's Registration Statement on Form S-1 filed on March 24, 2000 (File No. 333-33208) and incorporated by reference herein.
(2) Filed as an Exhibit to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on May 24, 2000 (File No. 333-33208) and incorporated by reference herein.
(3) Filed as an Exhibit to Amendment No. 2 to the Company's Registration Statement on Form S-1 filed on June 19, 2000 (File No. 333-33208) and incorporated by reference herein.
(4) Filed as an Exhibit to Amendment No. 3 to the Company's Registration Statement on Form S-1 filed on July 10, 2000 (File No. 333-33208) and incorporated by reference herein.
(5) Filed as an Exhibit to Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on July 18, 2000 (File No. 333-33208) and incorporated by reference herein.
(6) Filed as an Exhibit to the Company's Registration Statement on Form S-8 filed on August 22, 2000 (File No. 333-44250) and incorporated by reference herein.
(7) Filed as an Exhibit to the Company's Report on Form 10-Q for the quarterly period ended October 1, 2000 filed on November 15, 2000 (File No. 0-31051) and incorporated by reference herein.
(8) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on December 7, 2000 (File No. 0-31051) and incorporated by reference herein.
(9) Filed as an Exhibit to the Company's Report on Form 10-K for the yearly period ended December 31, 2000 filed on April 2, 2001 (File No. 0-31051) and incorporated by reference herein.
(10) Filed as an Exhibit to the Company's Report on Form 10-Q for the quarterly period ended July 1, 2001 filed on August 15, 2001 (File No. 0-31051) and incorporated by reference herein.
(11) Filed as an Exhibit to the Company's Report on Form 10-Q for the quarterly period ended September 30, 2001 filed on November 19, 2001 (File No. 0-31051) and incorporated by reference herein.
(12) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the yearly period ended December 31, 2001 filed on March 29, 2002 (File No. 0-31051) and incorporated by reference herein.
(13) Filed as an Exhibit to Post-Effective Amendment No. 3 to the Company's Registration Statement on Form S-1 on Form S-3 filed on April 23, 2002 (File No. 333-33208) and incorporated by reference herein.
(14) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed on August 14, 2002 (File No. 0-31051) and incorporated by reference herein.
* Management contract or compensatory plan

(b) **Reports on Form 8-K.**

A current report on Form 8-K was filed by the Company on November 13, 2002 under Item 5.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SMTC CORPORATION

By: /s/ PAUL WALKER

Paul Walker
President and Chief Executive Officer

Date: March 27, 2003

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

Signature	Title	Date
/s/ PAUL WALKER **Paul Walker**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 27, 2003
/s/ FRANK BURKE **Frank Burke**	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 27, 2003
Stephen Adamson	Director	March 27, 2003
/s/ MARK BENHAM **Mark Benham**	Director	March 27, 2003
/s/ WILLIAM BROCK **William Brock**	Director	March 27, 2003
John Caldwell	Director	March 27, 2003
Thomas Cowan	Director	March 27, 2003
/s/ MICHAEL GRIFFITHS **Michael Griffiths**	Director	March 27, 2003
/s/ BLAIR HENDRIX **Blair Hendrix**	Director	March 27, 2003
Ian Loring	Director	March 27, 2003
/s/ STANLEY PLZAK **Stanley Plzak**	Executive Vice President, Solutions Operations and Director	March 27, 2003

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul Walker, certify that:

1. I have reviewed this annual report on Form 10-K of SMTC Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ Paul Walker

Paul Walker
President and Chief Executive Officer

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Frank Burke, certify that:

1. I have reviewed this annual report on Form 10-K of SMTC Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ Frank Burke

Frank Burke
Chief Financial Officer

SMTC CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Board of Directors and Shareholders of SMTC Corporation

We have audited the accompanying consolidated balance sheets of SMTC Corporation and subsidiaries as at December 31, 2001 and 2002, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2001 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in accordance with United States of America generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 2(q) to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, and SFAS No. 145 on January 1, 2002.

/s/ KPMG LLP

Chartered Accountants

Toronto, Canada
February 7, 2003

SMTC CORPORATION
Consolidated Balance Sheets
(Expressed in thousands of U.S. dollars)
December 31, 2001 and 2002

	2001	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 12,103	$ 370
Accounts receivable (note 3)	81,374	57,398
Inventories (note 4)	80,900	38,362
Prepaid expenses	4,782	2,611
Income taxes recoverable	997	841
Deferred income taxes (note 8)	632	—
	180,788	99,582
Capital assets (note 5)	60,416	43,677
Goodwill (note 2(q)(i))	55,560	—
Other assets (note 6)	11,538	13,378
Deferred income taxes (note 8)	33,118	34,325
	$ 341,420	$ 190,962
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 72,675	$ 56,165
Accrued liabilities	20,088	33,814
Current portion of long-term debt (note 7)	12,500	17,500
Current portion of capital lease obligations (note 7)	198	257
	105,461	107,736
Long-term debt (note 7)	110,297	65,089
Capital lease obligations (note 7)	406	176
Deferred income taxes (note 8)	595	—
Shareholders' equity:		
Capital stock (note 9)	68,496	66,802
Warrants (note 9)	—	1,255
Loans receivable (note 9)	(13)	(5)
Additional paid-in capital (note 9)	161,666	163,360
Deficit	(105,488)	(213,451)
	124,661	17,961
Commitments, contingencies and guarantees (note 13)		
United States and Canadian accounting policy differences (note 19)		
	$ 341,420	$ 190,962

See accompanying notes to consolidated financial statements.

SMTC CORPORATION
Consolidated Statements of Operations
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 2000, 2001 and 2002

	2000	2001	2002
Revenue	$766,001	$ 599,347	$ 569,484
Cost of sales, including restructuring and other charges (note 17)	696,583	625,275	545,386
Gross profit (loss)	69,418	(25,928)	24,098
Selling, general and administrative expenses (note 17)	33,574	42,873	25,715
Amortization (note 17)	6,229	9,518	2,538
Restructuring charges, including the write-down of intangible assets (note 17)	—	41,843	30,505
Operating earnings (loss)	29,615	(120,162)	(34,660)
Interest (note 7)	13,837	9,330	8,300
Debt extinguishment cost (note 2(q)(iii))	4,318	—	—
Earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy	11,460	(129,492)	(42,960)
Income taxes (recovery) (note 8):			
Current	6,314	1,942	416
Deferred	(607)	(30,973)	(1,170)
	5,707	(29,031)	(754)
Earnings (loss) from continuing operations	5,753	(100,461)	(42,206)
Loss from discontinued operations (note 18)	(2,115)	(4,350)	(10,197)
Cumulative effect of a change in accounting policy (note 2(q)(i))	—	—	(55,560)
Net earnings (loss)	$ 3,638	$ (104,811)	$ (107,963)

SMTC CORPORATION
Consolidated Statements of Operations (continued)
(Expressed in thousands of U.S. dollars, except share quantities and per share amounts)
Years ended December 31, 2000, 2001 and 2002

	2000	2001	2002
Earnings (loss) per common share (note 16):			
Earnings (loss) from continuing operations	$ 5,753	$ (100,461)	$ (42,206)
Class L preferred entitlement	(3,164)	—	—
Earnings (loss) from continuing operations attributable to common shareholders	2,589	(100,461)	(42,206)
Loss from discontinued operations	(2,115)	(4,350)	(10,197)
Cumulative effect of a change in accounting policy	—	—	(55,560)
Earnings (loss) attributable to common shareholders	$ 474	$ (104,811)	(107,963)
Earnings (loss) per common share from continuing operations	$ 0.20	$ (3.51)	(1.47)
Loss from discontinued operations per common share	(0.16)	(0.15)	(0.36)
Cumulative effect of a change in accounting policy per common share	—	—	(1.93)
Basic earnings (loss) per common share	$ 0.04	$ (3.66)	$ (3.76)
Diluted earnings (loss) per common share	$ 0.03	$ (3.66)	$ (3.76)
Weighted average number of common shares outstanding:			
Basic	13,212,076	28,608,072	28,689,779
Diluted	13,736,616	28,608,072	28,689,779

See accompanying notes to consolidated financial statements.

SMTC CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of U.S. dollars)
Years ended December 31, 2000, 2001 and 2002

	Capital stock	Warrants	Treasury stock	Loans receivable	Additional paid-in capital	Deficit	Total shareholders' equity
	(note 9)						
Balance, January 1, 2000	$ 3	$ 367	$ —	$ (60)	$ 11,804	$ (4,315)	$ 7,799
Warrants issued	—	3,598	—	—	—	—	3,598
Warrants exercised	4	(3,598)	—	—	3,594	—	—
Share reorganization	116	—	—	—	(116)	—	—
Shares issued on completion of initial public offering, net of costs of $20,706	64,976	—	—	—	116,718	—	181,694
Shares issued on acquisition of Pensar Corporation	12	—	—	—	19,007	—	19,019
Options exercised	—	—	—	—	160	—	160
Shares issued on acquisition of Qualtron Teoranta	12,545	—	—	—	—	—	12,545
Conversion of shares from exchangeable to common stock	(229)	—	—	—	229	—	—
Repayment of loans receivable	—	—	—	33	—	—	33
Net earnings	—	—	—	—	—	3,638	3,638
Balance, December 31, 2000	77,427	367	—	(27)	151,396	(677)	228,486
Warrants to be issued	—	—	—	—	659	—	659
Warrants exercised	4	(367)	—	—	363	—	—
Options exercised	—	—	—	—	313	—	313
Conversion of shares from exchangeable to common stock	(8,935)	—	—	—	8,935	—	—
Repayment of loans receivable	—	—	—	14	—	—	14
Net loss	—	—	—	—	—	(104,811)	(104,811)
Balance, December 31, 2001	68,496	—	—	(13)	161,666	(105,488)	124,661
Warrants issued	—	1,255	—	—	—	—	1,255
Conversion of shares from exchangeable to common stock	(1,694)	—	—	—	1,694	—	—
Repayment of loans receivable	—	—	—	8	—	—	8
Net loss	—	—	—	—	—	(107,963)	(107,963)
Balance, December 31, 2002	$ 66,802	$ 1,255	$ —	$ (5)	$ 163,360	$ (213,451)	$ 17,961

See accompanying notes to consolidated financial statements.

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

Years ended December 31, 2000, 2001 and 2002

	2000	2001	2002
Cash provided by (used in):			
Operations:			
Net earnings (loss)	$ 3,638	$ (104,811)	$ (107,963)
Items not involving cash:			
Amortization	6,229	9,518	2,538
Depreciation	9,595	12,102	11,629
Deferred income taxes	(71)	(30,973)	(1,170)
Loss (gain) on disposition of capital assets	(60)	30	(5)
Loss on early extinguishment of debt	2,461	—	—
Impairment of assets	—	6,474	8,876
Write-down of goodwill and intangible assets	—	17,765	55,560
Change in non-cash operating working capital:			
Accounts receivable	(110,131)	113,375	23,976
Inventories	(118,455)	110,921	42,538
Prepaid expenses and other	(1,316)	(468)	1,575
Accounts payable and accrued liabilities	103,200	(105,603)	(2,784)
	(104,910)	28,330	34,770
Financing:			
Increase in long-term debt	—	14,492	—
Repayment of long-term debt	(19,717)	(7,500)	(40,208)
Principal payments on capital lease obligations	(1,427)	(354)	(171)
Loans to shareholders	—	(5,236)	—
Proceeds from warrants	2,500	—	—
Issuance of subordinated notes	5,000	—	—
Repayment of subordinated notes	(5,000)	—	—
Issuance of demand notes	9,925	—	—
Repayment of demand notes	(9,925)	—	—
Proceeds from issuance of common stock	202,560	313	—
Stock issuance costs	(23,400)	—	—
Repayment of loans receivable	33	14	8
Debt issuance costs	(1,450)	(1,500)	(3,731)
	159,099	229	(44,102)
Investments:			
Acquisitions, net of cash acquired (2000 – $4,672)	(27,683)	—	—
Purchases of capital assets	(25,676)	(19,119)	(2,788)
Proceeds from sale of capital assets	278	89	137
Purchase of other assets	(493)	—	—
Other	—	(124)	250
	(53,574)	(19,154)	(2,401)
Increase (decrease) in cash and cash equivalents	615	9,405	(11,733)
Cash and cash equivalents, beginning of year	2,083	2,698	12,103
Cash and cash equivalents, end of year	$ 2,698	$ 12,103	$ 370

Supplemental cash flow information (note 12)

See accompanying notes to consolidated financial statements.

1. Nature of the business:

SMTC Corporation and its subsidiaries (the "Company") is a worldwide provider of advanced electronics manufacturing services to original equipment manufacturers. The Company services its customers through eight manufacturing and technology centres located in the United States, Canada, Europe and Mexico.

The Company's accounting principles are in accordance with accounting principles generally accepted in the United States and, except as outlined in note 19, are, in all material respects, in accordance with accounting principles generally accepted in Canada.

2. Significant accounting policies:

(a) Basis of presentation:

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

(b) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates include, but are not limited to, the allowance for doubtful accounts, inventory valuation, deferred tax asset valuation allowance, restructuring accruals, the useful lives and valuation of intangible assets and the fair value of reporting units for purposes of goodwill impairment tests. Actual results may differ from those estimates and assumptions.

(c) Revenue recognition:

Revenue from the sale of products and excess inventory is recognized when goods are shipped to customers. Revenue from the provision of services is recognized when services are provided. The earnings process is complete upon shipment of products and provision of services. The Company assumes no significant obligations after product shipment.

(d) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and deposits with banks with original maturities of less than three months.

(e) Allowance for doubtful accounts:

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

2. Significant accounting policies (continued):

(f) Inventories:

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

(g) Capital assets:

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

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

(h) Goodwill:

Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 10 years. Effective January 1, 2002, the Company discontinued amortization of all existing goodwill as a result of a new accounting standard issued in 2001. See note 2(q), changes in accounting policies.

(i) Other assets:

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

(j) Income taxes:

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

(k) Stock-based compensation:

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

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

2. Significant accounting policies (continued):

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

	2000	2001	2002
Net earnings (loss) attributable to common shareholders, as reported	$ 474	$ (104,811)	$ (107,963)
Stock-based compensation expense	(1,382)	(3,101)	(1,145)
Pro forma loss	(908)	(107,912)	(109,108)
Basic earnings (loss) per share, as reported	$ 0.04	$ (3.66)	$ (3.76)
Stock-based compensation expense	(0.11)	(0.11)	(0.04)
Pro forma basic loss per share	(0.07)	(3.77)	(3.80)
Diluted earnings (loss) per share, as reported	$ 0.03	$ (3.66)	$ (3.76)
Stock-based compensation income (expense)	0.10	(0.11)	(0.04)
Pro forma diluted loss per share	(0.07)	(3.77)	(3.80)

No compensation expense has been recorded in the statement of operations for the years ended December 31, 2000, 2001 and 2002.

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

	2000	2001	2002
Risk-free interest rate	5.2%	4.9%	5.0%
Dividend yield	—	—	—
Expected life	4	4	4
Volatility	79.0%	147.0%	120.0%

(l) Earnings (loss) per share:

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the weighted average number of common shares plus the dilutive potential common shares outstanding during the year. Anti-dilutive potential common shares are excluded. Potential common shares consist of stock options, and warrants issued pursuant to the amended credit agreement (note 7), for which the potential dilutive effect is computed using the treasury stock method.

(m) Foreign currency translation:

The functional currency of all foreign subsidiaries is U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the year-end rates of exchange.

2. Significant accounting policies (continued):

Non-monetary assets and liabilities denominated in foreign currencies are translated at historic rates and revenue and expenses are translated at average exchange rates prevailing during the month of the transaction. Exchange gains or losses are reflected in the consolidated statements of operations.

(n) Financial instruments and hedging:

In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("Statement 133"). Statement 133 established methods of accounting for derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. Statement 133 requires all derivatives to be recognized either as assets or liabilities and measured at fair value. The Company implemented Statement 133 for its first quarter ended March 31, 2001 and marked to market its interest rate swaps. The initial adjustment was not material.

In 2000, the Company entered into interest rate swap contracts to hedge its exposure to changes in interest rates on its long-term debt. The swaps expired on September 22, 2001. The contracts had the effect of converting the floating rate of interest on $65,000 of the senior credit facility to a fixed rate. Prior to 2001, net receipts, payments and accruals under the swap contracts were recorded as adjustments to interest expense. During 2001, the swap contracts were marked to market and the corresponding amounts recorded in the statements of operations, as the Company did not qualify for hedge accounting under Statement 133.

In 2000, one of the Company's subsidiaries entered into forward foreign currency contracts to hedge foreign currency exposures on future anticipated sales. These contracts matured at various dates through July 31, 2001. As the contracts did not meet the criteria for hedge accounting, the Company recorded those contracts on the balance sheets at their fair values and any corresponding unrealized gains or losses were recognized in the statements of operations.

There were no derivative financial instruments outstanding at December 31, 2001 and 2002.

(o) Impairment of long-lived assets:

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

(p) Comprehensive income:

Comprehensive income includes all changes in equity (net assets) during a period from non-owner sources. During each of the years in the three-year period ended December 31, 2002, comprehensive income was equal to net earnings (loss).

2. Significant accounting policies (continued):

(q) Changes in accounting policies:

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

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

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

2. Significant accounting policies (continued):

Effective January 1, 2002, the Company had unamortized goodwill of $55,560, which is no longer being amortized and has been written off effective January 1, 2002 as a cumulative effect of a change in accounting policy. This change in accounting policy to not amortize goodwill has not been applied retroactively and the amounts presented for prior periods have not been restated for this change. The impact of this change is as follows:

	2000	2001	2002
Net earnings (loss) attributable to common shareholders	$ 474	$ (104,811)	$ (107,963)
Add back goodwill amortization, net of tax	4,201	6,772	—
Net earnings (loss) before goodwill amortization	$ 4,675	$ (98,039)	$ (107,963)
Basic earnings (loss) per common share:			
Net earnings (loss) per common share, as reported	$ 0.04	$ (3.66)	$ (3.76)
Amortization of goodwill	0.31	0.23	—
Basic earnings (loss) per share before goodwill amortization	$ 0.35	$ (3.43)	$ (3.76)
Diluted earnings (loss) per common share:			
Net earnings (loss)	$ 0.03	$ (3.66)	$ (3.76)
Amortization of goodwill	0.31	0.23	—
Diluted earnings (loss) per share before goodwill amortization	$ 0.34	$ (3.43)	$ (3.76)

Amortization expense related to goodwill for the years ended December 31, 2000, 2001 and 2002 was $5,289, $8,448 and nil, respectively.

During 2001, the Company wrote off the remaining balance of unamortized goodwill related to the Qualtron Teoranta acquisition (note 17).

(ii) In October 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("Statement 144"), which supersedes both Statement 121 and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ("Opinion 30"), for the disposal of a segment of a business (as previously defined in that Opinion). Statement 144 retains the fundamental provisions in Statement 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale. Statement 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). The Company adopted Statement 144 for the quarter ended March 31, 2002 and presented the closure of its Cork facility and the related charges as discontinued operations.

2. Significant accounting policies (continued):

(iii) In April 2002, the FASB issued Statement No. 145, Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections (“Statement 145”), which provides for the recission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. In addition, gains and losses from extinguishment of debt will no longer be classified as an extraordinary item. The provisions of this Statement related to the recission of Statement 4 on debt extinguishments are effective for fiscal 2003, with early application encouraged; the provisions of this Statement related to Statement 13 are effective for transactions occurring after May 15, 2002 with early application encouraged. Upon adoption, enterprises must reclassify prior period items that do not meet the extraordinary item classification criteria in APB 30. The Company adopted the provisions of Statement 145 in fiscal 2002 with no material effect as a result of this Statement, except for the reclassification of prior period extraordinary items relating to debt extinguishments to ordinary income. In fiscal year 2000, $2,678, net of tax, was booked as an extraordinary loss related to early extinguishment of debt. This was reclassified to debt extinguishment costs of $4,318 and current income tax recovery of $1,640.

(r) Recently issued accounting pronouncements:

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

In July 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (“Statement 146”), which nulifies Emerging Issues Task Force (“EITF”) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (“EITF 94-3”). Statement 146 recognizes the liability for an exit or disposal activity only when a liability is incurred and can be measured at fair value. Currently, a commitment to an exit or disposal plan is sufficient to record the majority of the costs. Statement 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company expects the adoption of this standard will not have a material impact on its existing restructuring plans as these plans were initiated under an exit plan that met the criteria of EITF 94-3.

In November 2002, the FASB issued Interpretation No. 45, Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others (“FIN 45”), which requires certain disclosures of obligations under guarantees. The disclosure requirements of FIN 45 are effective for the Company’s year ended December 31, 2002. Effective for 2003, FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees entered into or modified after December 31, 2002, based on the fair value of the guarantee. The Company has adopted the disclosure requirements in its 2002 consolidated financial statements (note 13). The Company has not determined the impact of the measurement requirements of FIN 45.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (“FIN 46”). The consolidation provisions of FIN 46 are effective for all newly created variable interest entities created after January 31, 2003, and are applicable to exiting variable interest entities as

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

2. Significant accounting policies (continued):

of the Company's third quarter beginning July 1, 2003. The Company does not have an interest in any variable interest entities and, therefore, does not expect FIN 46 to have any impact.

3. Accounts receivable:

Accounts receivable at December 31, 2001 and 2002 are net of an allowance for doubtful accounts of $7,258 in 2001 and $2,097 in 2002. The Company determines an allowance for doubtful accounts for estimated credit losses based on the financial condition of its customers, concentrations of credit risk and industry conditions.

4. Inventories:

	2001	2002
Raw materials	$ 38,289	$ 15,665
Work in progress	24,984	9,712
Finished goods	16,230	12,093
Other	1,397	892
	$ 80,900	$ 38,362

5. Capital assets:

2001	Cost	Accumulated depreciation	Net book value
Land	$ 3,134	$ —	$ 3,134
Buildings	12,834	735	12,099
Machinery and equipment	33,350	10,586	22,764
Office furniture and equipment	4,673	1,526	3,147
Computer hardware and software	9,839	5,099	4,740
Leasehold improvements	17,800	3,268	14,532
	$ 81,630	$ 21,214	$ 60,416

2002	Cost	Accumulated depreciation	Net book value
Land	$ 2,223	$ —	$ 2,223
Buildings	12,862	1,247	11,615
Machinery and equipment	25,986	10,539	15,447
Office furniture and equipment	3,359	1,647	1,712
Computer hardware and software	9,450	6,735	2,715
Leasehold improvements	13,454	3,489	9,965
	$67,334	$ 23,657	$ 43,677

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

5. Capital assets (continued):

Property and equipment under capital leases included in capital assets at December 31, 2001 and 2002 was $1,583 and $1,583, respectively, and accumulated depreciation of equipment under capital leases at December 31, 2001 and 2002 was $802 and $989, respectively.

Included in the total depreciation expense for the years ended December 31, 2000, 2001 and 2002 of $9,595, $12,102 and $11,629 is $273, $211 and $187, respectively, relating to the depreciation of equipment under capital leases.

6. Other assets:

	2001	2002
Deferred financing costs, net of accumulated amortization (2001 – $1,571; 2002 – $3,752)	$ 3,152	$ 5,957
Restricted cash and cash held in escrow	2,402	2,152
Deferred lease costs, net of accumulated amortization (2001 – $394; 2002 – $751)	715	—
Loans to shareholders	5,236	5,236
Other	33	33
	$ 11,538	$ 13,378

Loans to shareholders:

Pursuant to an agreement in connection with the share reorganization, as described in note 9(b), the Company agreed to lend, on an interest-free basis, $690 to a certain shareholder to fund the tax liability incurred as a result of the reorganization. The loan is secured by a first priority security interest over all of the shares of capital stock of the Company held by the shareholder, and will be repayable on a pro rata basis at such time and to the extent that the shareholder receives after-tax cash proceeds in respect of such shares.

Pursuant to an agreement in connection with the acquisition of Pensar Corporation on July 27, 2000, the Company requested that the former shareholders of Pensar Corporation file an election, allowing the Company to deduct for income tax purposes the goodwill related to the acquisition. In conjunction with this agreement, the Company lent, on an interest-free basis, $4,546 to the former shareholders of Pensar Corporation to fund the tax liability incurred as a result of the election. The loans 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 on a pro rata basis at such time and to the extent that the shareholders receive cash proceeds in respect of such shares, with the balance due on July 27, 2004.

7. Long-term debt and capital leases:

	2001	2002
Revolving credit facilities	$ 82,797	$ 55,089
Term loans	40,000	27,500
	122,797	82,589
Less current portion	12,500	17,500
	$ 110,297	$ 65,089

7. Long-term debt and capital leases (continued):

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

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

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

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

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

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

The Company entered into interest rate swaps to exchange the 90-day floating LIBOR rates on $65,000 of borrowings for a two-year fixed interest rate of 6.16% (before credit spread) per annum (note 10(a)).

(b) For the period from July 27, 2000 to November 18, 2001:

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

7. Long-term debt and capital leases (continued):

The revolving credit loans and term loans bore interest at varying rates based on either the Eurodollar base rate plus 2.00% to 3.00%, the U.S. base rate plus 0.25% to 1.25% or the Canadian prime rate plus 0.25% to 1.25%.

The Company is required to pay the lenders a commitment fee of 0.5% of the average unused portion of the revolving credit facility.

(c) For the period from November 19, 2001 to December 31, 2002:

The Company incurred operating losses during 2001, which resulted in its non-compliance with certain financial covenants contained in its current credit agreement as at September 30, 2001. On November 19, 2001, the Company and its lending group signed a definitive term sheet for an agreement under which certain terms of the credit facility would be revised and the non-compliance as at September 30, 2001 would be waived. The final amended agreement was signed on February 11, 2002 ("February 2002 amendment") and was consistent with the terms and conditions in the term sheet. The February 2002 amendment amended financial and other covenants, based on the Company's business plan at that time, and covered the period up to December 31, 2002. Effective January 1, 2003, the Company would revert back to the original credit agreement. During this period, the facility bore interest at the U.S. base rate plus 2.5%. In connection with the February 2002 amendment, the Company was committed to issue to the lenders warrants to purchase common stock of the Company (note 9(d)).

Prior to taking steps to place the subsidiary that operates the Cork facility in voluntary liquidation (note 18), the Company and its lending group executed an amendment to the credit facility to waive the default that would have been caused by this action and amend the agreement to permit such facility closure.

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

During the fourth quarter of 2002, the Company was in violation of certain covenants contained in the credit agreement. The violation was waived and effective December 31, 2002, the Company and its lending group signed a further amendment ("December 2002 amendment") to the credit agreement that provides for $27,500 in term loans and $90,000 in revolving credit loans, swing-line loans and letters of credit and amends certain financial and other covenants based on the Company's business plan. In connection with the December 2002 amendment, the Company is committed to issue to the lenders warrants to purchase common stock of the Company in exchange for the warrants issued pursuant to the February 2002 amendment (note 9(d)).

The Company is in compliance with the amended financial covenants at December 31, 2002. Continued compliance with the amended financial covenants through June 30, 2004 is dependant on the Company achieving the forecasts inherent in its business plan. The Company believes the forecasts are based on reasonable assumptions and are achievable; however, the forecasts are dependant on a number of factors, some of which are outside the control of the Company. These include, but are not limited to, general economic conditions and specifically the strength of the electronics industry and the related demand for the products and services by the Company's customers. In the event of non-

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

7. Long-term debt and capital leases (continued):

compliance, the Company's lenders have the ability to demand repayment of the outstanding amounts under the amended credit facility.

The Company recorded at December 31, 2001, amendment fees related to the February 2002 amendment of $1,500, comprised of $700, representing 0.5% of the lenders' commitments under the revolving credit facilities and term loans outstanding of $140,000 at December 31, 2001 and February 11, 2002, and other amendment-related fees of $800. The Company paid amendment fees, related to the Cork amendment, of $140 comprised of 0.1% of the lenders' commitments under the revolving credit facilities and term loans outstanding of $140,000 at March 11, 2002, and paid amendment fees related to the April 2002 amendment of $77. The Company also paid amendment fees related to the December 2002 amendment of $3,514, comprised of $588, representing 0.5% of the lenders' commitments under the revolving credit facilities and term loans outstanding of $117,500 at December 31, 2002 and other amendment-related fees of $2,926, and may be required to pay default fees if it violates certain covenants after the effective date of the amendment. The amendment fees and the fair value of the warrants issued (note 9(d)) in connection with amending the agreement have been accounted for as deferred financing fees and will be deferred and amortized over the remaining term of the facility.

Commitment fees of $60 and $109 were incurred in 2001 and 2002, respectively. The weighted average interest rates on the borrowings was 7.7% and 7.2% in 2001 and 2002, respectively.

As at December 31, 2002, principal repayments of the term loans due within each of the next two years are as follows:

2003	$	17,500
2004		10,000
	$	27,500

(d) Obligations under capital leases:

Minimum lease payments for capital leases consist of the following at December 31, 2002:

2003	$	276
2004		152
2005		36
Total minimum lease payments		464
Less amount representing interest of 8% to 11%		31
		433
Less current portion		257
	$	176

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

7. Long-term debt and capital leases (continued):

(e) Interest expense:

	2000	2001	2002
Long-term debt	$ 13,765	$ 9,227	$ 8,259
Obligations under capital leases	72	103	41
	$ 13,837	$ 9,330	$ 8,300

8. Income taxes:

	2000	2001	2002
Current:			
Federal	$ 1,808	$ 2,211	$ (1,000)
Foreign	4,506	(269)	1,416
	6,314	1,942	416
Deferred:			
Federal	(582)	(29,713)	(1,109)
State	(68)	(1,596)	(115)
Foreign	43	336	54
	(607)	(30,973)	(1,170)
	$ 5,707	$ (29,031)	$ (754)

The overall effective income tax rate (expressed as a percentage of financial statement earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy) varied from the U.S. statutory income tax rate as follows:

	2000	2001	2002
Federal tax rate	34.3%	34.0%	34.0%
State income tax, net of federal tax benefit	4.0%	1.2%	3.1%
Income of international subsidiaries taxed at different rates	(0.2)%	—	(2.9)%
Change in valuation allowance	(0.1)%	(2.6)%	(35.2)%
Non-deductible goodwill amortization and write-downs	8.1%	(5.7)%	—
Other	3.7%	(4.5)%	2.8%
Effective income tax rate	49.8%	22.4%	1.8%

A tax benefit of $2,694 relating to share issue costs was recorded in capital stock and additional paid-in capital in the year ended December 31, 2000.

Worldwide earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy, consisted of the following:

	2000	2001	2002
U.S.	$ 1,333	$ (102,139)	$ (37,983)
Non-U.S.	10,127	(27,353)	(4,977)
	$ 11,460	$ (129,492)	$ (42,960)

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

8. Income taxes (continued):

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

	2001	2002
Deferred tax assets:		
Net operating loss carryforwards	$ 33,815	$ 42,150
Capital and other assets	—	14,556
Reserves, allowances and accruals	4,487	12,146
	38,302	68,852
Valuation allowance	(4,552)	(34,527)
	33,750	34,325
Deferred tax liabilities:		
Capital and other assets	(595)	—
Net deferred tax assets	$ 33,155	$ 34,325

At December 31, 2002, the Company had total net operating loss carryforwards of approximately $130,000, of which $3,000 will expire in 2009, $3,000 will expire in 2013, $81,000 will expire in 2021 and $21,000 will expire in 2022. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, change of control limitations, projected future taxable income and tax planning strategies in making this assessment. Based upon consideration of these factors, management believes the recorded valuation allowance related to the loss carryforwards is appropriate. However, in the event that actual results differ from estimates or management adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact its financial position and results of operations.

9. Capital stock:

(a) *Authorized:*

The authorized share capital of SMTC Corporation at December 31, 1999 consists of:

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

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

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

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

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

The number of votes per share is determined by a prescribed formula and the holders are entitled to receive all dividends declared on common stock until there has been paid a

9. Capital stock: (continued):

specified amount based on an internal rate of return of 12% compounded quarterly and a recovery of the initial amount of $162 per Class L share, after which point, they are entitled to receive dividends pro rata.

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

The number of votes per share are determined by a prescribed formula and the holders are not entitled to receive dividends. The holders of the Class N shares hold the exchangeable shares described in note 9(c).

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

As a result of the share reclassification and the initial public offering, the authorized share capital of SMTC Corporation at December 31, 2000, 2001 and 2002 consists of:

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

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

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

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

(b) Issued and outstanding:

HTM Holdings, Inc. had 1,946,404 common shares outstanding (recorded value of $6) at December 31, 1999 and July 30, 1999. As a result of the application of reverse acquisition accounting to the business combination with HTM Holdings, Inc., the number of outstanding shares of the continuing consolidated entity consists of the number of outstanding shares of SMTC Corporation outstanding at July 30, 1999.

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

9. Capital stock: (continued):

Number of shares	Class A shares	Class L shares	Class N shares	Exchangeable shares	Common stock	Special voting stock
Balance, January 1, 2000	2,447,782	154,168	113,408	113,408	—	—
Share reorganization (i)	(2,447,782)	(154,168)	(113,408)	1,356,037	11,871,517	1
Warrants exercised (ii)	—	—	—	—	477,049	—
Shares issued on completion of initial public offering (iii)	—	—	—	4,375,000	8,275,000	—
Acquisition of Pensar Corporation (iv)	—	—	—	—	1,188,682	—
Acquisition of Qualtron Teoranta (v)	—	—	—	547,114	—	—
Conversion of shares from exchangeable to common stock (vi)	—	—	—	(20,600)	20,600	—
Options exercised	—	—	—	—	20,053	—
Balance, December 31, 2000	—	—	—	6,370,959	21,852,901	1
Warrants exercised (vii)	—	—	—	—	427,915	—
Conversion of shares from exchangeable to common stock (viii)	—	—	—	(737,900)	737,900	—
Options exercised	—	—	—	—	38,003	—
Balance, December 31, 2001	—	—	—	5,633,059	23,056,719	1
Conversion of shares from exchangeable to common stock (ix)	—	—	—	(139,823)	139,823	—
Balance, December 31, 2002	—	—	—	5,493,236	23,196,542	1

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

9. Capital stock: (continued):

Amount	Class A shares	Class L shares	Class N shares	Exchangeable shares	Common stock	Special voting stock
Balance, January 1, 2000	$ 3	$ —	$ —	$ —	$ —	$ —
Share reorganization (i)	(3)	—	—	—	119	—
Warrants exercised (ii)	—	—	—	—	4	—
Shares issued on completion of initial public offering (iii)	—	—	—	64,893	83	—
Shares issued on acquisition of Pensar Corporation (iv)	—	—	—	—	12	—
Shares issued on acquisition of Qualtron Teoranta (v)	—	—	—	12,545	—	—
Conversion of shares from exchangeable to common stock (vi)	—	—	—	(229)	—	—
Options exercised	—	—	—	—	—	—
Balance, December 31, 2000	—	—	—	77,209	218	—
Warrants exercised (vii)	—	—	—	—	4	—
Conversion of shares from exchangeable to common stock (viii)	—	—	—	(8,943)	8	—
Options exercised	—	—	—	—	—	—
Balance, December 31, 2001	—	—	—	68,266	230	—
Conversion of shares from exchangeable to common stock (ix)	—	—	—	(1,695)	1	—
Balance, December 31, 2002	$ —	$ —	$ —	$ 66,571	$ 231	$ —

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

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

(i) Concurrent with the effectiveness of the initial public offering ((iii) below), the Company completed a share capital reorganization as follows:

(a) Each outstanding Class Y share of SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, was purchased in exchange for shares of Class L common stock.

(b) Each outstanding share of Class L common stock was converted into one share of Class A common stock plus an additional number of shares of Class A common stock.

(c) Each outstanding share of Class A common stock was converted into 3.6745 shares of common stock.

(d) All outstanding shares of Class N common stock were redeemed and one share of special voting stock was issued and is held by a trustee for the benefit of the holders of the exchangeable shares.

9. Capital stock (continued):

(e) Each SMTC Canada Class L exchangeable share was converted into exchangeable shares of the same class as those being offered in the offering in the same ratio as shares of Class L common stock, which were converted to shares of common stock.

(ii) On July 27, 2000, the Company issued 477,049 shares of common stock on the exercise of 41,667 warrants.

(iii) On July 27, 2000, the Company completed an initial public offering of its common stock in the United States and exchangeable shares of its subsidiary, SMTC Manufacturing Corporation of Canada, in Canada. The offering consisted of 6,625,000 shares of common stock at a price of $16.00 per share and 4,375,000 exchangeable shares at a price of Cdn. $23.60 per share (described in (c) below). The total net proceeds to the Company from the offering of approximately $157,400 were used to reduce its indebtedness under the senior credit facility, repay the subordinated shareholders' notes issued in May 2000, repay the demand notes issued in July 2000 and finance the cash portion of the purchase price of the Pensar Corporation acquisition. On August 18, 2000, the underwriters exercised their over-allotment option with respect to 1,650,000 shares of common stock at a price of $16.00 per share. The net proceeds to the Company from the sales of those shares of $24,600 were used to reduce indebtedness under the senior credit facility.

(iv) On July 27, 2000, simultaneously with the closing of the initial public offering, the Company issued 1,188,682 shares of common stock at a price of $16.00 per share to finance the share portion of the purchase price of the Pensar Corporation acquisition.

(v) On November 22, 2000, the Company issued 547,114 exchangeable shares at a price of $22.93 per share to finance the share portion of the Qualtron Teoranta acquisition.

(vi) During 2000, 20,600 exchangeable shares were exchanged for common stock.

Capital transactions from January 1, 2001 to December 31, 2001:

(vii) During 2001, the Company issued 427,915 shares of common stock on the exercise of 578,441 warrants.

(viii) During 2001, 737,900 exchangeable shares were exchanged for common stock with a par value of $8 with the difference recorded as additional paid-in-capital.

Capital transactions from January 1, 2002 to December 31, 2002:

(ix) During 2002, 139,823 exchangeable shares were exchanged for common stock with a par value of $1 with the difference recorded as additional paid-in-capital.

(c) Exchangeable shares:

On July 30, 1999, SMTC Manufacturing Corporation of Canada, a 100%-owned subsidiary of the Company, issued two classes of non-voting shares which can be exchanged into 113,408 Class L common

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

9. Capital stock (continued):

shares of the Company on a one-for-one basis. The holders of the exchangeable shares are entitled to receive dividends equivalent to the dividends declared on Class L shares. The holders of exchangeable shares exercise, through the special voting stock, essentially the same voting rights in respect of the Company as they would if they had exchanged their shares into shares of the Company's common stock.

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

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

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

During 2000, 2001 and 2002, 20,600, 737,900 and 139,823 exchangeable shares were exchanged for common stock, respectively.

(d) Warrants:

Number	Class A warrants	Class L warrants	Common stock warrants
Balance, January 1, 2000	103,895	12,088	—
Warrants issued (i)	—	—	41,667
Warrants conversion (ii)	(103,895)	(12,088)	578,441
Warrants exercised (iii)	—	—	(41,667)
Balance, December 31, 2000	—	—	578,441
Warrants exercised (iv)	—	—	(578,441)
Balance, December 31, 2001	—	—	—
Warrants issued (vi)	—	—	1,509,988
Balance, December 31, 2002			1,509,988

2000 transactions:

(i) On May 18, 2000, the Company issued 41,667 warrants for $2,500 cash consideration in connection with the issue of $5,000 in subordinated notes (note 7(a)). The value of the warrants in excess of proceeds received, $1,098, was recorded as a deferred financing cost and was written off upon early repayment of the subordinated notes (note 2(q)(iii)).

(ii) On July 27, 2000, pursuant to the initial public offering, the Class A and Class L warrants were converted into common stock warrants.

(iii) On July 27, 2000, the Company issued 477,049 shares of common stock on the exercise of 41,667 warrants.

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

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

9. Capital stock (continued):

2001 transactions:

(iv) During 2001, the Company issued 427,915 shares of common stock on the exercise of 578,411 warrants.

(v) In connection with the amended credit agreement in 2001 (note 7(b)), the Company agreed to issue to the lenders warrants to purchase common stock of the Company at an exercise price equal to the fair market value (defined as the average of the last reported sales price of the common stock of the Company for twenty consecutive trading days commencing twenty-two trading days before the date in question) at the date of the grant for 1.5% of the total outstanding shares on February 11, 2002 and 0.5% of the total outstanding shares on December 31, 2002. If an event of default occured during the period from the effective amendment date to December 31, 2002, and was continuing for more than 30 days, the lenders would receive warrants to purchase an additional 1% of the total outstanding shares at an exercise price equal to the fair market value (as defined above) at the date of the grant. If all amounts outstanding under the credit agreement are repaid in full on or before March 31, 2003, all warrants received by the lenders, other than the warrants received on February 11, 2002, shall be returned to the Company. The warrants will not be tradable separate from the related debt until the later of December 31, 2002 or nine months after the issuance of the warrants being transferred. After the debt under the credit agreement has been paid in full, the Company may repurchase the warrants or warrant shares at a price that values the warrant shares at three times the exercise price.

The fair value of the warrants was initially measured using a Black-Scholes model at November 19, 2001 and will be remeasured each reporting period until issued. At December 31, 2001, the fair value of the warrants of $659 was classified as warrants to be issued in additional paid-in capital.

2002 transactions:

(vi) In connection with the December 31, 2002 amended credit agreement (note 7(c)), and in exchange for the cancellation of the warrants issued pursuant to the February 2002 amendment, the Company agreed to issue to the lenders Series A and Series B warrants to purchase common stock of the Company at an exercise price equal to the fair market value (defined as the average of the last reported sales price of the common stock of the Company for twenty consecutive trading days commencing twenty-two trading days before the date in question) at the date of the grant for 4% and 1%, respectively, of the total outstanding shares on December 31, 2002. The Company also agreed to issue to the lenders Series C through Series H warrants to purchase common stock of the Company at an exercise price equal to the fair market value (as defined above) at the date of the grant provided that Series C through Series H warrants shall only be issued if the Company fails to meet certain financial covenants for the relevant fiscal quarter as follows:

Series	Number of days after end of fiscal quarter	% of common stock
Series C	45 days after first quarter 2003	0.75%
Series D	45 days after second quarter 2003	0.75%
Series E	45 days after third quarter 2003	0.75%
Series F	90 days after fourth quarter 2003	0.75%
Series G	45 days after first quarter 2004	1.00%
Series H	45 days after second quarter 2004	1.00%

9. Capital stock (continued):

The Series A through Series H warrants have a term of five years. If the Company meets certain conditions by December 31, 2003, all Series B through Series E warrants shall be returned to the Company without consideration and all warrant shares that have been obtained upon exercise of such warrants shall be sold back to the Company at the exercise price of the original warrants exercised to obtain such shares.

The warrants will not be tradable separate from the related debt until the later of December 31, 2003 or nine months after the issuance of the warrants being transferred.

The fair value of the Series A and Series B warrants was measured using a Black-Scholes model at December 31, 2002. At December 31, 2002, the fair value of the warrants of $1,255 was classified as warrants issued in shareholders' equity.

(e) Stock options:

1998 HTM Plan:

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

1998 SMTC Plan:

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

2000 Equity Incentive Plan:

In July 2000, the Company approved a new stock option plan, the SMTC/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan (the "2000 Equity Incentive Plan"), pursuant to which a variety of stock-based incentive awards may be granted. The plan permits the issuance of up to 1,727,052 shares plus an additional number of shares determined by the Board of Directors but not to exceed 1% of the total number of shares outstanding per year. Options generally vest over a four-year period and expire 10 years from their respective date of grant.

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

9. Capital stock (continued):

Stock option transactions were as follows:

	1998 HTM Plan		1998 SMTC Plan						2000 Equity Incentive Plan	
	Shares	Weighted average exercise price	Class A shares	Weighted average exercise price	Class L shares	Weighted average exercise price	Common stock	Weighted average exercise price	Common stock	Weighted average exercise price
Balance, January 1, 2000	—	$ —	116,860	$ 19.68	3,856	$147.57	—	$ —	—	$ —
Converted pursuant to initial public offering	—	—	(116,860)	19.68	(3,856)	147.57	486,448	5.78	—	—
Issued	—	—	—	—	—	—	—	—	1,397,000	19.05
Exercised	—	—	—	—	—	—	(20,053)	5.78	—	—
Balance, December 31, 2000	—	—	—	—	—	—	466,395	5.78	1,397,000	19.05
Issued	—	—	—	—	—	—	—	—	225,000	6.12
Exercised	—	—	—	—	—	—	(38,003)	5.78	—	—
Cancelled	—	—	—	—	—	—	(139,332)	5.78	—	—
Balance, December 31, 2001	—	—	—	—	—	—	289,060	5.78	1,622,000	17.25
Issued							—	—	1,089,500	5.96
Cancelled							(48,468)	5.78	(1,097,000)	(19.88)
Balance, December 31, 2002							240,592	5.78	1,614,500	7.85

The following options were outstanding as at December 31, 2002:

Range of exercise price	Outstanding options	Weighted average exercise price	Exercisable options	Weighted average exercise price	Remaining contractual life
1998 SMTC Plan					
$5.78	240,592	$ 5.78	180,444	$ 5.78	6.6
2000 Equity Incentive Plan					
$0.80	25,000	$ 0.80	10,000	$ 0.80	8.8
$2.31	25,000	2.31	—	—	9.3
$3.00 – $3.09	354,250	3.02	75,000	3.09	9.3
$5.00	254,250	5.00	6,250	5.00	9.4
$8.00	606,000	8.00	12,500	8.00	9.4
$12.00 – $16.00	350,000	15.43	162,500	15.69	7.7
	1,614,500	7.85	266,250	10.97	9.0

The weighted average grant date fair value of options granted for the years ended December 31, 2000, 2001 and 2002 are $11.70, $0.77 and $1.00, respectively.

On January 8, 2002, the Board of Directors gave the holders of options to purchase an aggregate of 1,097,000 shares of common stock of the Company the opportunity to return their options to the Company for

9. Capital stock (continued):

cancellation. These options, which were granted on August 30, 2000, had an exercise price of $19.88 (the “$19.88 options”). The Board of Directors believed that the $19.88 options were unlikely to be exercised in the foreseeable future as the exercise price was significantly above the Company’s trading price at that time and during several months prior to that time and, as a result, they did not function as an adequate management incentive. Upon cancellation of the $19.88 options surrendered by various holders, the pool of shares as to which options may be granted under the 2000 Equity Incentive Plan was increased by 1,087,000.

On July 26, 2002, the Company granted 1,089,500 options at a weighted average exercise price of $5.96.

10. Financial instruments:

(a) Interest rate swaps:

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

(b) Forward exchange contracts:

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

(c) Fair values:

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

(i) The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short-term nature of these instruments.

(ii) The carrying amounts of long-term debt and capital lease obligations, including the current portions, is based on rates currently available to the Company for debt with similar terms and maturities and approximate fair value.

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

11. Related party transactions:

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

	2000	2001	2002
Management fees expensed under formal management agreements	$ 74	$ —	$ —
Share issue costs incurred	1,800	—	—
Financing and acquisition-related fees paid	674	—	—

These transactions were recorded at the exchange amount, being the amounts agreed to by the related parties.

12. Supplemental cash flow information:

	2000	2001	2002
Interest paid	$ 13,064	$ 9,573	$ 8,174
Income taxes paid	1,983	8,397	1,840

Non-cash financing and investing activities:

	2000	2001	2002
Acquisition of equipment under capital leases	$ 541	$ —	$ —
Acquisition of Pensar Corporation for capital stock	19,019	—	—
Acquisition of Qualtron Teoranta for exchangeable shares	12,545	—	—
Value of warrants issued in excess of proceeds received	1,098	—	—
Tax benefit of share issue costs	2,694	—	—
Cash released from escrow	—	3,583	—
Issue of warrants	—	—	1,255

13. Commitments, contingencies and guarantees:

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

2003	$ 17,565
2004	12,681
2005	4,079
2006	3,724
2007	3,109
Thereafter	8,589
	$ 49,747

Included in the amounts noted above are $7,900, $5,545, $1,317, $940 and $702 representing lease costs for the years 2003 to 2007, respectively, which have been recorded as part of the restructuring charges and accrued in the consolidated financial statements at December 31, 2002 (note 17).

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

13. Commitments, contingencies and guarantees (continued):

Operating lease expense for the years ended December 31, 2000, 2001 and 2002 was $12,864, $16,533 and $12,228, respectively.

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

Contingent liabilities in the form of letters of credit and letters of guarantee are provided to certain third parties. These guarantees cover various payments including customs and excise taxes and raw material purchases. The total amount of future payments to be made under these guarantees is $2,134 and the Company has recorded $1,276 of these guarantees in the financial statements at December 31, 2002.

14. 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 eight 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, discontinued operations and the effects of a change in accounting policy. Discontinued operations in 2002 relates to the Cork, Ireland facility (note 18), which was previously included in the results of the European segment. Intersegment adjustments reflect intersegment sales that are generally recorded at prices that approximate arm’s-length transactions. Information about the operating segments is as follows:

	2000			2001			2002		
	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue	Total revenue	Intersegment revenue	Net external revenue
United States	$ 633,959	$ (9,403)	$ 624,556	$540,353	$ (43,425)	$ 496,928	$487,210	$ 16,897	$ 470,313
Canada	79,923	(5,165)	74,758	66,632	(3,778)	62,854	105,529	14,440	91,089
Europe	1,630	(352)	1,278	15,691	(1,445)	14,246	4,658	759	3,899
Mexico	79,612	(14,203)	65,409	134,061	(108,742)	25,319	190,964	186,781	4,183
	$795,124	$ (29,123)	$ 766,001	$756,737	$ (157,390)	$ 599,347	$788,361	$ 218,877	$ 569,484

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

14. Segmented information (continued):

	2000	2001	2002
EBITA, before discontinued operations, restructuring charges and the cumulative effect of a change in accounting policy:			
United States	$24,813	$ (24,875)	$ 1,156
Canada	10,638	(6,271)	(66)
Europe	1,062	1,559	280
Mexico	(669)	(13,826)	3,549
	35,844	(43,413)	4,919
Interest	13,837	9,330	8,300
Debt extinguishment cost	4,318	—	—
Amortization	6,229	9,518	2,538
Restructuring charges (note 17)	—	67,231	37,041
Earnings (loss) before income taxes, discontinued operations and the cumulative effect of a change in accounting policy	$11,460	$ (129,492)	$ (42,960)
Capital expenditures:			
United States	$16,456	$ 11,043	$ 1,363
Canada	3,141	2,001	1,137
Europe	724	644	30
Mexico	5,896	5,431	258
	$26,217	$ 19,119	$ 2,788

This segmented information incorporates the operations of the Company, as discussed in note 2(a). The Company has operated facilities in Canada, the United States and Europe for 17 years, 7 years and 5 years, respectively.

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.

	2000	2001	2002
Geographic revenue:			
United States	$ 694,290	$ 489,180	$ 448,222
Canada	18,844	38,334	37,811
Europe	36,826	47,484	42,976
Asia	16,041	21,693	26,846
Mexico	—	2,656	13,629
	$ 766,001	$ 599,347	$ 569,484
Long-lived assets:			
United States		$ 73,269	$ 21,080
Canada		21,832	4,618
Europe		1,998	—
Mexico		18,877	17,979
		$ 115,976	$ 43,677

15. Significant customers and concentration of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Sales of the Company's products are concentrated among specific customers in the same industry. The Company generally does not require collateral. The Company considers concentrations of credit risk in establishing the reserves for bad debts and believes the recorded reserves are adequate.

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

During 2000, two customers individually comprised 16% and 10% of total revenue across all geographic segments. At December 31, 2000, these customers each represented 10% of the Company's accounts receivable.

During 2001, three customers individually comprised 20%, 10% and 10% of total revenue across all geographic segments. At December 31, 2001, these customers represented 34%, 10% and 5%, respectively, of the Company's accounts receivable.

During 2002, three customers individually comprised 22%, 15% and 12% of total revenue across all geographic segments. At December 31, 2002, these customers represented 13%, 1% and 14% of the Company's accounts receivable.

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

16. Earnings (loss) per common share:

The following table sets forth the computation of basic earnings (loss) per common share before discontinued operations and the cumulative effect of a change in accounting policy:

	2000	2001	2002
Numerator:			
Earnings (loss) before discontinued operations and the cumulative effect of a change in accounting policy	$ 5,753	$ (100,461)	$ (42,206)
Class L preferred entitlement	(3,164)	—	—
Earnings (loss) before discontinued operations and the cumulative effect of a change in accounting policy attributable to common shareholders	$ 2,589	$ (100,461)	$ (42,206)
Denominator:			
Weighted average shares – basic	13,212,076	28,608,072	28,689,779
Effect of dilutive securities:			
Employee stock options	155,744	—	—
Warrants	368,796	—	—
Weighted average shares – diluted	13,736,616	28,608,072	28,689,779
Earnings (loss) per common share from continuing operations:			
Basic	$ 0.20	$ (3.51)	$ (1.47)
Diluted	0.19	(3.51)	(1.47)

During fiscal 2000, the calculation did not include 1,097,000 options, as the effect would have been anti-dilutive. During 2001, the calculation did not include 1,911,060 options, as the effect would have been anti-dilutive. During 2002, the calculation did not include 1,855,092 options and 1,509,998 warrants, as the effect would have been anti-dilutive.

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

17. Restructuring and other charges:

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

	2001	2002
Inventory write-downs included in cost of sales	$ 25,388	$ 6,536
Lease and other contract obligations	8,635	18,656
Adjustment of previously recorded lease and other contract obligations	—	(403)
Severance	3,556	2,936
Asset impairment	5,609	7,747
Write-down of intangible assets	17,765	—
Other facility exit costs	6,278	1,569
	41,843	30,505
	67,231	37,041
Other charges included in cost of sales	18,379	900
Other charges included in selling, general and administrative expenses	8,802	1,000
Other charges included in amortization expense	—	235
	27,181	2,135
	$ 94,412	$ 39,176

2001 plan:

During fiscal year 2001, in response to excess capacity caused by the slowing technology end market, the Company commenced a restructuring program aimed at reducing its cost structure. Accordingly, the Company recorded restructuring charges of $67,231 consisting of a write-down of goodwill and other intangible assets and the costs associated with existing or re-sizing facilities. In addition, the Company recorded other changes of $27,181 related primarily to accounts receivable, inventory and asset impairment charges.

(a) Restructuring charges:

The write-down of inventory of $25,388 is associated with the closure of the assembly facility in Denver.

Lease and other contract obligations of $8,635 include the costs associated with decommissioning, exiting and subletting the Denver facility and the costs of exiting equipment and facility leases at various other locations.

Severance costs of $3,556 are associated with the closure of the Denver assembly facility and the Haverhill interconnect facility and the re-sizing of the Mexico and Ireland facilities. The severance costs relate to all 429 employees at the Denver facility, 26 plant and operational employees at the Haverhill facility, 915 plant and operational employees at the Mexico facility and 68 plant and operational employees at the Donegal, Ireland facility.

Asset impairment charges of $5,609 reflect 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.

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

17. Restructuring and other charges (continued):

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

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

(b) Write-down of intangible assets:

During fiscal year 2001, the Company recorded a write-down of intangible assets of $17,765 which includes the write-down of goodwill associated with the Qualtron Teoranta acquisition of $16,265 and the write-down of intangible assets of $1,500. In accordance with SFAS No. 121, “Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of”, accounting guidance required that long-lived assets and certain identifiable intangible assets, including goodwill, held and used by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Due to the downturn in the electronics manufacturing services industry, the significant operating loss incurred in fiscal 2001 and the restructuring and other charges recorded in 2001, the Company reviewed the recoverability of the carrying value of long-lived assets, including allocated goodwill and other intangible assets. An evaluation under SFAS No. 121 indicated that the estimated future net cash flows associated with the long-lived assets acquired as part of the Qualtron Teoranta acquisition were less than their carrying value and, accordingly, a write-down to estimated fair values was recorded for unamortized goodwill associated with the acquisition of Qualtron Teoranta and certain intangible assets.

(c) Other charges:

During fiscal year 2001, the Company recorded other charges totaling $27,181 pre-tax related primarily to accounts receivable, inventory and asset impairment charges, resulting from the current downturn in the technology sector. Included in cost of sales are other charges of $18,379 related to inventory and included in selling, general and administrative expenses are other charges of $7,937 related to accounts receivable exposures and other charges of $865 related to asset impairment charges, at various facilities other than the Denver and Haverhill facilities.

The following table details the related amounts included in accrued liabilities as at December 31, 2002, relating to the 2001 plan:

	Total charges	Non-cash charges	Cash payments	Accrual December 31, 2001	Cash payments	Adjustments	Accrual December 31, 2002
Inventory write-downs included in cost of sales	$ 25,388	$(25,388)	$ —	$ —	$ —	$ —	$ —
Lease and other contract obligations	8,635	—	(2,471)	6,164	(4,338)	(403)	1,423
Severance	3,556	—	(2,931)	625	(625)	—	—
Asset impairment	5,609	(5,609)	—	—	—	—	—
Write-down of intangible assets	17,765	(17,765)	—	—	—	—	—
Other facility exit costs	6,278	(3,059)	(2,446)	773	(349)	—	424
	$67,231	$(51,821)	$(7,848)	$ 7,562	$(5,312)	$ (403)	$ 1,847

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

17. Restructuring and other charges (continued):

The Company adjusted its initial accrual for lease and other contract obligations by $403 upon negotiating a final settlement on a facility lease during 2002.

2002 plan:

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

The write-down of inventory of $6,536 represents further costs associated with the closure of the assembly facility in Denver and costs associated with the closure of the interconnect facility in Donegal, Ireland.

Lease and other contract obligations of $18,656 represents the costs associated with exiting equipment leases and exiting facility leases in Austin and Donegal, Ireland.

Severance costs of $2,936 are associated with the closure of the interconnect facility in Donegal, Ireland and the resizing of various other locations. The severance costs related to 516 plant and operational employees, primarily at the Mexico and Donegal, Ireland facilities.

Asset impairment charges of $7,747 reflect the write-down of certain long-lived and other assets, primarily at the Austin 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 of $1,569 include other costs associated with the decommissioning and closure of the Austin and Donegal, Ireland facilities.

The major components of the 2002 restructuring plan are estimated to be complete by the end of fiscal 2003.

The following table details the related amounts included in accrued liabilities as at December 31, 2002 in respect of the 2002 plan:

	Provision	Cash payments	Accrual, December 31, 2002
Lease and other contract obligations	$16,762	$ (1,826)	$ 16,830
Severance	2,936	(1,947)	989
Other facility exit costs	1,569	(2)	1,567
	$23,161	$ (3,775)	$ 19,386

Other charges included in cost of sales of $900 relate to inventory charges resulting from the disengagement with a customer, coupled with the effects of the continued downturn in the technology sector. Other charges of $235 included in selling, general and administration expenses of $1,000 relate to the write-off of certain assets. Other charges of $235 included in amortization expense relate to additional amortization recorded to reflect the amendment to the credit facility (note 7).

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

18. Discontinued operations:

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

The following information relates to the discontinued operations:

	2000	2001	2002
Revenue	$ 16,762	$ 12,834	$ 5,035
Loss from discontinued operations	$ 2,115	$ 4,350	$ 10,197

In 2002, the loss from discontinued operations includes the costs of closing the facility of $9,717. Included in this amount are the write-off of the net assets of $6,717 (comprised of capital assets of $1,129 and net working capital of $5,588) and other costs associated with exiting the facility of $3,000. Included in the other costs is severance of $1,350 related to the termination of all employees. In 2001, the loss from discontinued operations includes restructuring charges of $317 and other charges of $117.

The following table details the related amounts included in accrued liabilities as at December 31, 2002:

	Provision	Cash payments	Accrual, December 31, 2002
Lease and other contract obligations	$ 323	$ (323)	$ —
Severance	1,350	(1,082)	268
Other facility exit costs	1,327	(1,327)	—
	$ 3,000	$ (2,732)	$ 268

19. United States and Canadian accounting policy differences:

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in the United States ("U.S."). The significant differences between U.S. GAAP and Canadian GAAP and their effect on the consolidated financial statements of the Company are described below:

The following table reconciles net earnings (loss) as reported in the accompanying consolidated statements of operations to net earnings (loss) that would have been reported under Canadian GAAP:

	2000	2001	2002
Net earnings (loss) in accordance with U.S. GAAP	$ 3,638	$ (104,811)	$ (107,963)
Amortization (a)	20	220	—
Write-down of goodwill (a) and (b)	—	2,205	55,560
Net earnings (loss) in accordance with Canadian GAAP	$ 3,658	$ (102,386)	$ (52,403)

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

19. United States and Canadian accounting policy differences (continued):

Net earnings (loss) under Canadian GAAP is comprised of the following:

	2000	2001	2002
Operating earnings (loss)	$ 29,635	$ (117,737)	$ (34,660)
Interest expense	13,837	9,330	8,300
Debt extinguishment costs (d)	4,318	—	—
Earnings (loss) before income taxes and discontinued operations	11,480	(127,067)	(42,960)
Income taxes (recovery)	5,707	(29,031)	(754)
Loss from discontinued operations	2,115	4,350	10,197
Net earnings (loss)	$ 3,658	$ (102,386)	$ (52,403)
Shareholders' equity in accordance with U.S. GAAP	$ 228,486	$ 124,661	$ 17,961
Shares issued to acquire Qualtron Teoranta (a)	(2,445)	(2,445)	(2,445)
Amortization of goodwill (a)	20	240	240
Write-down of goodwill (a)	—	2,205	2,205
Transitional goodwill impairment (b)	—	—	—
Shareholders' equity in accordance with Canadian GAAP	$ 226,061	$ 124,661	$ 17,961

(a) Acquisitions:

Under U.S. GAAP, shares issued as consideration in a business combination are valued using the share price at the announcement date of the acquisition. Under Canadian GAAP in effect on the date of acquisition, shares were valued on the consummation date. As a result, under Canadian GAAP, the total purchase price for Qualtron Teoranta would be $24,455, resulting in goodwill of $15,630. Under the U.S. GAAP, the purchase price was $26,900, resulting in goodwill of $18,075. Goodwill amortization in fiscal 2002 under U.S. GAAP was nil (2001—$1,783; 2000—$151) and under Canadian GAAP was nil (2001—$1,563; 2000—$131). The write-down of goodwill during 2001 relating to Qualtron Teoranta was $16,265 under U.S. GAAP and $14,060 under Canadian GAAP.

(b) Transitional goodwill impairment change:

Under Canadian GAAP, any transitional goodwill impairment charge is recognized in opening retained earnings; under U.S. GAAP, the cumulative adjustment is recognized in earnings during the current year.

(c) Earnings per share:

In fiscal 2000, the Company retroactively adopted the new accounting standard approved by The Canadian Institute of Chartered Accountants dealing with the computation of earnings per share, which requires the use of the treasury stock method and is substantially consistent with U.S. GAAP.

19. United States and Canadian accounting policy differences (continued):

(d) Effective January 1 2002, the Company adopted Statement 145 (note 2(q)(iii)). Accordingly, gains and losses from the extinguishment of debt are no longer classified as extraordinary items under U.S. GAAP and are instead included in earnings (loss) before income taxes and discontinued operations and the related tax benefit recorded in income tax expense. This classification is consistent with Canadian GAAP.

20. Comparative figures:

Certain 2000 and 2001 comparative figures have been restated to separately disclose the results of discontinued operations of the Cork, Ireland facility.

EXHIBIT 23.1

Independent Auditors' Consent

The Board of Directors of SMTC Corporation

We consent to the incorporation by reference in the registration statement (No. 333-44250) on Form S-8 and the registration statement (No. 333-33208) on Form S-3 of SMTC Corporation of our report dated February 7, 2003, with respect to the consolidated balance sheets of SMTC Corporation as of December 31, 2001 and 2002, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002, and the related financial statement schedule, which report appears in the December 31, 2002, annual report on Form 10-K of SMTC Corporation. Our report refers to changes in accounting policies on goodwill, impairment or disposal of long-lived assets, and extraordinary items.

/s/ KPMG LLP

Chartered Accountants

Toronto, Canada
March 26, 2003

Exhibit 99.1

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as chief executive officer of SMTC Corporation (the "Company"), does hereby certify that to the undersigned's knowledge:

1) the Company's annual report on Form 10-K for the year ended December 31, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's annual report on Form 10-K for the year ended December 31, 2002 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul Walker

Paul Walker
Chief Executive Officer

Dated: March 27, 2003

Exhibit 99.2

CERTIFICATION PURSUANT TO SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as chief financial officer of SMTC Corporation (the "Company"), does hereby certify that to the undersigned's knowledge:

1) the Company's annual report on Form 10-K for the year ended December 31, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's annual report on Form 10-K for the year ended December 31, 2002 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Frank Burke

Frank Burke
Chief Financial Officer

Dated: March 27, 2003

EXHIBIT 10.1.15

EIGHTH AMENDMENT AND FIFTH WAIVER

EIGHTH AMENDMENT AND FIFTH WAIVER, dated as of December 31, 2002 (this "Amendment"), to and under the Amended and Restated Credit and Guarantee Agreement, dated as of July 27, 2000 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among SMTC Corporation ("Holdings"), HTM Holdings, Inc. (the "U.S. Borrower"), SMTC Manufacturing Corporation of Canada (the "Canadian Borrower"; together with the U.S. Borrower, the "Borrowers"), the several banks and other financial institutions or entities from time to time parties thereto (the "Lenders"), Lehman Brothers Inc., as advisor, lead arranger and book manager, The Bank of Nova Scotia, as syndication agent, Lehman Commercial Paper Inc., as general administrative agent (in such capacity, the "General Administrative Agent"), The Bank of Nova Scotia, as Canadian administrative agent, Lehman Commercial Paper Inc., as collateral monitoring agent, and General Electric Capital Corporation, as documentation agent.

W I T N E S S E T H:

WHEREAS, Holdings and the Borrowers requested that the Lenders amend, and agree to waive, certain of the provisions of the Credit Agreement; and

WHEREAS, the Lenders have consented to the requested amendments and waivers in the manner set forth below;

NOW, THEREFORE, in consideration of the premises and the material covenants herein contained, the parties hereto hereby agree as follows:

1. Defined Terms. Terms used herein and defined in the Credit Agreement are used herein as therein defined.

2. Waivers of Events of Default. The Lenders hereby waive the Defaults and Events of Default arising by reason of (a) the failure of Holdings and the Borrowers to comply with the provisions of Section 7.5(g)(ii) of the Credit Agreement for any period prior to the Amendment Effective Date (as defined below), (b) any representation and warranty made by any Borrower, in connection with any extension of credit under the Credit Agreement between June 30, 2002 and the Amendment Effective Date, to the effect that no Default or Event of Default had occurred by reason of the failure of Holdings and the Borrowers to comply with the provisions of Section 7.5(g)(ii) of the Credit Agreement or (c) any failure of Holdings or any Borrower to give notice under the Credit Agreement of the failure of Holdings and the Borrowers to comply with the provisions of Section 7.5(g)(ii) of the Credit Agreement.

3. Amendment to Section 1.1 of the Credit Agreement (Defined Terms). Section 1.1 of the Credit Agreement is hereby amended as follows:

(a) the definition of "Canadian Revolving Credit Commitment" is hereby amended by adding at the end thereof the following: "The aggregate amount of the

Canadian Revolving Credit Commitments on the Eighth Amendment Effective Date is U.S.$7,593,750.";

(b) the definition of "Consolidated EBITDA" is hereby amended by (i) deleting "and" immediately prior to clause (n) thereof and substituting in lieu thereof a comma and (ii) adding immediately after clause (n) thereof the following:

"and (o) incremental costs incurred by Holdings and its Subsidiaries during such period pursuant to the Eighth Amendment (including the fees and expenses of FTI Consulting, Simpson Thacher & Bartlett and any other advisors to the Lenders) and all fees and expenses of a strategic advisor engaged by Holdings and approved by the Lenders (such approval not to be unreasonably withheld),";

(c) the definition of "Eligible Accounts" is hereby amended by adding at the end thereof the following:

"It being understood that Eligible Accounts (i) shall not include (x) any unissued credits, (y) Accounts which are owed by account debtors located outside the United States and Canada unless, subject to clause (z) below, a security interest (or the substantial equivalent thereof under appropriate local law as acceptable to the Required Lenders), is perfected under local law to the satisfaction of the General Administrative Agent and (z) Accounts payable to a Subsidiary of Holdings formed under the laws of Mexico or owed by account debtors located in Mexico and (ii) shall include Accounts payable by International Business Machines Corporation ("IBM") net of accounts payable by any Loan Party to IBM that are overdue more than 30 days and may be set off in accordance with the supply contract between IBM and Holdings as in effect on the Eighth Amendment Effective Date.";

(d) the definition of "Eligible Inventory" is hereby amended by adding at the end thereof the following

"It being understood that Eligible Inventory shall not include (x) parts Inventory, (y) Inventory located at hubs outside the United States, Ireland and Canada and in transit other than up to the $500,000 of Inventory in transit permitted under clause (d) above and (z) Inventory located in Mexico or owned by a Subsidiary of Holdings formed under the laws of Mexico.";

(e) the definition of "Swing Line Lender" is hereby amended by deleting the proviso therein in its entirety and substituting in lieu thereof the following:

"provided, however, that at any time after the Eighth Amendment Effective Date, the term "Swing Line Lender" shall mean Lehman Commercial Paper Inc., in its capacity as the lender of Swing Line Loans";

(f) the definition of "U.S. Revolving Credit Commitment" is hereby amended by adding at the end thereof the following: "The aggregate amount of the U.S Revolving Credit Commitments on the Eighth Amendment Effective Date is U.S.$82,406,250.";

(g) deleting in their entirety the definitions of "Advance Rate" and "Borrowing Base"; and

(h) inserting the following new defined terms in their correct alphabetical order:

""Advance Rate": (i) with respect to Eligible Accounts, 85%, and (ii) with respect to Eligible Inventory, valued on a first-in, first-out basis (at the lower of cost or market), 65%.

"Availability Adjustment": at any time, the sum of (a) the aggregate amount of scheduled amortization payments on the Term Loans made by the U.S. Borrower at such time on and after December 31, 2002, and (b) 65% of Inventory of the Borrowers and their Subsidiaries and located in Mexico at such time which satisfies all of the requirements of the definition of Eligible Inventory in this Section 1.1; provided, however, that for the period from the Eighth Amendment Effective Date through and ending 90 days thereafter, such Inventory shall not be required to satisfy the requirements set forth in subsections (b) and (h) of such definition (and thereafter shall be required to satisfy such requirements in the manner provided in Section 10.13)."

"Borrowing Base": with respect to the Borrowers, on any date of determination, the sum (without duplication) of (i) the product of (A) the aggregate outstanding Eligible Accounts of the

Borrowers and their Subsidiaries on such date and (B) the applicable Advance Rate, plus (ii) the product of (x) the aggregate Eligible Inventory of the Borrowers and their Subsidiaries on such date, and (y) the applicable Advance Rate; provided, that not more than 50% of the Borrowing Base of the Borrowers may be attributable to Eligible Inventory. The Borrowing Base shall be as set forth in the most recent Borrowing Base Certificate delivered by the Borrowers absent manifest error; such Borrowing Base so determined shall remain in effect until the next determination thereof pursuant to this sentence.

"Borrowing Formula": at any time, the amount equal to (a) the Borrowing Base at such time, plus (b) the Availability Adjustment at such time, plus (c) on any day of any month set forth on Schedule 1.1A , the amount set forth opposite such month on such Schedule, plus (d) cash on deposit in the bank accounts of the Borrower and its Subsidiaries at such time, less (e) the amount equal to the checks written and automated clearinghouse debits requested that have not been paid or debited at such time against the bank accounts of the Borrowers (it being understood that on the last day of each calendar month, the Borrowers shall also be in compliance with the covenant contained in Section 11.1(g)), plus (f) the amount by which the expenses associated with the Eighth Amendment (as

described by the Borrower in reasonable detail to the Lenders) exceeds the amount for such expenses included in the Borrower's Business Plan.

"Cash Restructuring Costs": consists of the following to the extent paid in cash: (a) severance costs associated with operations of Holdings and its Subsidiaries which have been discontinued ("Discontinued Operations"); (b) costs associated with the physical relocation of equipment in connection with Discontinued Operations, and (c) staff site visits in connection with Discontinued Operations.

"Eighth Amendment": the Eighth Amendment and Fifth Waiver, dated as of December 31, 2002, to and under this Agreement.

"Eighth Amendment Effective Date": the Amendment Effective Date under and as defined in the Eighth Amendment.

"Quarterly Budget": as defined in Section 10.2(j).

"Registration Rights Agreement": the Amended and Restated Registration Rights Agreement, substantially in the form of Exhibit C to the Eighth Amendment, to be entered into pursuant to the Eighth Amendment.

"Total Revolving Extensions of Credit": as defined in Section 11.1(f)(i).

"Warrant Agreement": the Warrant Agreement, substantially in the form of Exhibit B to the Eighth Amendment, to be entered into pursuant to the Eighth Amendment.".

4. Amendment to Section 2.4 of the Credit Agreement (U.S. Revolving Commitments). Section 2.4(a) of the Credit Agreement is hereby amended by deleting clause (B) in the first sentence thereof and substituting in lieu thereof the following:

"(B) the Aggregate U.S. Revolving Extensions of Credit, when added to the Aggregate Canadian Revolving Extensions of Credit, would not exceed the Borrowing Formula.".

5. Amendment to Section 2.6 of the Credit Agreement (Swing Line Commitment). Section 2.6(a) of the Credit Agreement is hereby amended by:

(a) deleting clause (iii)(B) in the proviso in the first sentence thereof and substituting in lieu thereof the following:

"(B) the Aggregate U.S. Revolving Extensions of Credit, when added to the Aggregate Canadian Revolving Extensions of Credit, would not exceed the Borrowing Formula"; and

(b) deleting the second sentence thereof and substituting in lieu thereof the following:

"Notwithstanding anything to the contrary contained in the preceding sentence, at any time after the Eighth Amendment Effective Date, Lehman Commercial Paper Inc. shall be the only Swing Line Lender.".

6. Amendment to Section 2.7(a) of the Credit Agreement (Procedure for Swing Line Borrowing; Refunding of Swing Line Loans). Section 2.7(a) of the Credit Agreement is hereby amended by (a) deleting the phrase "1:30 P.M., New York City time (or, during the Fourth Amendment Waiver Period, 3:00 P.M., New York City time)" in the first sentence thereof and substituting in lieu thereof "3:00 P.M., New York City time" and (b) deleting the phrase "3:00 P.M., New York City time (or, during the Fourth Amendment Waiver Period, 4:30 P.M., New York City time)" in the third sentence thereof and substituting in lieu thereof "4:30 P.M., New York City time".

7. Amendment to Section 5.1 of the Credit Agreement (Canadian Revolving Commitments). Section 5.1(a) of the Credit Agreement is hereby amended by deleting clause (B) in the first sentence thereof and substituting in lieu thereof the following:

"(B) the Aggregate Canadian Revolving Extensions of Credit, when added to the Aggregate U.S. Revolving Extensions of Credit, would not exceed the Borrowing Formula.".

8. Amendment to Section 5.6 of the Credit Agreement (Acceptance Commitments). Section 5.6(a) of the Credit Agreement is hereby amended by deleting clause (ii) therein and substituting in lieu thereof the following:

"(ii) the Aggregate Canadian Revolving Extensions of Credit, when added to the Aggregate U.S. Revolving Extensions of Credit, would not exceed the Borrowing Formula.".

9. Amendment to Section 5.14 of the Credit Agreement (Canadian Swing Line Commitment). Section 5.14(a) of the Credit Agreement is hereby amended by deleting clause (ii)(B) in the proviso in the first sentence thereof and substituting in lieu thereof the following:

"(B) the Aggregate Canadian Revolving Extensions of Credit, when added to the Aggregate U.S. Revolving Extensions of Credit, would not exceed the Borrowing Formula.".

10. Amendment to Section 6.1 of the Credit Agreement (L/C Commitments). Section 6.1 of the Credit Agreement is hereby amended as follows:

(a) Section 6.1(a) of the Credit Agreement is hereby amended by:

(i) deleting clause (iii) in the first proviso in the first sentence thereof and substituting in lieu thereof the following:

"(iii) the Aggregate U.S. Revolving Extensions of Credit, when added to the Aggregate Canadian Revolving Extensions of Credit, would exceed the Borrowing Formula"; and

(ii) deleting the following proviso at the end of the second sentence thereof:

", provided, further, that, notwithstanding anything to the contrary contained in this Section 6.1(a), with respect to any

U.S. Letter of Credit issued or extended at any time on or after the Fourth Amendment Effective Date, such U.S. Letter of Credit shall expire no later than December 31, 2002"; and

(b) Section 6.1(b) of the Credit Agreement is hereby amended by:

(i) deleting clause (iii) in the first proviso in the first sentence thereof and substituting in lieu thereof the following:

"(iii) the Aggregate Canadian Revolving Extensions of Credit, when added to the Aggregate U.S. Revolving Extensions of Credit, would exceed the Borrowing Formula"; and

(ii) deleting the following proviso at the end of the second sentence thereof:

", provided, further, that, notwithstanding anything to the contrary contained in this Section 6.1(b), with respect to any Canadian Letter of Credit issued or extended at any time on or after the Fourth Amendment Effective Date, such Canadian Letter of Credit shall expire no later than December 31, 2002".

11. Amendment to Section 7.5 of the Credit Agreement (Mandatory Prepayments; Application of Prepayments). Section 7.5(g) of the Credit Agreement is hereby amended by:

(a) Amending paragraph (g)(i) by:

(i) deleting the clause "the lesser of (A) the Borrowing Base of the U.S. Borrower and (B)" therein; and

(ii) deleting the phrase "Borrowing Base of the U.S. Borrower" in the second proviso therein and substituting in lieu thereof "the U.S. Revolving Credit Commitments then in effect";

(b) Amending paragraph (g)(ii) by:

(i) deleting the clause "the lesser of (A) the Borrowing Base of the Canadian Borrower and (B)" therein; and

(ii) deleting the phrase "Borrowing Base of the Canadian Borrower" in the second proviso therein and substituting in lieu thereof "the Canadian Revolving Credit Commitments then in effect"; and

(c) adding at the end of such Section the following new paragraph (iii):

(iii) If, at any time during the U.S. Revolving Credit Commitment Period or the Canadian Revolving Credit Commitment Period for a period of three consecutive Business Days, the amount of the Aggregate U.S. Revolving Extensions of Credit, when added to the Aggregate Canadian Extensions of Credit, exceeds the Borrowing Formula, the Borrowers shall immediately, without notice or demand, prepay the Canadian Revolving Credit Loans, the U.S. Revolving Credit Loans and the Swing Line Loans in an aggregate principal amount equal to such excess, together with interest on the principal amount being repaid accrued to the date of such payment or prepayment; provided that if the aggregate principal amount of the Canadian Revolving Credit Loans, the U.S. Revolving Credit Loans and the Swing Line Loans then outstanding is less than the amount of such excess (because U.S. L/C Obligations and/or Canadian L/C Obligations constitute a portion thereof), the Borrowers shall, to the extent of the balance of such excess, replace outstanding U.S. Letters of Credit and/or Canadian Letter of Credit and/or cash collateralize such U.S. Letters of Credit and/or Canadian Letter of Credit in the manner described in Section 13; provided further that if the sum of the Aggregate U.S. Revolving Extensions of Credit and the Aggregate Canadian Revolving Extensions of Credit, plus any cash collateral delivered to the General Administrative Agent pursuant to the immediately preceding proviso exceeds the Borrowing Formula for three consecutive Business Days the General Administrative Agent, at the request of either Borrower, shall promptly return such cash collateral in an aggregate amount equal to such excess. All payments made under this Section 7.5(g)(iii) shall be made ratably between the U.S. Revolving Extensions of Credit and the Canadian Revolving Extensions of Credit.".

12. Amendment to Section 7.14 of the Credit Agreement (Use of Proceeds). Section 7.14 of the Credit Agreement is hereby amended to add at the end thereof immediately prior to the period therein the following:

", and on and after the Eighth Amendment Effective Date, the proceeds of the Loans shall also be applied to checks written or automated clearinghouse debits requested in the ordinary course of business of Holdings and its Subsidiaries or for Cash Restructuring Costs permitted under this Agreement. ".

13. Amendment to Section 10.2 of the Credit Agreement (Certificate; Other Information). Section 10.2 of the Credit Agreement is hereby amended by (a) deleting the reference to "clause (j)" in the introductory clause thereof and substituting in lieu thereof a reference to "clause (l)", (b) relettering clause (j) as clause (l), (c) deleting "and" at the end of clause (i) thereof and (d) adding immediately after clause (i) thereof the following:

"(j) as soon as available, but in any event no later than fifteen Business Days prior to the end of each fiscal quarter of Holdings, projected weekly levels of cash receipts and cash disbursements for the immediately succeeding fiscal quarter (the "Quarterly Budget") which reconciles with the business plan of Holdings delivered to the General Administrative Agent on November 15, 2002, in a manner and in detail set forth on Schedule 10.2(j);

(k) as soon as available, but in any event not later than Wednesday of each calendar week, (i) flash reports of actual revenues and expenditures for the calendar week most recently ended and (ii) a comparison setting forth actual cash receipts and cash disbursements made, checks written and automated clearinghouse debits requested against the Quarterly Budget and a discussion of any variance with respect thereto, all of the foregoing in detail set forth on Schedule 10.2(k); and".

14. Amendment to Section 10.3 of the Credit Agreement (Collateral Reports). Section 10.3(a) of the Credit Agreement is hereby amended by adding at the end thereof immediately before the semicolon therein the following: "and a calculation of the Borrowing Formula".

15. Amendment to Section 10.13 of the Credit Agreement (Additional Delivery of Collateral). Section 10.13 of the Credit Agreement is hereby amended by deleting such Section in its entirety and substituting in lieu thereof the following:

"10.13 Additional Delivery of Collateral. On and after the Eighth Amendment Effective Date, use their reasonable best efforts to provide the General Administrative Agent with a perfected first priority Lien (or substantial equivalent thereof under applicable local law) on all Inventory and real property owned by the Borrowers and, unless the Borrowers shall have determined in good faith that it would result in adverse tax consequences to the Borrowers or any Subsidiary thereof, their Subsidiaries and located in Ireland. Within 90 days after the Eighth Amendment Effective Date, provide the General Administrative Agent with a perfected first priority Lien (or the substantial equivalent thereof under applicable local law as shall be acceptable to the Required Lenders) on substantially all property owned by the Borrowers or their Subsidiaries and located in Mexico (it being understood that the General Administrative Agent shall cooperate with the Borrowers to minimize the fees related to obtaining such Liens).".

16. Amendment to Section 11.1 of the Credit Agreement (Financial

Condition Covenants). Section 11.1 of the Credit Agreement is hereby amended by:

(a) deleting Section 11.1(a) in its entirety and substituting in lieu thereof the following:

"(a) Consolidated Leverage Ratio. Permit the Consolidated Leverage Ratio as at the last day of any period of four consecutive fiscal quarters of Holdings ending with any fiscal quarter set forth on Schedule 11.1(a) to exceed the ratio set forth on Schedule 11.1(a) opposite such fiscal quarter.";

(b) deleting Section 11.1(b) in its entirety and substituting in lieu thereof the following:

"(b) [Reserved].";

(c) deleting Section 11.1(c) in its entirety and substituting in lieu thereof the following:

"(c) Consolidated Interest Coverage Ratio. Permit the Consolidated Interest Coverage Ratio for any period of four consecutive fiscal quarters of Holdings ending with any fiscal quarter set forth on Schedule 11.1(c) to be less than the ratio set forth on Schedule 11.1(c) opposite such fiscal quarter.";

(d) deleting Section 11.1(d) in its entirety and substituting in lieu thereof the following:

"(d) [Reserved]."; and

(e) deleting Sections 11.1(e), (f) and (g) and substituting in lieu thereof the following:

"(e) Minimum Cumulative Consolidated EBITDA. Permit the cumulative Consolidated EBITDA of Holdings and its Subsidiaries for the portion of any fiscal quarter ending on any date set forth on Schedule 11.1(e) to be less than the amount set forth opposite such date on Schedule 11.1(e); provided that, for purposes of determining compliance with the foregoing covenant, if the cumulative Consolidated EBITDA for any full fiscal quarter exceeds the amount set forth on Schedule 11.1(e) for such fiscal quarter, 50% of such excess may be carried over and added to the cumulative Consolidated EBITDA for the immediately following full fiscal quarter, to the extent that the cumulative Consolidated EBITDA for such following fiscal quarter would be less than the required amount set forth above for such fiscal quarter.

(f) Maximum Outstanding Extensions of Credit. (i) Permit the sum of the Aggregate U.S. Revolving Extensions of Credit and the Aggregate Canadian Revolving Extensions of Credit (such sum, the "Total Revolving Extensions of Credit") on any date set forth on Schedule 11.1(f)(i) to be greater than the amount set forth opposite such date on Schedule 11.1(f)(i).

(ii) On any day (other than the last day) of any month set forth on Schedule 11.1(f)(ii), permit the Total Revolving Extensions of Credit to exceed the lesser of (A) the Borrowing Formula in effect on such day and (B) the amount set forth opposite such month on Schedule 11.1(f)(ii).

(g) Minimum Availability Test. As at the last day of each month on and after the Eighth Amendment Effective Date, permit the amount equal to (i) the Borrowing Base on such date, plus (ii) the Availability Adjustment, minus (iii) the

Total Revolving Extension of Credit on such date, minus (iv) if on such date the aggregate amount of accounts payable of Holdings and its Subsidiaries that are more than 60 days past due (the "Past Due Accounts") exceeds 10% of the aggregate accounts payable of Holdings and its Subsidiaries on such date, the amount of such excess over 10%, plus (v) cash on deposit in the bank accounts of the Borrowers and its Subsidiaries, minus (vi) checks written and automated clearinghouse debits requested which have not yet cleared, to be less (or, in the case of a negative number, a larger negative number) than the amount set forth on Schedule 11.1(g) opposite such month on Schedule 11.1(g).".

17. Amendment to Section 11.7 of the Credit Agreement (Capital Expenditures). Section 11.7 of the Credit Agreement is hereby amended by deleting the second paragraph therein and substituting in lieu thereof the following:

"From and after the Eighth Amendment Effective Date, the foregoing covenant for the 2003 and 2004 fiscal years of Holdings shall not be applicable. Notwithstanding anything to the contrary contained in this Section 11.7, during the period from and after the Eighth Amendment Effective Date, Holdings shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, make or commit to make any Capital Expenditure, except Capital Expenditures of Holdings and its Subsidiaries in the ordinary course of business not exceeding $1,250,000 during any fiscal quarter of Holdings.".

18. Amendment to Section 11 of the Credit Agreement (Negative Covenants). Section 11 of the Credit Agreement is hereby amended by adding at the end thereof a new Section 11.18 as follows:

"11.18 Limitation on Cash Restructuring Costs. Permit Cash Restructuring Costs incurred by Holdings and its Subsidiaries on and after the Eighth Amendment Effective Date to exceed $5,600,000, in the aggregate.

11.19. Limitation on Location of Business. Permit Holdings or any of its Subsidiaries, without the consent of the Required Lenders, to move the manufacturing operations, or any material portion of the business, of Holdings or such Subsidiary to any jurisdiction outside of the jurisdictions in which Holdings and its Subsidiaries operate on the Eighth Amendment Effective Date.".

19. Amendment to Section 13 of the Credit Agreement (Events of Default). Section 13 of the Credit Agreement is hereby amended by deleting Section 13(d) thereof in its entirety and substituting in lieu thereof the following:

"(d) (i) Any Loan Party shall default in the observance or performance of any agreement contained Section 10.1, 10.2(c), 10.2(f), 10.2(g), 10.2(j), 10.2(k), 10.3(a) and 10.3(e) in this Agreement, and such default shall continue unremedied for a period of five Business Days after the date upon which such Loan party knows or should reasonably be expected to know the existence of such default or (ii) any Loan Party shall default in the observance or performance of any other agreement contained in this Agreement or any other Loan Document (other than as provided in paragraphs (a), (b), (c) or (d)(i) of this

Section), and such default shall continue unremedied for a period of 30 days after the date upon which such Loan party knows or should reasonably be expected to know the existence of such default; or".

20. Additional Schedules to the Credit Agreement. The Credit Agreement is hereby amended by deleting Schedules 11.1(e) and (f) in their entireties and substituting in lieu thereof and adding Schedules 1.1A, 10.2(j), 10.2(k), 11.1(a), 11.1(c), 11.1(e), 11.1(f)(i), 11.1(f)(ii) and 11.1(g) in the forms attached hereto as Annexes A, B, C, D, E, F, G, H and I, respectively.

21. Effectiveness. The Amendment shall become effective on the date of satisfaction of the following conditions precedent (the "Amendment Effective Date"):

(a) The General Administrative Agent shall have received counterparts of this Amendment, duly executed and delivered by Holdings and each of the Borrowers.

(b) The General Administrative Agent shall have received executed Lender Consent Letters, substantially in the form of Exhibit A hereto ("Lender Consent Letters"), from Lenders constituting the Required Lenders.

(c) The General Administrative Agent shall have received an executed Acknowledgment and Consent, in the form set forth at the end of this Amendment, from each Subsidiary Guarantor.

(d) The General Administrative Agent shall have received an executed Acknowledgment and Consent, in the form and substance reasonably satisfactory to the General Administrative Agent, from each Canadian Subsidiary Guarantor.

(e) Each Loan Party shall have identified and, except as otherwise agreed by the General Administrative Agent, provided the General Administrative Agent (or other agent or trustee satisfactory to the General Administrative Agent), for the benefit of the Lenders, with a perfected first priority Lien in all material assets owned by any Loan Party not subject of such a security interest, including with respect to all real property of the Borrowers and their Subsidiaries located in the United States of America pursuant to Section 10.11(b) of the Credit Agreement.

(f) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Amendment shall be satisfactory in form and substance to the General Administrative Agent.

(g) Holdings and the General Administrative Agent shall have executed and delivered the Warrant Agreement and the Registration Rights Agreement and the Warrants required to be issued pursuant to the Warrant Agreement on the Amendment Effective Date shall have been issued.

(h) The Lenders and the General Administrative Agent shall have received a budget in form and substance satisfactory to them setting forth Holdings' projected weekly levels of revenue and expenses from October 31, 2002 through June 30, 2004.

(i) Holdings shall have provided a 13-week cash flow forecast for the period beginning with the first full calendar week following the Amendment Effective Date, in form, detail and substance reasonably satisfactory to the General Administrative Agent and which shall, in any event, include the total amount of checks outstanding, indicate the available amount permitted under the U.S. Revolving Credit Facility and the Canadian Revolving Credit Facility, and indicate whether there is a forecasted cash surplus or deficiency.

(j) The Lenders and the General Administrative Agent shall have received all fees required to be paid, and all expenses required to be reimbursed for which invoices have been presented, on or before the Amendment Effective Date.

(k) All governmental and third party approvals necessary in connection with the Amendment shall have been obtained and be in full force and effect.

(l) The General Administrative Agent shall have received such legal opinions from counsel to Holdings and its Subsidiaries and such documents and other instruments as are customary for transactions of this type or as it may reasonably request.

(m) The General Administrative Agent shall have received from Holdings, for the account of each Lender, an amendment fee equal to 0.50% of the sum of such Lender's Revolving Credit Commitments (as reduced pursuant to this Amendment) and Term Loans then outstanding.

22. Representations and Warranties. After giving effect to the amendment and waivers contained herein, on the Amendment Effective Date, each of Holdings and the Borrowers hereby confirms, reaffirms and restates the representations and warranties set forth in Section 8 of the Credit Agreement, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date; provided that each reference in such Section 8 to "this Agreement" shall be deemed to be a reference both to this Amendment and to the Credit Agreement as amended by this Amendment.

23. Release and Acknowledgements.

(a) In order to induce the Lenders to enter into this Amendment, each Loan Party hereby remises, releases and forever discharges, and by these presents does for its Subsidiaries (direct or indirect), and for itself and its predecessors, successors, affiliates and assigns (each, a "Releasor"), remise, release and forever discharge, each Agent, each Lender, and each predecessor, affiliate, subsidiary (direct or indirect), successor, assign, participant, officer, director, employee or agent of any Agent or any Lender (collectively, the "Released Parties"), of and from all manner of actions at law or equity, all causes of action for damages, costs, debts, sums of money, accounts, bills, rights of indemnity, breach of contract, provision of labor or materials, loss of use, loss of services, expenses, compensation, consequential or punitive damages, equitable subordination, avoidance of preferential or fraudulent transfers, or any other thing whatever, arising by virtue of actions taken, actions omitted to be taken or the occurrence of any other event on or prior to the Amendment Effective Date, relating in any way to (i) this Amendment, the Credit Agreement, any other Loan Document or the obligations of the Loan Parties under the Credit Agreement and the other Loan Documents (the "Obligations"), (ii) any claims (including, without limitation, for contribution or indemnification) which have or could have arisen out of any of the transactions contemplated by this Amendment or the Loan Documents or any other proceedings that have been brought or may be brought by any party hereto or to any Loan Document or any third party relating to the Loan Documents or the transactions contemplated thereby, (iii) any acts, transactions or events that are the subject matter of this Amendment or the Loan Documents or (iv) the prosecution of any claims or any settlement negotiations which such Releasor ever had, now or which it, its Subsidiaries (direct or indirect), or its successors or assigns hereafter can, shall or may have against the Released Parties by reason of (with respect to each of clauses (i)-(iv) above) any matter, cause or thing whatsoever on or prior to the Amendment Effective Date relating to this Amendment or the Loan Documents; provided, however, that nothing herein shall be construed or deemed to release any covenants or agreements contained herein or in any Loan Document so long as such Loan Document shall remain in full force and effect.

(b) Each Loan Party hereby acknowledges and agrees that the Obligations are secured by valid and enforceable first priority liens and security interests granted by the Loan Parties to an Agent, for the ratable benefit of the Lenders, upon all of the Collateral, subject only to Liens permitted under the Credit Agreement. The Obligations and the liens and security interests of the Agents, for the ratable benefit of the Lenders, in the Collateral are not subject to avoidance, defense, objection, action, counterclaim, setoff or subordination, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors' rights generally. The Obligations constitute legal, valid and binding obligations of each Loan Party, enforceable in accordance with the terms of the Loan Documents and pursuant to applicable law, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors' rights generally, and subject to the limitations imposed by general equitable principles (regardless whether such enforceability is considered in a

proceeding at law or in equity). Furthermore, no Loan Party will use any of its cash or other assets to object to or contest in any manner, or raise any objections, counterclaims or defenses to, the validity, perfection, priority or enforceability of the claims or liens of the Agents and the Lenders relating to this Amendment, the Credit Agreement or any other Loan Document, or to investigate or assert any claims or causes of action arising on or prior to the Amendment Effective Date against the Agents or the Lenders relating to this Amendment, the Credit Agreement or any other Loan Document.

(c) Except as expressly set forth in this Amendment, each of the Loan Parties acknowledges and agrees that the execution and delivery by the Agents of, or the consent by the Lenders to, this Amendment shall not be deemed (i) to create a course of dealing or otherwise obligate the Agents or the Lenders to forbear or execute similar agreements under the same or similar circumstances in the future, (ii) to modify, relinquish or impair any right of the Agents or the Lenders to receive any indemnity or similar payment from any Person or entity as a result of any matter arising from or relating to this Amendment, (iii) to waive any right of the Lenders to receive interest at an increased rate as a result of any Events of Default that may occur under the Credit Agreement as amended by this Amendment, (iv) to obligate the Lenders in any way to forbear from individually or collectively enforcing remedies under the Credit Agreement as amended by this Amendment in any manner or (v) a commitment from any of the Lenders to forbear or "stand still". Except as expressly set forth in this Amendment, no past or future forbearance on the part of any of the Lenders should be viewed as a limitation upon or waiver of the absolute right and privilege of the Lenders in exercising rights and remedies that currently exist or may exist after the Amendment Effective Date.

24. Continuing Effect; No Other Amendments. Except as expressly amended or waived hereby, all of the terms and provisions of the Credit Agreement and the other Loan Documents are and shall remain in full force and effect. The amendments and waivers contained herein shall not constitute an amendment or waiver of any other provision of the Credit Agreement or the other Loan Documents or for any purpose except as expressly set forth herein.

25. No Default. No Default or Event of Default shall have occurred and be continuing as of the Amendment Effective Date after giving effect to this Amendment.

26. Counterparts. This Amendment may be executed in any number of counterparts by the parties hereto, each of which shall be an original, and all of which when taken together shall constitute one and the same instrument. Delivery of an executed counterpart by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

27. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

SMTC CORPORATION

By: /s/ Paul Walker

Name: Paul Walker
Title: President

HTM HOLDINGS, INC.

By: /s/ Paul Walker

Name: Paul Walker
Title: President

SMTC MANUFACTURING CORPORATION OF CANADA

By: /s/ Paul Walker

Name: Paul Walker
Title: President

LEHMAN COMMERCIAL PAPER INC., as General Administrative Agent

By: /s/ G. Andrew Keith

Name: G. Andrew Keith
Title: Authorized Signatory

ACKNOWLEDGMENT AND CONSENT

Each of the undersigned parties to the Amended and Restated Guarantee and Collateral Agreement, dated as of July 27, 2000, as amended, supplemented or otherwise modified from time to time, made by the undersigned in favor of Lehman Commercial Paper Inc., as General Administrative Agent, for the benefit of the Lenders, hereby (a) consents to the transactions contemplated by the Eighth Amendment to the Amended and Restated Credit and Guarantee Agreement (the "Eighth Amendment"), (b) acknowledges and agrees that the guarantees and grants of security interests contained in such Amended and Restated Guarantee and Collateral Agreement and in the other Security Documents are, and shall remain, in full force and effect after giving effect to the Eighth Amendment and all prior modifications to the Amended and Restated Credit and Guarantee Agreement and (c) agrees to and acknowledges the provisions of Section 23 of the Eighth Amendment which are incorporated herein by reference.

SMTC CORPORATION
HTM HOLDINGS, INC.
SMTC MANUFACTURING CORPORATION OF CALIFORNIA
SMTC MANUFACTURING CORPORATION OF COLORADO
SMTC MANUFACTURING CORPORATION OF MASSACHUSETTS
SMTC MANUFACTURING CORPORATION OF NORTH CAROLINA
SMTC MANUFACTURING CORPORATION OF TEXAS
SMTC MANUFACTURING CORPORATION OF WISCONSIN
SMTC MEX HOLDINGS, INC.
QUALTRON, INC.

By: /s/ Paul Walker

Name:
Title:

EXHIBIT 10.43

EXECUTION COPY

==

REGISTRATION RIGHTS AGREEMENT

SMTC CORPORATION

and

LEHMAN COMMERCIAL PAPER INC.,

Dated as of December 31, 2002

==

TABLE OF CONTENTS

PAGE

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (the "Agreement") is made and entered into as of December 31, 2002, between SMTC Corporation, a Delaware corporation (the "Company"), and Lehman Commercial Paper Inc., as General Administrative Agent under the Credit Agreement, as defined below (the "Agent").

RECITALS

This Agreement is made pursuant to the Eighth Amendment and Fifth Waiver (the "Amendment and Waiver") to and under the Amended and Restated Credit Agreement, dated as of July 27, 2000 (the "Credit Agreement"), between the Company and the various parties set forth therein. In order to induce the Lenders, as defined in the Credit Agreement, to enter into the Amendment and Waiver, the Company has agreed to the registration rights set forth in this Agreement. The execution of this Agreement is a condition to the Closing under the Amendment and Waiver.

AGREEMENT

The parties agree as follows:

1. Definitions

As used in this Agreement, the following capitalized terms shall have the following meanings:

Exchange Act: The Securities Exchange Act of 1934, as amended.

Indemnified Parties: See Section 7(a) hereof.

Indemnifying Party: See Section 7(c) hereof.

NASD: National Association of Securities Dealers, Inc.

Person: An individual, partnership, corporation, trust or unincorporated organization, or a government or agency or political subdivision thereof.

Prospectus: The prospectus included in any Registration Statement, as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement and by all other amendments and supplements to the prospectus, including post-effective amendments and all material incorporated by reference in such prospectus.

Public Offering: Shall mean a public offering and sale of common stock for cash pursuant to an effective registration statement under the Securities Act.

Registrable Securities: The Warrant Shares; provided that a security ceases to be a Registrable Security when it is no longer a Transfer Restricted Security.

Registration Default: See Section 3(b) hereof.

Registration Expenses: See Section 6 hereof.

Registration Statement: Any registration statement of the Company which covers any of the Registrable Securities pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such Registration Statement, including post-effective amendments, all exhibits and all material incorporated by reference in such Registration Statement.

Rule 145 Transaction: shall mean a registration on Form S-4 pursuant to Rule 145 of the Securities Act (or any successor Form or provision, as applicable).

SEC: The Securities and Exchange Commission.

Securities Act: The Securities Act of 1933, as amended.

Stockholders Agreement Registrable Securities: Registrable Securities as defined in the Stockholders Agreement among SMTC Corporation and certain stockholders referred to therein dated as of July 27, 2000 as in effect on the date hereof.

Transfer Restricted Security: The Registrable Securities beginning upon original issuance thereof, and with respect to any particular Registrable Security, until such Registrable Security is sold to the public or may be sold to the public pursuant to Rule 144(k) of the Securities Act.

underwritten registration or underwritten offering: A registration in which securities of the Company are sold to an underwriter for reoffering to the public.

Warrant Agreement: The Warrant Agreement, dated as of December ___, 2002, between the Company and the warrant agent named therein.

Warrant Shares: The shares of common stock of the Company issuable to the holders of Warrants upon exercise of the Warrants, together with any other securities that may in the future become issuable upon exercising the Warrants.

Warrants: Warrants to purchase common stock of the Company issued in accordance with the Warrant Agreement.

2. Securities Subject to this Agreement

(a) Registrable Securities. The securities entitled to the benefits of this Agreement are the Registrable Securities.

(b) Holders of Registrable Securities. A Person is deemed to be a holder of Registrable Securities whenever such Person owns Registrable Securities of record or has provided evidence reasonably satisfactory to the Company that such Person has the right to

acquire such Registrable Securities, whether or not such acquisition has actually been effected and disregarding any legal restrictions upon the exercise of such right.

3. Registration Rights

The Company will perform and comply, and cause each of its subsidiaries to perform and comply, with such of the following provisions as are applicable to it. Each holder of Registrable Securities will perform and comply with such of the following provisions as are applicable to such holder.

3.1 Warrant Holders' Demand Registration Rights.

(a) General. From and after December 31, 2003, holders of Warrants and Warrant Shares that together constitute at least 15% of the Registrable Securities (assuming for purposes of calculating the 15% that the holders of Warrants have exercised such Warrants) (for purposes of this Section 3, "Initiating Investors"), by notice to the Company specifying the intended method or methods of disposition, may request that the Company effect the registration under the Securities Act for a Public Offering of all or a specified part of the Registrable Securities held by, or issuable upon exercise of Warrants held by, such Initiating Investors. The Company will then use its best efforts to effect the registration under the Securities Act of the Registrable Securities which the Company has been requested to register by such Initiating Investors together with all other Registrable Securities which the Company has been requested to register pursuant to Section 3.2 or otherwise, all to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities which the Company has been so requested to register; provided, however, that the Company shall not be obligated to take any action to effect any such registration pursuant to this Section 3.1:

(i) Within 180 days immediately following the effective date of any registration statement pertaining to an underwritten public offering of securities of the Company for its own account (other than a Rule 145 Transaction, or a registration relating solely to employee benefit plans); or

(ii) On any form other than Form S-3 (or any successor form) if the Company has previously effected three or more registrations of Registrable Securities under this Section 3.1 on any form other than Form S-3 (or any successor form); provided, however, that no registrations of Registrable Securities which shall not have become and remained effective in accordance with the provisions of this Section 3, and no registrations of Registrable Securities pursuant to which the Initiating Investors are not able to include at least 90% of the Registrable Securities which they desired to include (or 100% of the remaining Registrable Securities in connection with the Initiating Investors third demand for registration), shall be included in the calculation of numbers of registrations contemplated by this clause (ii).

(b) Payment of Expenses. The Company shall pay all reasonable expenses of the Initiating Investors incurred in connection with each registration of Registrable Securities requested pursuant to this section 3.1, other than underwriting discount and commission, if any, and applicable transfer taxes, if any.

(c) Additional Procedures. In the case of a registration pursuant to Section 3.1, whenever the holders of at least a majority of the Registrable Securities to be included in the proposed registration statement in question by the Initiating Investors (the "Majority Participating Stockholders") shall request that such registration shall be effected pursuant to an underwritten offering, the Company shall include such information in the written notices to holders of Registrable Securities and holders of Warrants referred to in Section 3.2. In such event, the right of any holder of Registrable Securities to have securities owned by such holder included in such registration pursuant to Section 3.1 shall be conditioned upon such holder's participation in such underwriting and the inclusion of such holder's Registrable Securities in the underwriting (unless otherwise mutually agreed upon by the Majority Participating Stockholders and such holder). If requested by such underwriters, the Company together with the holders of Registrable Securities proposing to distribute their securities through such underwriting will enter into an underwriting agreement with such underwriters for such offering containing such representations and warranties by the Company and such holders and such other terms and provisions as are customarily contained in underwriting agreements with respect to secondary distributions, including, without limitation, customary indemnity and contribution provisions (subject, in each case, to the limitations on such liabilities set forth in this Agreement).

3.2 Piggyback Registration Rights.

(a) General. Each time the Company proposes to register any shares of Common Stock under the Securities Act on a form which would permit registration of Registrable Securities for sale to the public, for its own account and/or for the account of any stockholder (pursuant to Section 3.1, or otherwise) for sale in a Public Offering, the Company will give notice to all holders of Registrable Securities and holders of Warrants of its intention to do so. Any such holder may, by written response delivered to the Company within 20 days after the effectiveness of such notice, request that all or a specified part of the Registrable Securities (i) held by such holder or (ii) issuable to such holder upon exercise of Warrants held by such holder be included in such registration. The Company thereupon will use its reasonable efforts to cause to be included in such registration under the Securities Act all shares of Registrable Securities which the Company has been so requested to register by such holders, to the extent required to permit the disposition (in accordance with the methods to be used by the Company or other holders of shares of common stock in such Public Offering) of the Registrable Securities to be so registered. No registration of Registrable Securities effected under this Section 3.2 shall relieve the Company of any of its obligations to effect registrations of Registrable Securities pursuant to Section 3.1.

(b) Excluded Transactions. The Company shall not be obligated to effect any registration of Registrable Securities under this Section 3.2 incidental to the registration of any of its securities in connection with:

(i) Any Public Offering relating to employee benefit plans or dividend reinvestment plans; or

(ii) Any Public Offering relating to the acquisition or merger after the date hereof by the Company or any of its subsidiaries of or with any other businesses.

(c) Payment of Expenses. The company shall pay all reasonable expenses of a single legal counsel representing all holders of Registrable Securities and holders of Warrants incurred in connection with each registration of Registrable Securities requested pursuant to this section 3.2.

(d) Additional Procedures. Holders of shares participating in any Public Offering pursuant to this Section 3.2 shall take all such actions and execute all such documents and instruments that are reasonably requested by the Company to effect the sale of their shares in such Public Offering, including, without limitation, being parties to the underwriting agreement entered into by the Company and any other selling shareholders in connection therewith and being liable in respect of the representations and warranties by, and the other agreements (including without limitation customary selling stockholder representations, warranties, indemnifications and "lock-up" agreements) for the benefit of the underwriters; provided, however, that (i) with respect to individual representations, warranties, indemnities and agreements of sellers of shares in such Public Offering, the aggregate amount of such liability shall not exceed such holder's net proceeds from such offering and (ii) to the extent selling stockholders give further representations, warranties and indemnities, then with respect to all other representations, warranties and indemnities of sellers of shares in such Public Offering, the aggregate amount of such liability shall not exceed the lesser of (A) such holder's pro rata portion of any such liability, in accordance with such holder's portion of the total number of shares included in the offering or (B) such holder's net proceeds from such offering.

3.3 Certain Other Provisions. (a) Underwriter's Cutback. In connection with any registration of shares, the underwriter may determine that marketing factors (including, without limitation, an adverse effect on the per share offering price) require a limitation of the number of shares to be underwritten. Notwithstanding any contrary provision of this Section 3 and subject to the terms of this Section 3.3(a), the underwriter may limit the number of shares which would otherwise be included in such registration by excluding any or all Registrable Securities from such registration (it being understood that the number of shares which the Company seeks to have registered in such registration shall not be subject to exclusion, in whole or in part, under this Section 3.3(a)). Upon receipt of notice from the underwriter of the need to reduce the number of shares to be included in the registration, the Company shall advise all holders of the Company's securities that would otherwise be registered and underwritten pursuant hereto, and the number of shares of such securities, including Registrable Securities, that may be included in the registration shall be allocated in the following manner, unless the underwriter shall determine

that marketing factors require a different allocation: shares, other than Registrable Securities and Stockholder Agreement Registrable Securities, requested to be included in such registration by shareholders shall be excluded to the extent necessary to achieve the underwriter's cutback unless the Company has, with the consent of the majority of the Registrable Securities (and Warrants exercisable for Registrable Securities), granted registration rights which are to be treated on an equal basis with Registrable Securities and Stockholder Agreement Registrable Securities for the purpose of the exercise of the underwriter cutback; and, if a limitation on the number of shares is still required, the number of Registrable Securities and Stockholder Agreement Registrable Securities shall be allocated among holders thereof in proportion, as nearly as practicable, to the respective amounts of common stock which each shareholder requested be registered in such registration. No securities excluded from the underwriting by reason of the underwriter's marketing limitation shall be included in such registration. If any holder of Registrable Securities disapproves of the terms of the underwriting, it may elect to withdraw therefrom by written notice to the Company and the underwriter. The Registrable Securities so withdrawn shall also be withdrawn from registration.

(b) Selection of Underwriters and Counsel. The underwriters and legal counsel to be retained in connection with any Public Offering shall be selected by the Board or, in the case of an offering following a request therefor under Section 3.1, the Initiating Investors.

4. Hold-Back Agreements

(a) Restrictions on Public Sale by Holder of Registrable Securities. Each holder of Registrable Securities whose Registrable Securities are covered by a Registration Statement filed pursuant to Section 3 hereof agrees, if requested by the managing underwriters in an underwritten offering, not to effect any public sale or distribution of securities of the Company of the same class as the securities included in such Registration Statement, including a sale pursuant to Rule 144 under the Securities Act (except as part of such underwritten registration), during the 7-day period prior to, and during the 90-day period beginning on, the closing date of each underwritten offering made pursuant to such Registration Statement, to the extent timely notified in writing by the Company or the managing underwriters.

5. Registration Procedures

In connection with the Company's Registration obligations pursuant to Section 3.1 hereof, the Company will use its best efforts to effect such registration to permit the sale of such Registrable Securities in accordance with the intended method or methods of distribution thereof, and pursuant thereto the Company will, as expeditiously as possible:

(a) prepare and file with the SEC a Registration Statement or Registration Statements relating to each Registration on any appropriate form under the Securities Act, which form shall be available for the sale of the Registrable Securities in accordance with the intended method or methods of distribution thereof and shall include (i) all financial statements (including, if applicable, financial statements of any Person which shall have guaranteed any indebtedness of the Company) required by the SEC to be filed therewith, (ii) a prospectus that

relates to earlier Registration Statements filed pursuant to Section 3 hereof, as permitted by Rule 429 under the Securities Act, if requested by the Agent or a majority of the holders of the Registrable Securities being registered and (iii) if the sale is by means of an underwritten offering, any other information that the managing underwriter reasonably believes to be of material importance to the success of such offering, cooperate and assist in any filings required to be made with the NASD, and use its best efforts to cause such Registration Statement to become effective; provided that as far in advance as practical before filing a Registration Statement or any amendments or supplements thereto, the Company will furnish to the holders of the Registrable Securities covered by such Registration Statement, holders of Warrants and the underwriters, if any, copies of all such documents proposed to be filed, which documents will be subject to the review by such holders and underwriters, and the Company will not file any Registration Statement or any amendments or supplements thereto to which the holders of a majority of the Registrable Securities and Warrants or such managing underwriters, if any, shall reasonably object within 14 days;

(b) prepare and file with the SEC such amendments and post-effective amendments to any Registration Statement as may be necessary to keep the Registration Statement effective until all Registrable Securities covered by such Registration Statement have been sold or cease to be Registrable Securities; cause any Prospectus to be supplemented by any required Prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 under the Securities Act; and comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities covered by such Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the sellers thereof set forth in such Registration Statement or supplement to the Prospectus;

(c) notify the selling holders of Registrable Securities and the managing underwriters, if any, promptly, and (if requested by any such Person) confirm such advice in writing, (1) when any Prospectus or any Prospectus supplement or post-effective amendment has been filed, and, with respect to any Registration Statement or any post-effective amendment, when the same has become effective, (2) of any request by the SEC for amendments or supplements to any Registration Statement or any Prospectus or for additional information, (3) of the issuance by the SEC of any stop order of which the Company or its counsel is aware suspending the effectiveness of any Registration Statement or the initiation of any proceedings for that purpose, (4) if at any time the representations and warranties of the Company contemplated by paragraph (n) below cease to be true and correct in any material respect, (5) of the receipt by the Company of any notification with respect to the suspension of the qualification of any Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose and (6) of the Company's becoming aware that any Prospectus (including any document incorporated therein by reference), as then in effect, includes an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(d) make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of any Registration Statement at the earliest possible moment;

(e) if reasonably requested by the managing underwriter or underwriters or a holder of Registrable Securities being sold in connection with an underwritten offering, promptly incorporate in a Prospectus supplement or post-effective amendment such information as the managing underwriter or underwriters or the holders of a majority of the Registrable Securities being sold agree should be included therein relating to the plan of distribution with respect to such Registrable Securities, including, without limitation, information with respect to the amount of Registrable Securities being sold to such managing underwriter or underwriters, the purchase price being paid therefor by such underwriters and any other terms of the underwritten (or best efforts underwritten) offering of the Registrable Securities to be sold in such offering; and make all required filings of such Prospectus supplement or post-effective amendment as promptly as practicable upon being notified of the matters to be incorporated in such Prospectus supplement or post-effective amendment;

(f) furnish to each selling holder of Registrable Securities and each managing underwriter, if any, without charge, if requested, at least one signed copy of the applicable Registration Statement and any post-effective amendment thereto, including financial statements and schedules, all documents incorporated therein by reference and all exhibits (including those incorporated by reference);

(g) deliver to each selling holder of Registrable Securities and the underwriters, if any, without charge, if requested, as many copies of the applicable Prospectus (including each preliminary Prospectus) and any amendment or supplement thereto as such Persons may reasonably request; the Company consents to the use (subject to the limitations set forth in the last paragraph of this Section 5) of the Prospectus or any amendment or supplement thereto by each of the selling holders of Registrable Securities and the underwriters, if any, in connection with the offering and sale of the Registrable Securities covered by the Prospectus or any amendment or supplement thereto until such time as the Company has notified the selling holders of Registrable Securities to discontinue the use thereof pursuant to paragraph (c)(6);

(h) prior to any Public Offering of Registrable Securities, use its best efforts to register or qualify or cooperate with the selling holders of Registrable Securities, the underwriters, if any, and their respective counsel in connection with the registration or qualification of such Registrable Securities for offer and sale under the securities or blue sky laws of such jurisdictions as any such seller or underwriter reasonably requests in writing and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of such Registrable Securities; provided that the Company will not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action which would subject it to general service of process or taxation in any such jurisdiction where it is not then so subject;

(i) cooperate with the selling holders of Registrable Securities and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing such Registrable Securities to be sold and not bearing any restrictive legends, except as provided for in the Warrant Agreement; and enable such Registrable Securities to be in such denominations and registered in such names as such managing underwriters may request at least two business days prior to any sale of such Registrable Securities to the underwriters;

(j) use its best efforts to cause the Registrable Securities covered by the applicable Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof or the underwriters, if any, to consummate the disposition of such Registrable Securities;

(k) upon the occurrence of any event contemplated by paragraph (c)(6) above, promptly prepare a supplement or post-effective amendment to the related Registration Statement or the related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the holders of the Registrable Securities, the Prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances then existing;

(l) use its best efforts to cause all Registrable Securities covered by a Registration Statement to be listed on each securities exchange on which securities of the same class issued by the Company are then listed;

(m) not later than the effective date of the any Registration Statement, provide a CUSIP number for all Registrable Securities covered by such Registration Statement and provide the transfer agent with printed certificates for the Registrable Securities which are in a form eligible for deposit with The Depository Trust Company;

(n) if the selling holders intend to distribute the Registrable Securities through an underwritten offering, enter into such agreements (including an underwriting agreement) and take all such other appropriate and reasonable actions in connection therewith in order to expedite or facilitate such disposition of such Registrable Securities and in such connection, (1) make such representations and warranties to the holders of such Registrable Securities and the underwriters, if any, in form, substance and scope as are customarily made by issuers to underwriters in secondary underwritten offerings; (2) obtain opinions of counsel to the Company (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the managing underwriters, if any, and the holders of a majority of the Registrable Securities) addressed to each selling holder and the underwriters, if any, covering the matters customarily covered in opinions requested in underwritten offerings; (3) obtain "cold comfort" letters and updates thereof from the Company's independent certified public accountants addressed to such holders and underwriters, if any, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters by underwriters in connection with primary underwritten offerings; (4) if permitted by the managing underwriter the same shall set forth in full the indemnification provisions and procedures of Section 7 hereof with respect to all parties to be indemnified pursuant to said Section; provided that unless the selling holders of Registrable Securities otherwise agree, the indemnification provisions and procedures set forth in such

underwriting agreement shall be no less favorable to the selling holders of Registrable Securities and the underwriters than the indemnification provisions and procedures of Section 7 hereof; and (5) the Company shall deliver such documents and certificates as may be reasonably requested by the holders of a majority of the Registrable Securities being sold and the managing underwriters, if any, to evidence compliance with paragraph (k) above and with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company. The above shall be done at each closing under such underwriting or similar agreement or as and to the extent required thereunder;

(o) make available for inspection by any holder of Registrable Securities or any underwriter participating in any disposition of Registrable Securities pursuant to a Shelf Registration, and any attorney or accountant retained by such holders or underwriters, if any, all financial and other records, pertinent corporate documents and properties of the Company as may be reasonably necessary to enable them to exercise their due diligence responsibilities, and provide reasonable access to appropriate officers of the Company in connection with such due diligence responsibilities;

(p) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the SEC; and

(q) make appropriate officers of the Company available to such holders and underwriters for meetings with prospective purchasers of the Registrable Securities and prepare and present to potential investors customary "road show" material in a manner consistent with other new issuances of other securities similar to the Registrable Securities.

The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish to the Company such information regarding the distribution of such securities as the Company may from time to time reasonably request in writing.

Each holder of Registrable Securities agrees by acceptance of such Registrable Securities that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 5(c)(3), (5) or (6) hereof, such holder will forthwith discontinue disposition of Registrable Securities until such holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof, or until it is advised in writing (the "Advice") by the Company that the use of such Prospectus may be resumed, and has received copies of any additional or supplemental filings which are incorporated by reference in such Prospectus, and, if so directed by the Company such holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such holder's possession, of such Prospectus covering such Registrable Securities current at the time of receipt of such notice.

6. Registration Expenses

(a) All expenses incident to the Company's performance of or compliance with this Agreement, including without limitation all (i) registration and filing fees, fees and expenses associated with filings required to be made with the NASD (including, if applicable,

the fees and expenses of any "qualified independent underwriter" and its counsel as may be required by the rules and regulations of the NASD), (ii) fees and expenses of compliance with securities or blue sky laws (including fees and disbursements of counsel for the underwriters or selling holders in connection with blue sky qualifications of the Registrable Securities and determination of their eligibility for investment under the laws of such jurisdictions as the managing underwriters or holders of a majority of the Registrable Securities being sold may reasonably designate), (iii) printing expenses (including expenses of printing certificates for the Registrable Securities in a form eligible for deposit with The Depository Trust Company and of printing prospectuses), (iv) fees and disbursements of counsel for the Company and customary out of pocket expenses and fees paid by issuers to the extent provided for in an underwriting agreement (excluding discounts, commissions or fees of underwriters, selling brokers, dealer managers or similar securities industries professionals relating to the distribution of the Registrable Securities, transfer taxes or legal expenses of any Person other than the Company and the selling holders), (v) the cost of securities acts liability insurance if the Company so desires and (vi) fees and expenses of other Persons retained by the Company (all such expenses being herein called "Registration Expenses") will be borne by the Company regardless of whether the Registration Statement becomes effective. Each holder of Registrable Securities will pay any fees or disbursements of counsel to such holder and all underwriting discounts and commissions and transfer taxes, if any, and other fees, costs and expenses of such holder (other than Registration Expenses) relating to the sale or disposition of such holder's Registrable Securities. The Company, in any event, will pay the Company's own internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, the fees and expenses incurred in connection with the listing of the securities to be registered on each securities exchange on which similar securities issued by the Company are then listed, rating agency fees and the fees and expenses of any Person, including special experts, retained by the Company.

7. Indemnification

(a) Indemnification by the Company. The Company agrees to indemnify and hold harmless, to the full extent permitted by law, each holder of Registrable Securities, their officers, directors and employees and each Person who controls such holder (within the meaning of the Securities Act) (the "Indemnified Parties") against all losses, claims, damages, liabilities and expenses incurred by such party in connection with any actual or threatened action arising out of or based upon any untrue or alleged untrue statement of a material fact contained in any Registration Statement, Prospectus or preliminary Prospectus or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a Prospectus or a preliminary Prospectus, in light of the circumstances then existing) not misleading, and the Company agrees to reimburse such Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss or action or proceeding in respect thereof, except insofar as the same arise out of or are based upon any such untrue statement or omission made in reliance on and in conformity with any information furnished in writing to the Company by such holder or its counsel expressly for use therein. If the selling holders of Registrable Securities distribute the Registrable Securities in an underwritten Public Offering, the Company shall also indemnify the underwriters, their officers and directors and each Person who controls such

Persons (within the meaning of the Securities Act) to the same extent as provided above with respect to the indemnification of the Indemnified Parties, if requested.

(b) Indemnification by Holder of Registrable Securities. Each holder of Registrable Securities will furnish to the Company in writing such information and affidavits as the Company reasonably requests for use in connection with any Registration Statement or Prospectus and agrees to indemnify and hold harmless, to the full extent permitted by law, the Company, its directors and officers and each Person who controls the Company (within the meaning of the Securities Act) against any losses, claims, damages, liabilities and expenses resulting from any untrue statement of a material fact contained in any Registration Statement or Prospectus or any omission of a material fact required to be stated in the Registration Statement or Prospectus or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, to the extent, but only to the extent, that such untrue statement or omission relates to such holder and is made in reliance on and in conformity with any information or affidavit furnished in writing by such holder to the Company specifically for inclusion in such Registration Statement or Prospectus. In no event shall the liability of any selling holder of Registrable Securities hereunder be greater in amount than the dollar amount of the proceeds received by such holder upon the sale of the Registrable Securities giving rise to such indemnification obligation. The Company shall be entitled to receive indemnities from underwriters, selling brokers, dealer managers and similar securities industry professionals participating in the distribution of such Registrable Securities to the same extent above with respect to information or affidavit furnished writing by such Persons as provided specifically for any Prospectus or Registration Statement.

(c) Conduct of Indemnification Proceedings. Any Person entitled to indemnification hereunder will (i) give prompt notice to the Company or holder of Registrable Securities, as the case may be (in either case, as applicable, an "Indemnifying Party"), of any claim with respect to which it seeks indemnification and (ii) permit such Indemnifying Party to assume the defense of such claim with counsel reasonably satisfactory to such Person; provided, however, that any Person entitled to indemnification hereunder shall have the right to employ separate counsel and to participate in the defense of such claim, but the fees and expenses of such counsel shall be at the expense of such Person unless (a) the Indemnifying Party has agreed to pay such fees or expenses, (b) the Indemnifying Party has failed to assume the defense of such claim or (c) in the reasonable judgment of any such Person, based upon written advice of its counsel, a conflict of interest may exist between such Person and the Indemnifying Party with respect to such claims (in which case, if the Person notifies the Indemnifying Party in writing that such Person elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense of such claim on behalf of such Person). If such defense is not assumed by the Indemnifying Party, the Indemnifying Party will not be subject to any liability for any settlement made without its consent (but such consent will not be unreasonably withheld). No Indemnifying Party will consent to entry of any judgment or enter into any settlement without the consent of the Indemnified Party which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. Any Indemnifying Party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all Persons entitled to indemnification by such Indemnifying Party with respect to such claim in any one jurisdiction.

(d) Contribution. If for any reason the indemnification provided for in the preceding paragraphs (a) and (b) is unavailable to a Person entitled to indemnification or is insufficient to hold it harmless as contemplated by the preceding paragraphs (a) and (b), then the Indemnifying Party shall contribute to the amount paid or payable by such Person as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of such Person and the Indemnifying Party, as well as any other relevant equitable considerations, provided that no holder of Registrable Securities shall be required to contribute an amount greater than the dollar amount of the proceeds received by such holder of Registrable Securities with respect to the sale of any securities. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Indemnifying Party or the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The parties hereto agree that it would not be just and equitable if contributions pursuant to this paragraph were to be determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in the first sentence of this paragraph. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

8. Rule 144

The Company covenants that it will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder (or, if it is not required to file such reports, it will, upon the request of any holder of Registrable Securities, make publicly available other information so long as necessary to permit sales pursuant to Rule 144 under the Securities Act), and it will take such further action as any holder of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule 144 under the Securities Act, as such Rule may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the SEC. Upon the request of any holder of Registrable Securities, the Company will deliver to such holder a written statement as to whether it has complied with such information and filing requirements.

9. Miscellaneous

(a) Remedies. Each holder of Registrable Securities or Warrants, in addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, in connection with the breach by the Company of its obligations to register the Registrable Securities will be entitled to specific performance of its rights under this Agreement. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Agreement and agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) No Inconsistent Agreements. The Company will not on or after the date of this Agreement enter into any agreement with respect to its securities which (i) is inconsistent

with the rights granted to the holders of Registrable Securities or Warrants in this Agreement, or (ii) otherwise conflicts with the provisions hereof. The rights granted to the holders of Registrable Securities or Warrants hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's securities under any other agreements. The Company has not previously entered into any inconsistent agreement with respect to its securities granting any registration rights to any Person.

(c) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions of this Agreement may not be given unless the Company has obtained the written consent of holders of a majority of the outstanding Registrable Securities and Warrants exerciseable for Registrable Securities (excluding Registrable Securities held by the Company, any Guarantor or one of their respective affiliates).

(d) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, registered first-class mail, facsimile or air courier guaranteeing overnight delivery:

(i) if to a holder of Registrable Securities or Warrants, at the most current address given by such holder to the Company in accordance with the provisions of this Section 9(d), which address initially is, with respect to each Lender, the address set forth next to such Lender's name on the signature pages of the Credit Agreement; with copies to Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, NY 10017, Attn: Andrew Keller; and

(ii) if to the Company, initially to it at the address set forth below and thereafter at such other address, notice of which is given in accordance with the provisions of this Section 9(d), with copies to Ropes & Gray, One International Place, Boston, MA 02110-2624, Attn: Al Rose.

SMTC Corporation
635 Hood Road
Markham, Ontario
Canada L3R 4N6
Attention: President
Telecopy: (905) 479-9686
Telephone: (905) 479-1000

(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto, including without limitation and without the need for an express assignment, subsequent holders of Registrable Securities and Warrants.

(f) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(g) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(h) New York Law; Submission to Jurisdiction: Waiver of Jury Trial. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. EACH PARTY HERETO HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH PARTY HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

(i) Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(j) Entire Agreement. This Agreement is intended by the parties as a final expression of their agreement with respect to the subject matter contained herein and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein with respect to the registration rights granted by the Company with respect to the Registrable Securities. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

SMTC Corporation

By: /s/ Paul Walker

Name: Paul Walker
Title: President

LEHMAN COMMERCIAL PAPER INC.,
as General Administrative Agent

By: /s/ G. Andrew Keith

Name: G. Andrew Keith
Title: Authorized Signatory

EXHIBIT 10.44

EXECUTION COPY

==

SMTC CORPORATION

AND

MELLON INVESTOR SERVICES LLC

WARRANT AGREEMENT

DATED AS OF DECEMBER 31, 2002

WARRANT AGREEMENT

TABLE OF CONTENTS/1/

<TABLE>
<CAPTION>

</TABLE>

- ----------

/1/ This Table of Contents does not constitute a part of this Agreement or have any bearing upon the interpretation of any of its terms or provisions.

<TABLE>
<CAPTION>
<S> <C> <C>

</TABLE>

WARRANT AGREEMENT dated as of December 31, 2002 between SMTC Corporation, a Delaware corporation (the "Company"), and Mellon Investor Services LLC, a New Jersey limited liability company, as Warrant Agent (the "Warrant Agent").

WHEREAS, the Company proposes to issue Series A, Series B, Series C, Series D, Series E, Series F, Series G and Series H Common Stock Purchase Warrants, as hereinafter described (respectively, the "Series A Warrants, Series B Warrants, Series C Warrants, Series D Warrants, Series E Warrants, Series F Warrants, Series G Warrants and Series H Warrants," and together, the "Warrants"), which in the aggregate initially entitle the holders of each of the Series A Warrants, Series B Warrants, Series C Warrants, Series D Warrants, Series E Warrants, Series F Warrants, Series G Warrants and Series H Warrants to purchase up to 4.0%, 1.0%, 0.75%, 0.75%, 0.75%, 0.75%, 1.0% and 1.0% respectively, on the date such Warrants are issued, of the Common Stock par value $0.01 per share (the "Common Stock"), of the Company outstanding on a diluted basis (determined in accordance with GAAP, but after giving effect to the exercise of such Warrants and any outstanding Warrants) on the date such Warrants are issued (the Common Stock issuable on exercise of the Warrants being referred to herein as the "Warrant Shares"), in connection with the Eighth Amendment and Fifth Waiver, dated December 31, 2002, to and under the Amended and Restated Credit and Guarantee Agreement, dated as of July 27, 2000 (as amended, supplemented and otherwise modified from time to time, the "Credit Agreement"), among the Company, HTM Holdings, Inc., SMTC Manufacturing Corporation of Canada, the several banks and other financial institutions or entities from time to time parties thereto (the "Lenders"), Lehman Brothers Inc., as advisor, lead arranger and book manager, The Bank of Nova Scotia, as syndication agent, Lehman Commercial Paper Inc., as general administrative agent, The Bank of Nova Scotia, as Canadian administrative agent, Lehman Commercial Paper Inc., as collateral monitoring agent and General Electric Capital Corporation, as documentation agent;

WHEREAS, upon the return to the Company for cancellation of all series A, B and C warrants issued to the Lenders pursuant to the Warrant Agreement, dated as of February 8, 2002, between the Company and the Warrant Agent, the Company and the Warrant Agent will enter into this Warrant Agreement;

WHEREAS, the Company desires the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing so to act, in connection with the issuance, transfer, exchange and exercise of Warrants and other matters as provided herein;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereto agree as follows:

SECTION 1. Appointment of Warrant Agent. The Company hereby appoints the Warrant Agent to act as agent for the Company in accordance with the instructions set forth hereinafter in this Agreement, and the Warrant Agent hereby accepts such appointment.

SECTION 2. Warrant Certificates. The certificates evidencing the Warrants (the "Warrant Certificates") to be delivered pursuant to this Agreement shall be in registered form only and shall be substantially in the forms set forth in Exhibit A, Exhibit B, Exhibit C and Exhibit D attached hereto, as applicable.

SECTION 3. Execution of Warrant Certificates. Warrant Certificates shall be signed on behalf of the Company by its Chairman of the Board or its President or a Vice President and by its Secretary or an Assistant Secretary. Each such signature upon the Warrant Certificates may be in the form of a facsimile signature of the present or any future Chairman of the Board, President, Vice President, Secretary or Assistant Secretary and may be imprinted or otherwise reproduced on the Warrant Certificates and for that purpose the Company may adopt and use the facsimile signature of any person who shall have been Chairman of the Board, President, Vice President, Secretary or Assistant Secretary, notwithstanding the fact that at the time the Warrant Certificates shall be countersigned and delivered or disposed of he or she shall have ceased to hold such office.

In case any officer of the Company who shall have signed any of the Warrant Certificates shall cease to be such officer before the Warrant Certificates so signed shall have been countersigned by the Warrant Agent, or disposed of by the Company, such Warrant Certificates nevertheless may be countersigned and delivered or disposed of as though such person had not ceased to be such officer of the Company; and any Warrant Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Warrant Certificate, shall be a proper officer of the Company to sign such Warrant Certificate, although at the date of the execution of this Warrant Agreement any such person was not such officer.

Warrant Certificates shall be dated the date of countersignature by the Warrant Agent.

SECTION 4. Registration and Countersignature. Warrant Certificates shall be manually countersigned by the Warrant Agent and shall not be valid for any purpose unless so countersigned. The Warrant Agent shall, upon written instructions of the Chairman of the Board, the President, a Vice President, the Treasurer or the Chief Financial Officer of the Company, initially countersign, issue and deliver such number of Warrants as are set forth in such written instructions, and the Warrant Agent shall be fully protected in conclusively relying on such written instructions. Such written instructions shall not instruct the Warrant Agent to countersign Warrants entitling the holders thereof to purchase more than the number of Warrant Shares referred to above in the first recital hereof. The Warrant Agent shall also countersign and deliver Warrants as otherwise provided in this Agreement.

The Company and the Warrant Agent may deem and treat the registered holder(s) of the Warrant Certificates as the absolute owner(s) thereof (notwithstanding any notation of ownership or other writing thereon made by anyone), for all purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

SECTION 5. Registration of Transfers and Exchanges. The Warrant Agent shall from time to time, subject to the limitations set forth in this Section 5 and in Section 6 hereof, register the transfer of any outstanding Warrant Certificates upon the records to be maintained by it for that purpose, upon surrender thereof duly endorsed or accompanied (if so required by it) by a written instrument or instruments of transfer in form satisfactory to the Warrant Agent, duly executed by the registered holder or holders thereof or by the duly appointed legal representative thereof or by a duly authorized attorney. Upon any such registration of transfer, a new Warrant

Certificate shall be issued to the transferee(s) and the surrendered Warrant Certificate shall be cancelled by the Warrant Agent. Cancelled Warrant Certificates shall thereafter be disposed of by the Warrant Agent in its customary manner.

No Warrant holder will be permitted to transfer an interest in its Warrants separately from its interest in any loans outstanding under the Credit Agreement with respect to which it received such Warrants prior to the later of December 31, 2003 or nine months after the issuance of the series of

Warrants being transferred. The Warrant Agent will not have any duty or obligation to monitor a Warrant holder's compliance with this paragraph, and the Warrant Agent shall be fully protected and shall incur no liability for any transfer effected by it in violation of this paragraph.

The Warrant holders agree that prior to any proposed transfer of the Warrants or of the Warrant Shares, if such transfer is not made pursuant to an effective Registration Statement under the Securities Act of 1933, as amended (the "Act"), the Warrant holder will deliver to the Company:

(1) an opinion of counsel that the Warrant or Warrant Shares may be transferred without registration under the Act

(2) an investment covenant reasonably satisfactory to the Company signed by the proposed transferee;

(3) an agreement by such transferee to the impression of the restrictive investment legend set forth below on the Warrant or the Warrant Shares; and

(4) an agreement by such transferee to be bound by the provisions of this Agreement.

The Warrant holders agree that each certificate representing Warrant Shares will bear a legend in substantially the following form:

> "The securities evidenced or constituted hereby have been acquired for investment and have not been registered under the Securities Act of 1933, as amended. Such securities may not be sold, transferred, pledged or hypothecated unless the registration provisions of said Act have been complied with or unless the Company has received an opinion of counsel that such registration is not required."

The Warrant holders agree that each certificate representing Series B, C, D and E Warrant Shares will bear a legend in substantially the following form:

> "The securities evidenced or constituted hereby are subject to right of repurchase by SMTC Corporation until December 31, 2003, for an amount equal to the exercise price of the warrants exercised for the securities evidenced or constituted hereby."

Subject to the terms of this Agreement, Warrant Certificates may be exchanged at the option of the holder(s) thereof, when surrendered to the Warrant Agent at its office designated for such purpose, which is currently located at the address listed in Section 16 hereof, for another Warrant Certificate or other Warrant Certificates of like tenor and representing in the aggregate a like number of Warrants. Any holder desiring to exchange a Warrant Certificate shall deliver a written request to the Warrant Agent, and shall surrender, duly endorsed or accompanied (if so required by the Warrant Agent) by a written instrument or instruments of transfer in form satisfactory to the Warrant Agent, the Warrant Certificate or Certificates to be so exchanged. Warrant Certificates surrendered for exchange shall be cancelled by the Warrant Agent. Such cancelled Warrant Certificates shall then be disposed of by such Warrant Agent in its customary manner.

The Warrant Agent is hereby authorized to countersign, in accordance with the provisions of this Section 5 and of Section 4 hereof, the new Warrant Certificates required pursuant to the provisions of this Section 5.

SECTION 6. Issuance of Warrants; Terms of Warrants: Exercise of Warrants

The Company shall issue the Warrants to the Lenders in proportion to their interests in the Loans and Commitments under the Credit Agreement on the following dates (in each case, an "Issue Date" and, if any Issue Date is not a Business Day, on the next succeeding Business Day): in the case of (a) the Series A and B Warrants, December 31, 2002, (b) the Series C Warrants, 45 days after the end of the Company's first fiscal quarter of 2003, (c) the Series D Warrants, 45 days after the end of the Company's second fiscal quarter of 2003, (d) the Series E Warrants, 45 days after the end of the Company's third fiscal quarter of 2003, (e) the Series F Warrants, 90 days after the end of the Company's fourth fiscal quarter of 2003, (f) the Series G Warrants, 45 days after the end of the Company's first fiscal quarter of 2004 and (g) the Series H Warrants, 45 days after the end of the Company's second fiscal quarter of 2004; provided that the Series C Warrants, Series D Warrants, Series E Warrants, Series F Warrants, Series G Warrants and Series H Warrants shall only be issued if Consolidated EBITDA (as defined in the Credit Agreement) for the Company and its subsidiaries for the relevant fiscal quarter referenced above is less than or equal to (i) $2,208,000 in the case of the Series C Warrants, (ii) $4,526,000 in the case of the Series D Warrants, (iii) $6,191,000 in the case of the Series E Warrants, (iv) $7,888,000 in the case of the Series F Warrants, (v) $3,175,000 in the case of the Series G Warrants and (vi) $5,485,000 in the case of the Series H Warrants. The Warrant Agent will not countersign and deliver any Series C Warrants, Series D Warrants, Series E Warrants, Series F Warrants, Series G Warrants, or Series H Warrants unless and until it has received written instructions from the Company in accordance with Section 4 hereof.

The initial exercise price per share at which Warrant Shares shall be purchasable upon the exercise of Warrants (the "Exercise Price") shall be the fair market value (as defined below) of one share of Common Stock as of the Issue Date for such Warrant. On its respective Issue Date, each Warrant shall be initially exercisable for one share of Common Stock and each series of Warrants shall initially consist of a number of Warrants equal to 4.0% (in the case of Series A Warrants), 1.0% (in the case of Series B Warrants), 0.75% (in the case of Series C Warrants), 0.75% (in the case of Series D Warrants), 0.75% (in the case of Series E Warrants), 0.75% (in the case of Series F Warrants), 1.0% (in the case of Series G Warrants) and 1.0% (in

the case of Series H Warrants), of the number of shares of Common Stock outstanding on such date on a diluted basis (determined in accordance with GAAP, but after giving effect to the exercise of such Warrants and any outstanding Warrants). For purposes of this paragraph of Section 6, "fair market value" on any date shall be the average of the Quoted Prices of the Common Stock for 20 consecutive trading days commencing 22 trading days before the date in question. The "Quoted Price" of the Common Stock is the last reported sales price of the Common Stock as reported by the Nasdaq, National Market System, or if the Common Stock is listed on a securities exchange, the last reported sales price of the Common Stock on such exchange which shall be for consolidated trading if applicable to such exchange, or if neither so reported or listed, the mean of the last reported bid and asked price of the Common Stock or if the Common Stock is not so reported or listed, as reasonably determined by the Company's Board of Directors, as supported by an opinion of a nationally recognized investment banking firm.

The Company shall immediately notify the Warrant Agent as to its determination of the number of shares for which any series of Warrants is initially exercisable (which shall be determined as specified in this Section 6), which number shall be binding upon the Company and all Warrant holders, absent manifest error.

Subject to the terms of this Agreement, each Warrant holder shall have the right, which may be exercised commencing at the opening of business on the Issue Date of such Warrant and until 5:00 p.m., New York City time on the date (the "Expiration Date") that is the fifth anniversary of the Issue Date of such Warrant (or, if such date is not a business day, on the next succeeding business day), to receive from the Company the number of fully paid and nonassessable Warrant Shares which the holder may at the time be entitled to receive on exercise of such Warrants and payment of the Exercise Price then in effect for such Warrant Shares. In the alternative, each Warrant holder may exercise its right, during the exercise period, to receive Warrant Shares on a net basis, such that, without the exchange of any funds, the holder receives that number of Warrant Shares otherwise issuable (or payable) upon exercise of its Warrants less that number of Warrant Shares having an aggregate fair market value (as defined above) at the time of exercise equal to the aggregate Exercise Price that would otherwise have been paid by the holder of the Warrant Shares. Each Warrant of any series not exercised prior to 5:00 p.m., New York City time, on the Expiration Date for such Series shall become null and void and all rights thereunder and all rights in respect thereof under this Agreement shall cease as of such time. No adjustments as to dividends will be made upon exercise of the Warrants.

On or before December 31, 2003, if all outstanding obligations under the Credit Agreement are paid in full and all commitments thereunder are terminated, all Series B, C, D and E Warrants shall be returned to the Company without consideration and all Warrant Shares that have been obtained upon exercise of the Series B, C, D or E Warrants shall be sold back to the Company at the Exercise Price of the Series B, C, D or E Warrants, respectively, exercised to obtain such Warrant Shares.

A Warrant may be exercised upon surrender to the Company at the office of the Warrant Agent designated for such purpose, which is currently located at the address listed in Section 16 hereof, of (i) the certificate or certificates evidencing the Warrants to be exercised with the form of election to purchase on the reverse thereof duly and properly filled in and

signed and such other documentation as the Warrant Agent or the Company may reasonably request, and (ii) payment to the Warrant Agent for the account of the Company of the Exercise Price as adjusted as herein provided, for the number of Warrant Shares in respect of which such Warrants are then exercised. Payment of the aggregate Exercise Price shall be made (i) in cash or by certified or official bank check payable to the order of the Company in New York Clearing House Funds, (ii) through the surrender of debt or preferred equity securities of the Company having a principal amount or liquidation preference, as the case may be, equal to the aggregate Exercise Price to be paid (the Company will pay the accrued interest or dividends on such surrendered debt or preferred equity securities in cash at the time of surrender notwithstanding the stated terms thereof), or (iii) in the manner provided in the third paragraph of this Section 6. The Warrant Agent shall have no duty (i) to determine or calculate the Exercise Price, (ii) confirm or verify the accuracy or correctness of the Exercise Price or (iii) confirm or verify the correctness or sufficiency of any payment of the Exercise Price made in accordance with items (ii) and (iii) of the preceding sentence; the Warrant Agent's sole duty under this paragraph being the acceptance of the certificates evidencing the Warrants and taking possession for the benefit of the Company of the Exercise Price delivered to it by a Warrant holder.

Subject to the provisions of Section 7 hereof, upon such surrender of Warrants and payment of the Exercise Price, the Company shall issue and cause to be delivered with all reasonable dispatch to and in such name or names as the Warrant holder may designate, a certificate or certificates for the number of full Warrant Shares issuable upon the exercise of such Warrants together with cash as provided in Section 11 hereof; provided, however, that if any consolidation, merger or lease or sale of assets is proposed to be effected by the Company as described in subsection (m) of Section 10 hereof, or a tender offer or an exchange offer for shares of Common Stock of the Company shall be made, upon such surrender of Warrants and payment of the Exercise Price as aforesaid, the Company shall, as soon as possible, but in any event not later than two business days thereafter, issue and cause to be delivered the full number of Warrant Shares issuable upon the exercise of such Warrants in the manner described in this sentence together with cash as provided in Section 11 hereof. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Warrant Shares as of the date of the surrender of such Warrants and payment of the Exercise Price.

The Warrants shall be exercisable, at the election of the holders thereof, either in full or from time to time in part and, in the event that a certificate evidencing Warrants is exercised in respect of fewer than all of the Warrant Shares issuable on such exercise at any time prior to the date of expiration of the Warrants, a new certificate evidencing the remaining Warrant or Warrants will be issued, and the Warrant Agent is hereby irrevocably authorized to countersign and to deliver the required new Warrant Certificate or Certificates pursuant to the provisions of this Section 6 and of Section 3 hereof, and the Company, whenever required by the Warrant Agent, shall supply the Warrant Agent with Warrant Certificates duly executed on behalf of the Company for such purpose. The Warrant Agent may assume that any Warrant presented for exercise is permitted to be so exercised under applicable law and shall have no liability for acting in reliance on such assumption.

All Warrant Certificates surrendered upon exercise of Warrants shall be cancelled by the Warrant Agent. Such cancelled Warrant Certificates shall then be disposed of by the

Warrant Agent in its customary manner. The Warrant Agent shall account promptly to the Company with respect to Warrants exercised and concurrently pay to the Company all monies received by the Warrant Agent for the purchase of the Warrant Shares through the exercise of such Warrants.

The Warrant Agent shall keep copies of this Agreement and any notices given or received hereunder available for inspection by the holders with reasonable prior written notice during normal business hours at its office. The Company shall supply the Warrant Agent from time to time with such numbers of copies of this Agreement as the Warrant Agent may request.

SECTION 7. Payment of Taxes. The Company will pay all documentary stamp taxes attributable to the initial issuance of Warrant Shares upon the exercise of Warrants; provided, however, that the Company shall not be required to pay any tax or governmental charge which may be payable in respect of any transfer involved in the issue of any Warrant Certificates or any certificates for Warrant Shares in a name other than that of the registered holder of a Warrant Certificate surrendered upon the exercise of a Warrant, and the Company shall not be required to issue or deliver such Warrant Certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or charge or shall have established to the satisfaction of the Company that such tax or charge has been paid. The Warrant Agent shall have no duty or obligation to take any action under any Section of this Agreement which requires the payment by a Warrant holder of applicable taxes and governmental charges unless and until the Warrant Agent is satisfied that all such taxes and/or charges have been paid.

SECTION 8. Mutilated or Missing Warrant Certificates. In case any of the Warrant Certificates shall be mutilated, lost, stolen or destroyed, the Company, at its expense, shall issue and the Warrant Agent shall countersign, in exchange and substitution for and upon cancellation of the mutilated Warrant Certificate, or in lieu of and substitution for the Warrant Certificate lost, stolen or destroyed, a new Warrant Certificate of like tenor and representing an equivalent number of Warrants, but only upon receipt of evidence reasonably satisfactory to the Company and the Warrant Agent of such loss, theft or destruction of such Warrant Certificate and indemnity, if requested, satisfactory to the Company and the Warrant Agent; provided that if the owner of the same is Lehman Brothers Inc. or any affiliate thereof or an institutional lender or investor with consolidated net worth of at least $100 million, its own agreement of indemnity shall be deemed to be satisfactory.

SECTION 9. Reservation of Warrant Shares. The Company will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Common Stock or its authorized and issued Common Stock held in its treasury, for the purpose of enabling it to satisfy any obligation to issue Warrant Shares upon exercise of Warrants, the maximum number of shares of Common Stock which may then be deliverable upon the exercise of all outstanding Warrants. The Warrant Agent shall have no duty to verify availability of such shares set aside by the Company.

The Company or, if appointed, the transfer agent for the Common Stock (the "Transfer Agent") and every subsequent transfer agent for any shares of the Company's capital

stock issuable upon the exercise of any of the rights of purchase aforesaid will be irrevocably authorized and directed at all times to reserve such number of authorized shares as shall be required for such purpose. The Company will keep a copy of this Agreement on file with the Transfer Agent and with every subsequent transfer agent for any shares of the Company's capital stock issuable upon the exercise of the rights of purchase represented by the Warrants. The Warrant Agent is hereby irrevocably authorized to requisition from time to time from such Transfer Agent the stock certificates required to honor outstanding Warrants upon exercise thereof in accordance with the terms of this Agreement. The Company will supply such Transfer Agent with duly executed certificates for such purposes and will provide or otherwise make available any cash which may be payable as provided in Section 11 hereof. The Company will furnish such Transfer Agent a copy of all notices of adjustments and certificates related thereto, transmitted to each holder pursuant to Section 12 hereof.

Before taking any action which would cause an adjustment pursuant to Section 10 hereof to reduce the Exercise Price below the then par value (if any) of the Warrant Shares, the Company will take any corporate action which may, in the opinion of its counsel (which may be counsel employed by the Company), be necessary in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares at the Exercise Price as so adjusted.

The Company covenants that all Warrant Shares which may be issued upon exercise of Warrants will, upon payment of the Exercise Price therefor and issue, be fully paid, nonassessable, free of preemptive rights and free from all taxes, liens, charges and security interests with respect to the issue thereof.

SECTION 10. Adjustment of Exercise Price and Number of Warrant Shares Issuable. The Exercise Price and the number of Warrant Shares issuable upon the exercise of each Warrant are subject to adjustment from time to time upon the occurrence of the events enumerated in this Section 10. With respect to any Warrant, no adjustment to the Exercise Price or to the number of Warrant Shares issuable upon exercise shall be made for any event enumerated in this Section 10 if the date as to which the Company committed to undertake such event was prior to such Warrant's respective Issue Date. For purposes of this Section 10, "Common Stock" means shares now or hereafter authorized of any class of common stock of the Company and any other stock of the Company, however designated, that has the right (subject to any prior rights of any class or series of preferred stock) to participate in any distribution of the assets or earnings of the Company without limit as to per share amount.

(a) Adjustment for Change in Capital Stock.

If the Company:

(1) pays a dividend or makes a distribution on its Common Stock in shares of its Common Stock;

(2) subdivides its outstanding shares of Common Stock into a greater number of shares;

(3) combines its outstanding shares of Common Stock into a smaller number of shares;

(4) makes a distribution on its Common Stock in shares of its capital stock other than Common Stock; or

(5) issues by reclassification of its Common Stock any shares of its capital stock,

then the Warrant in effect immediately prior to such action shall be proportionately adjusted so that the holder of any Warrant thereafter exercised may receive the aggregate number and kind of shares of capital stock of the Company which he would have owned immediately following such action if such Warrant had been exercised immediately prior to such action.

The adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, combination or reclassification.

If after an adjustment a holder of a Warrant upon exercise of it may receive shares of two or more classes of capital stock of the Company, the Company shall reasonably determine the allocation of the adjusted Exercise Price between the classes of capital stock. After such allocation, the exercise privilege and the Exercise Price of each class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this Section 10.

Such adjustment shall be made successively whenever any event listed above shall occur.

(b) Adjustment for Rights Issue.

If the Company distributes any rights, options or warrants to all holders of its Common Stock entitling them for a period expiring within 60 days after the record date mentioned below to purchase shares of Common Stock at a price per share less than the current market price per share on that record date, the Exercise Price shall be adjusted in accordance with the formula:

$$E' = E \times \frac{O + \frac{N \times P}{M}}{O+N}$$

where:

E' = the adjusted Exercise Price.

E = the current Exercise Price.

O = the number of shares of Common Stock outstanding on the record date.

N = the number of additional shares of Common Stock offered.

P = the purchase price per share of the additional shares.

M = the current market price per share of Common Stock on the record date.

(i) The adjustment shall be made successively whenever any such rights, options or warrants are issued and shall become effective immediately after the record date for the determination of stockholders entitled to receive the rights, options or warrants. If at the end of the period during which such rights, options or warrants are exercisable, not all rights, options or warrants shall have been exercised, the Exercise Price shall be immediately readjusted to what it would have been if "N" in the above formula had been the number of shares actually issued.

(c) Adjustment for Other Distributions.

If the Company distributes to all holders of its Common Stock any of its assets (including cash) or debt securities or any rights or warrants to purchase debt securities, assets or other securities of the Company, the Exercise Price shall be adjusted in accordance with the formula:

$$E' = E \times \frac{M - F}{M}$$

where:

E' = the adjusted Exercise Price.

E = the current Exercise Price.

M = the current market price per share of Common Stock on the record date mentioned below.

F = the fair market value on the record date of the assets, securities, rights or warrants distributable to one share of Common Stock. The Board of Directors shall reasonably determine the fair market value.

The adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of stockholders entitled to receive the distribution.

This subsection (c) does not apply to regular quarterly cash dividends or rights, options or warrants referred to in subsection (b) of this Section 10. If any adjustment is made pursuant to this subsection (c) as a result of the issuance of rights, options or warrants and at the end of the period during which any such rights, options or warrants are exercisable, not all such rights, options or warrants shall have been exercised, the Warrant shall be immediately readjusted as if "F" in the above formula was the fair market value on the record date of the indebtedness or assets actually distributed upon exercise of such rights, options or warrants divided by the number of shares of Common Stock outstanding on the record date. Notwithstanding anything to the contrary contained in this subsection (c), if "M-F" in the above

formula is less than $1.00 (or is a negative number) then in lieu of the adjustment otherwise required by this subsection (c), the Company shall distribute to the holders of the Warrants, upon exercise thereof, the evidences of indebtedness, assets, rights, options or warrants (or the proceeds thereof) which would have been distributed to such holders had such Warrants been exercised immediately prior to the record date for such distribution.

(d) Current Market Price.

In subsections (b) and (c) of this Section 10, the current market price per share of Common Stock on any date is the average of the Quoted Prices of the Common Stock for 30 consecutive trading days commencing 45 trading days before the date in question. In the absence of one or more quotations, the Board of Directors of the Company shall determine the current market price on the basis of such quotations as it reasonably considers appropriate.

(e) When De Minimis Adjustment May Be Deferred.

No adjustment in the Exercise Price need be made unless the adjustment would require an increase or decrease of at least 1% in the Exercise Price. Any adjustments that are not made shall be earned forward and taken into account in any subsequent adjustment.

All calculations under this Section 10 shall be made to the nearest cent or to the nearest 1/100th of a share, as the case may be.

(f) When No Adjustment Required.

No adjustment need be made for a transaction referred to in subsections (b) and (c) of this Section 10 if Warrant holders are to participate, without requiring the Warrants to be exercised, in the transaction on a basis and with notice that the Board of Directors of the Company reasonably determines to be fair and appropriate in light of the basis and notice on which holders of Common Stock participate in the transaction.

No adjustment need be made for a change in the par value or no par value of the Common Stock.

To the extent the Warrants become convertible into cash, no adjustment need be made thereafter as to the amount of cash into which such Warrants are exercisable. Interest will not accrue on the cash.

(g) Notice of Adjustment.

Whenever the Exercise Price is adjusted, the Company shall provide the notices required by Section 12 hereof.

(h) Voluntary Reduction.

The Company from time to time may reduce the Exercise Price by any amount for any period of time (including, without limitation, permanently) if such period is at least 20 days;

provided, however, that in no event may the Exercise Price be less than the par value of a share of Common Stock.

Whenever the Exercise Price is reduced, the Company shall mail to Warrant holders and the Warrant Agent a notice of the reduction. The Company shall mail the notice at least 15 days before the date the reduced Exercise Price takes effect. The notice shall state the reduced Exercise Price and the period it will be in effect.

A reduction of the Exercise Price does not change or adjust the Exercise Price otherwise in effect for purposes of this Section 10.

(i) Notice of Certain Transactions.

If:

(1) the Company takes any action that would require an adjustment in the Exercise Price pursuant to subsections (a) of this Section 10;

(2) the Company proposes to fix a record date for a dividend or distribution on the Common Stock to which subsection (b) of this Section 10 does not apply;

(3) the Company takes any action that would require a supplemental Warrant Agreement pursuant to subsection (g) of this Section 10; or

(4) there is a liquidation or dissolution of the Company,

the Company shall mail to Warrant holders a notice stating the proposed record date for a dividend or distribution or the proposed effective date of a subdivision, combination, reclassification, consolidation, merger, transfer, lease, liquidation or dissolution. The Company shall mail the notice at least 15 days before such date. Failure to mail the notice or any defect in it shall not affect the validity of the transaction.

(j) Reorganization of Company.

If the Company consolidates or merges with or into, or transfers or leases all or substantially all its assets to, any person, upon consummation of such transaction the Warrants shall automatically become exercisable for the kind and amount of securities, cash or other assets which the holder of a Warrant would have owned immediately after the consolidation, merger, transfer or lease if such holder had exercised the Warrant immediately before the effective date of the transaction; provided that (i) if the holders of Common Stock were entitled to exercise a right of election as to the kind or amount of securities, cash or other assets receivable upon such consolidation or merger, then the kind and amount of securities, cash or other assets for which each Warrant shall become exercisable shall be deemed to be the kind and amount so receivable per share by a plurality of the holders of Common Stock in such consolidation or merger or (ii) if a tender or exchange offer shall have been made to and accepted by the holders of Common Stock under circumstances in which, upon completion of such tender or exchange offer, the maker thereof, together with members of any group (within the meaning of Rule 13d-5(b)(l)

under the Exchange Act) of which such maker is a part, and together with any affiliate or associate of such maker (within the meaning of Rule 12b-2 under the Exchange Act) and any members of any such group of which any such affiliate or associate is a part, own beneficially (within the meaning of Rule l3d-3 under the Exchange Act) more than 50% of the outstanding shares of Common Stock, the holder of a Warrant shall be entitled to receive the highest amount of cash, securities or other property to which such holder would actually have been entitled as a shareholder if such Warrant holder had exercised the Warrant prior to the expiration of such tender or exchange offer, accepted such offer and all of the Common Stock held by such holder had been purchased pursuant to such tender or exchange offer, subject to adjustments (from and after the consummation of such tender or exchange offer) as nearly equivalent as possible to the adjustments provided for in this Section 10. Concurrently with the consummation of any such transaction, the person formed by or surviving any such consolidation or merger if other than the Company, or the person to which such sale or conveyance shall have been made, shall enter into a supplemental Warrant Agreement so providing and further providing for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Section. The successor Company shall mail to Warrant holders a notice describing the supplemental Warrant Agreement.

If the issuer of securities deliverable upon exercise of Warrants under the supplemental Warrant Agreement is an affiliate of the formed, surviving, transferee or lessee person, that issuer shall join in the supplemental Warrant Agreement.

If this subsection (j) applies, subsections (a) and (b) of this Section 10 do not apply.

(k) Warrant Agent's Disclaimer.

The Warrant Agent shall have no duties or responsibilities under this Section 10, including, but not limited to, determining when an adjustment under this Section 10 should be made, how such adjustment should be made or what the adjustment should be. The Warrant Agent has no duty to determine whether any provisions of a supplemental Warrant Agreement under subsection (j) of this Section 10 are correct. The Warrant Agent makes no representation as to the validity or value of any securities or assets issued upon exercise of Warrants. The Warrant Agent shall not be responsible for the Company's failure to comply with this Section.

(l) When Issuance or Payment May Be Deferred.

In any case in which this Section 10 shall require that an adjustment in the Exercise Price be made effective as of a record date for a specified event, the Company may elect to defer (with prompt written notice of such election to the Warrant Agent) until the occurrence of such event (i) issuing to the holder of any Warrant exercised after such record date the Warrant Shares and other capital stock of the Company, if any, issuable upon such exercise over and above the Warrant Shares and other capital stock of the Company, if any, issuable upon such exercise on the basis of the Exercise Price and (ii) paying to such holder any amount in cash in lieu of a fractional share pursuant to Section 11 hereof; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's

right to receive such additional Warrant Shares, other capital stock and cash upon the occurrence of the event requiring such adjustment.

(m) Adjustment in Number of Shares.

Upon each event that provides for an adjustment of the Exercise Price pursuant to this Section 10, each Warrant outstanding prior to the making of the adjustment shall thereafter evidence the right to receive upon payment of the adjusted Exercise Price that number of shares of Common Stock (calculated to the nearest ten millionth) obtained from the following formula:

$$N' = N \times \frac{E}{E'}$$

where:

N' = the adjusted number of Warrant Shares issuable upon exercise of a Warrant by payment of the adjusted Exercise Price.

N = the number of Warrant Shares previously issuable upon exercise of a Warrant by payment of the Exercise Price prior to adjustment.

E' = the adjusted Exercise Price.

E = the Exercise Price prior to adjustment.

(n) Form of Warrants.

Irrespective of any adjustments in the Exercise Price or the number or kind of shares purchasable upon the exercise of the Warrants, Warrants theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the Warrants initially issuable pursuant to this Agreement.

(o) Other Dilutive Events.

In case any event shall occur affecting the Company, or any entity in which the Company has a direct or indirect investment, as to which the provisions of this Section 10 are not strictly applicable, but the failure to make any adjustment would not fairly protect the purchase rights represented by the Warrants in accordance with the essential intent and principles of this Section then, in each such case, the Company shall appoint a firm of independent public accountants of recognized national standing which shall give their opinion upon the adjustment, if any, on a basis consistent with the essential intent and principles established in this Section 10, necessary to preserve, without dilution, the purchase rights represented by the Warrants.

SECTION 11. Fractional Interests.

(a) The Company shall not be required to issue fractional Warrant Shares on the exercise of Warrants. If more than one Warrant shall be presented for exercise in full at the same time by the same holder, the number of full Warrant Shares which shall be issuable upon the

exercise thereof shall be computed on the basis of the aggregate number of Warrant Shares purchasable on exercise of the Warrants so presented. If any fraction of a Warrant Share would, except for the provisions of this Section 11, be issuable on the exercise of any Warrants (or specified portion thereof), the Company shall pay an amount in cash equal to the fair market value of such fractional Warrant Share as of the day immediately preceding the date the Warrant is presented for exercise, multiplied by such fraction.

(b) Warrants may be issued in fractional interests. Holders of fractional interests in Warrants will be entitled to purchase a number of Warrant Shares equal to the product obtained by multiplying the number of Warrant Shares issuable with respect to a full Warrant multiplied by the fractional interest owned by such holder in the Warrant.

(c) Whenever a payment for fractional Warrant Shares is to be made by the Warrant Agent, the Company shall (i) promptly prepare and deliver to the Warrant Agent a certificate setting forth in reasonable detail the facts related to such payment and the prices and/or formulas utilized in calculating such payments, and (ii) provide sufficient monies to the Warrant Agent in the form of fully collected funds to make such payments. The Warrant Agent shall be fully protected in relying upon such a certificate and shall have no duty with respect to, and shall not be deemed to have knowledge of any payment for fractional Warrant Shares under any Section of this Agreement relating to the payment of fractional Warrant Shares unless and until the Warrant Agent shall have received such a certificate and sufficient monies.

SECTION 12. Notices to Warrant holders. Upon any adjustment of the Exercise Price pursuant to Section 10, the Company shall promptly thereafter, and in any event within five days, (i) cause to be filed with the Warrant Agent a certificate executed by the Chief Financial Officer of the Company setting forth the Exercise Price after such adjustment and setting forth in reasonable detail the method of calculation and the facts upon which such calculations are based and setting forth the number of Warrant Shares (or portion thereof) issuable after such adjustment in the Exercise Price, upon exercise of a Warrant and payment of the adjusted Exercise Price, and (ii) cause to be given to each of the registered holders of the Warrant Certificates at his address appearing on the Warrant register written notice of such adjustments by first-class mail, postage prepaid. Where appropriate, such notice may be given in advance and included as a part of the notice required to be mailed under the other provisions of this Section 12. The Warrant Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained and shall have no duty with respect to and shall not be deemed to have knowledge of such adjustment unless and until it shall have received such certificate.

In case:

(a) the Company shall authorize the issuance to all holders of shares of Common Stock of rights, options or warrants to subscribe for or purchase shares of Common Stock or of any other subscription rights or warrants; or

(b) the Company shall authorize the distribution to all holders of shares of Common Stock of evidences of its indebtedness or assets (other than regular cash dividends or dividends payable in shares of Common Stock or distributions referred to in subsection (a) of Section 10 hereof); or

(c) of any consolidation or merger to which the Company is a party and for which approval of any shareholders of the Company is required, or of the conveyance or transfer of the properties and assets of the Company substantially as an entirety, or of any reclassification or change of Common Stock issuable upon exercise of the Warrants (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or a tender offer or exchange offer for shares of Common Stock; or

(d) of the voluntary or involuntary dissolution, liquidation or winding up of the Company; or

(e) the Company proposes to take any action (other than actions of the character described in Section 10(a) hereof) which would require an adjustment of the Exercise Price pursuant to Section 10 hereof;

then the Company shall cause to be filed with the Warrant Agent and shall cause to be given to each of the registered holders of the Warrant Certificates at his address appearing on the Warrant register, at least 20 calendar days (or 10 calendar days in any case specified in clauses (a),(b) or (e) above) prior to the applicable record date hereinafter specified, or promptly in the case of events for which there is no record date, by first-class mail, postage prepaid, a written notice stating (i) the date as of which the holders of record of shares of Common Stock to be entitled to receive any such rights, options, warrants or distribution are to be determined, or (ii) the initial expiration date set forth in any tender offer or exchange offer for shares of Common Stock, or (iii) the date on which any such consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up is expected to become effective or consummated, and the date as of which it is expected that holders of record of shares of Common Stock shall be entitled to exchange such shares for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up. The failure to give the notice required by this Section 12 or any defect therein shall not affect the legality or validity of any distribution, right, option, warrant, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up, or the vote upon any action.

Nothing contained in this Agreement or in any of the Warrant Certificates shall be construed as conferring upon the holders thereof the right to vote or to consent or to receive notice as shareholders in respect of the meetings of shareholders or the election of Directors of the Company or any other matter, or any rights whatsoever as shareholders of the Company.

SECTION 13. Merger, Consolidation or Change of Name of Warrant Agent. Any person into which the Warrant Agent may be merged or with which it may be consolidated, or any person resulting from any merger or consolidation to which the Warrant Agent shall be a party, or any person succeeding to the business of the Warrant Agent, shall be the successor to the Warrant Agent hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such person would be eligible for appointment as a successor warrant agent under the provisions of Section 15. In case at the time such successor to the Warrant Agent shall succeed to the agency created by this Agreement, and in case at that time any of the Warrant

Certificates shall have been countersigned but not delivered, any such successor to the Warrant Agent may adopt the countersignature of the original Warrant Agent; and in case at that time any of the Warrant Certificates shall not have been countersigned,

any successor to the Warrant Agent may countersign such Warrant Certificates either in the name of the predecessor Warrant Agent or in the name of the successor to the Warrant Agent; and in all such cases such Warrant Certificates shall have the full force and effect provided in the Warrant Certificates and in this Agreement.

In case at any time the name of the Warrant Agent shall be changed and at such time any of the Warrant Certificates shall have been countersigned but not delivered, the Warrant Agent whose name has been changed may adopt the countersignature under its prior name, and in case at that time any of the Warrant Certificates shall not have been countersigned, the Warrant Agent may countersign such Warrant Certificates either in its prior name or in its changed name, and in all such cases such Warrant Certificates shall have the full force and effect provided in the Warrant Certificates and in this Agreement.

SECTION 14. Warrant Agent. The Warrant Agent undertakes the duties and obligations imposed by this Agreement (and no implied duties or obligations shall be read into this Agreement against the Warrant Agent) upon the following terms and conditions, by all of which the Company and the holders of Warrants, by their acceptance thereof, shall be bound:

(a) The statements contained herein and in the Warrant Certificates shall be taken as statements of the Company and the Warrant Agent assumes no responsibility for the correctness of any of the same except such as describe the Warrant Agent or action taken or to be taken by it. The Warrant Agent assumes no responsibility with respect to the distribution of the Warrant Certificates except as herein otherwise provided.

(b) The Warrant Agent shall not be responsible for any failure of the Company to comply with any of the covenants contained in this Agreement or in the Warrant Certificates to be complied with by the Company.

(c) The Warrant Agent may consult at any time with counsel of its own selection (who may be counsel for the Company) and the Warrant Agent shall incur no liability or responsibility to the Company or to any holder of any Warrant Certificate in respect of any action taken, suffered or omitted to be taken by it hereunder accordance with the opinion or the advice of such counsel.

(d) The Warrant Agent shall incur no liability or responsibility to the Company or to any holder of any Warrant Certificate for any action taken in reliance on any Warrant Certificate, certificate of shares, notice, resolution, waiver, consent, order, certificate, or other paper, document or instrument (whether in its original or facsimile form) believed by it to be genuine and to have been signed, sent or presented by the proper party or parties.

(e) The Company agrees (i) to pay to the Warrant Agent reasonable compensation for all services rendered by the Warrant Agent (including fees and expenses of its counsel) and to reimburse the Warrant Agent for all expenses, taxes and governmental charges and other charges and disbursements of any kind and nature incurred by the Warrant Agent in the preparation, delivery, execution, administration and amendment of this Agreement and the exercise and performance of its duties hereunder and (ii) to indemnify the Warrant Agent (and any predecessor Warrant Agent) and save it harmless against any and all claims (whether asserted by

the Company, a holder or any other person), damages, losses, fines, penalties, settlements, expenses (including taxes other than taxes based on the income of the Warrant Agent), liabilities, including judgments, costs and counsel fees and expenses, for any action taken, suffered or omitted to be taken by the Warrant Agent in connection with the execution of this Agreement and the acceptance and administration of this Agreement, except as a result of its gross negligence or willful misconduct (each as finally determined by a court of competent jurisdiction). The costs and expenses incurred in enforcing this right of indemnification shall be paid by the Company. The provisions of this Section 14 shall survive the expiration of the Warrants, the termination of this Agreement and the resignation or removal of the Warrant Agent.

(f) The Warrant Agent shall be under no obligation to institute any action, suit or legal proceeding or to take any other action likely to involve expense unless the Company or one or more registered holders of Warrant Certificates shall furnish the Warrant Agent with reasonable security and indemnity satisfactory to it for any costs and expenses which may be incurred, but this provision shall not limit the power of the Warrant Agent to take such action as it may consider proper, whether with or without any such security or indemnity. All rights of action under this Agreement or under any of the Warrants may be enforced by the Warrant Agent without the possession of any of the Warrant Certificates or the production thereof at any trial or other proceeding relative thereto, and any such action, suit or proceeding instituted by the Warrant Agent shall be brought in its name as Warrant Agent and any recovery of judgment shall be for the ratable benefit of the registered holders of the Warrants, as their respective rights or interests may appear.

(g) The Warrant Agent, and any stockholder, affiliate, director, officer or employee of it, may buy, sell or deal in any of the Warrants or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Warrant Agent under this Agreement. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

(h) The Warrant Agent shall act hereunder solely as agent for the Company, and its duties shall be determined solely by the provisions hereof. The Warrant Agent shall not be liable for any action taken, suffered or omitted to be taken by it in connection with this Agreement except for its own gross negligence or willful misconduct, each as finally determined by a court of competent jurisdiction. Anything to the contrary notwithstanding, in no event shall the Warrant Agent be liable for special, punitive, indirect, consequential or incidental loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Warrant Agent has been advised of the likelihood of such loss or damage. Any liability of the Warrant Agent under this Agreement will be limited to the amount of fees paid by the Company to the Warrant Agent.

(i) The Warrant Agent shall not at any time be under any duty or responsibility to any holder of any Warrant Certificate to make or cause to be made any adjustment of the Exercise Price or number of the Warrant Shares or other securities or property deliverable as provided in this Agreement, or to determine whether any facts exist which may require any of such adjustments, or with respect to the nature or extent of any such adjustments, when made, or

with respect to the method employed in making the same. The Warrant Agent shall not be accountable with respect to the validity or value or the kind or amount of any Warrant Shares or of any securities or property which may at any time be issued or delivered upon the exercise of any Warrant or with respect to whether any such Warrant Shares or other securities will when issued be validly issued and fully paid and nonassessable, and makes no representation with respect thereto.

(j) Notwithstanding anything in this Agreement to the contrary, neither the Company nor the Warrant Agent shall have any liability to any holder of a Warrant or other person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority prohibiting or otherwise restraining performance of such obligation; provided that the Company must use its reasonable best efforts to have any such order, decree or ruling lifted or otherwise overturned as soon as possible.

(k) With respect to the exercise by a holder of any Warrants in accordance with the terms of this Agreement and with respect to any other actions or omissions that may arise as a result of or under this Agreement, to the extent the Warrant Agent has any questions or uncertainties as to what actions it should take with respect thereto, the Warrant Agent may seek written direction from the Company as to what course of action the Warrant Agent should take and the Warrant Agent shall be fully protected and incur no liability in refraining from taking any action thereunder unless and until the Warrant Agent has received such written direction from the Company. Any application by the Warrant Agent for such written instructions from the Company may, at the option of the Warrant Agent, set forth in writing any action proposed to be taken or omitted by the Warrant Agent under this Agreement and the date on and/or after which such action shall be taken or such omission shall be effective. The Warrant Agent shall not be liable for any action taken by, or omission of, the Warrant Agent in accordance with a proposal included in such application on or after the date specified in such application (which date shall not be less than three Business Days after the date any officer of the Company actually receives such application, unless any such officer shall have consented in writing to any earlier date) unless prior to taking any such action (or the effective date in the case of an omission), the Warrant Agent shall have received written instructions in response to such application specifying the action to be taken or omitted.

(l) No provision of this Agreement shall require the Warrant Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if there shall be reasonable grounds for believing that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

(m) Whenever in the performance of its duties under this Agreement the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking , suffering or omitting to take any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by any one of the Chairman of the

Board, the President, a Vice President, the Treasurer or the Secretary of the Company and delivered to the Warrant Agent; and such certificate shall be full authorization and protection to the Warrant Agent for any action taken or suffered by it under the provisions of this Agreement in reliance upon such certificate.

(n) The Warrant Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any one of the Chairman of the Board, the President, a Vice President, the Secretary or the Treasurer of the Company, and to apply to such officers for advice or instructions in connection with its duties, and such instructions shall be full authorization and protection to the Warrant Agent, and the Warrant Agent shall not be liable for any action taken, suffered or omitted to be taken by it in accordance with instructions of any such officer.

(o) The Warrant Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Warrant Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, absent gross negligence or willful misconduct (each as finally determined by a court of competent jurisdiction) in the selection and continued employment thereof.

SECTION 15. Change of Warrant Agent. The Warrant Agent or any successor Warrant Agent may resign and be discharged from its duties under this Agreement upon 30 days' notice in writing mailed to the Company. Upon such resignation or if the Warrant Agent shall become incapable of acting as Warrant Agent, the Company shall appoint a successor to such Warrant Agent. If the Company shall fail to make such appointment within a period of 30 days after it has been notified in writing of such resignation or incapacity by the Warrant Agent or by the registered holder of a Warrant Certificate, then the registered holder of any Warrant Certificate may apply to any court of competent jurisdiction for the appointment of a successor to the Warrant Agent. Pending appointment of a successor to such Warrant Agent, either by the Company or by such a court, the duties of the Warrant Agent shall be carried out by the Company. The holders of a majority of the unexercised Warrants shall be entitled at any time to remove the Warrant Agent and appoint a successor to such Warrant Agent. Such successor to the Warrant Agent must be approved by the Company, which shall not unreasonably withhold such approval. After appointment the successor to the Warrant Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Warrant Agent without further act or deed; but the former Warrant Agent upon payment of all fees and expenses due it and its agents and counsel shall deliver and transfer to the successor to the Warrant Agent any property at the time held by it hereunder and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Failure to give any notice provided for in this Section 15, however, or any defect therein, shall not affect the legality or validity of the appointment of a successor to the Warrant Agent.

SECTION 16. Notices to Company and Warrant Agent. Any notice or demand authorized by this Agreement to be given or made by the Warrant Agent or by the registered holder of any Warrant Certificate to or on the Company shall be sufficiently given or made when and if delivered by facsimile transmission (provided confirmation of receipt is received

immediately thereafter) or deposited in the mail, first class or registered, postage prepaid, addressed (until another address is filed in writing by the Company with the Warrant Agent), as follows:

SMTC Corporation
635 Hood Road
Markham, Ontario, Canada L3R 4N6
Attention: President
Facsimile No.: (905) 479-5326

In case the Company shall fail to maintain such office or agency or shall fail to give such notice of the location or of any change in the location thereof, presentations may be made and notices and demands may be served at the office of the Warrant Agent designated for such purpose.

Any notice pursuant to this Agreement to be given by the Company or by the registered holder(s) of any Warrant Certificate to the Warrant Agent shall be sufficiently given when and if delivered by facsimile transmission (provided confirmation of receipt is received immediately thereafter) or deposited in the mail, first-class or registered, postage prepaid, addressed (until another address is filed in writing by the Warrant Agent with the Company) to the Warrant Agent as follows:

Mellon Investor Services LLC
500 Grant Street, Room 2122
Pittsburgh, PA 15258
Attention: Relationship Manager
Facsimile No.: (412) 236-8157

with a copy to:

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660
Attention: General Counsel
Facsimile No.: (201) 296-4004

SECTION 17. Supplements and Amendments. The Company and the Warrant Agent may from time to time supplement or amend this Agreement without the approval of any holders of Warrant Certificates in order to cure any ambiguity or to correct or supplement any provision contained herein which may be defective or inconsistent with any other provision herein, or to make any other provisions in regard to matters or questions arising hereunder which the Company and the Warrant Agent may deem necessary or desirable and which shall not in any way adversely affect the interests of the holders of Warrant Certificates. Prior to executing any such supplement or amendment, the Warrant Agent shall be entitled to rely on an officer's certificate of the Company to the effect that such amendment or supplement complies with the

terms of this Section. Notwithstanding anything in this Agreement to the contrary, the prior written consent of the Warrant Agent must be obtained in connection with any supplement or amendment which alters the rights or duties of the Warrant Agent.

SECTION 18. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

SECTION 19. Termination. This Agreement will terminate on any earlier date if all Warrants have been exercised or expired without exercise. The provisions of Section 14 hereof shall survive such termination.

SECTION 20. Governing Law; Submission to Jurisdiction: Waiver of Jury Trial. This Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be construed in accordance with the internal laws of said State. Each party hereto hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court sitting in New York City for purposes of all legal proceedings arising out of or relating to this agreement or the transactions contemplated hereby. Each party hereto irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. Each party hereto irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this agreement or the transactions contemplated hereby.

SECTION 21. Benefits of This Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company, the Warrant Agent and the registered holders of the Warrant Certificates any legal or equitable right, remedy or claim under this Agreement, and this Agreement shall be for the sole and exclusive benefit of the Company, the Warrant Agent and the registered holders of the Warrant Certificates.

SECTION 22. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

SECTION 23. Amendment and Exchange of Warrant Certificates. All Warrants issued and outstanding at the time of any amendments to this Warrant Agreement shall be deemed amended in accordance with such amendments to this Warrant Agreement. The Company, at its expense, shall issue and the Warrant Agent shall countersign, in exchange and substitution for and upon cancellation of any existing Warrant Certificates presented to the Company or the Warrant Agent, a new Warrant Certificate of like tenor, representing an equivalent number of Warrants and the terms of the amended Warrant Agreement.

SECTION 24. Notice of Amendments.Promptly after the execution by the Company and the Warrant Agent of any amendments pursuant to Section 17, the Company or the

Warrant Agent shall give notice thereof to the Warrant holders affected, in the manner provided for in Section 12.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the day and year first above written.

SMTC Corporation

By: /s/ Paul Walker

Name: Paul Walker
Title: President

MELLON INVESTOR SERVICES LLC

By: /s/ Kathryn M. Gallagher

Name: Kathryn M. Gallagher
Title: Vice President

EXHIBIT A

[Form of Series A Warrant Certificate]

[Face]

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. SAID SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT.

EXERCISABLE ON OR BEFORE 5:00 P.M. NEW YORK CITY TIME ON DECEMBER ___, 2007.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE TRANSFERRED SEPARATE FROM THE WARRANT HOLDER'S INTERESTS IN LOANS OUTSTANDING UNDER THE AMENDED AND RESTATED CREDIT AND GUARANTEE AGREEMENT, DATED AS OF JULY 27, 2000 (AS AMENDED, SUPPLEMENTED AND OTHERWISE MODIFIED FROM TIME TO TIME), AMONG THE SMTC CORPORATION, HTM HOLDINGS, INC., SMTC MANUFACTURING CORPORATION OF CANADA, AND THE SEVERAL BANKS AND OTHER FINANCIAL INSTITUTIONS OR ENTITIES FROM TIME TO TIME PARTIES THERETO UNTIL AFTER DECEMBER 31, 2003.

No. ________ Warrants

Warrant Certificate

SMTC CORPORATION

This Warrant Certificate certifies that _____________________, or registered assigns, is the registered holder of ___________ Series A Common Stock Purchase Warrants expiring December ___, 2007 (the "Warrants") to purchase Common Stock, par value $0.01 per share (the "Common Stock"), of SMTC Corporation, a Delaware corporation (the "Company"). Each Warrant entitles the holder upon exercise to receive from the Company on or before 5:00 p.m. New York City Time on December ___, 2007, that number of fully paid and nonassessable shares of Common Stock (each, a "Warrant Share") as set forth below at the exercise price (the "Exercise Price") as determined pursuant to the Warrant Agreement referenced below payable in lawful money of the United States of America upon surrender of this Warrant Certificate and payment of the Exercise Price at the office or agency of the Warrant Agent, but only subject to the conditions set forth herein and in the Warrant Agreement referred to on the reverse hereof. Notwithstanding the foregoing, Warrants may be exercised without the exchange of funds pursuant to the net exercise provisions of Section 6 of the Warrant Agreement.

Each Warrant is initially exercisable for one share of Common Stock, and the initial Exercise Price per share of Common Stock for any Warrant is equal to $________ per share. The Exercise Price and number of Warrant Shares issuable upon exercise of the Warrants are subject to adjustment upon the occurrence of certain events set forth in the Warrant Agreement.

Warrants may be exercised at any time on or before 5:00 p.m. New York City Time on December ___, 2007 and to the extent not exercised by such time such warrants shall become void.

Reference is hereby made to the further provisions of this Warrant Certificate set forth on the reverse hereof and such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Warrant Certificate shall not be valid unless countersigned by the Warrant Agent, as such term is used in the Warrant Agreement.

This Warrant Certificate shall be governed and construed in accordance with the internal laws of the State of New York.

IN WITNESS WHEREOF, SMTC Corporation has caused this Warrant Certificate to be signed by its President and by its Chief Financial Officer.

SMTC Corporation

By

[Name]
President

By

[Name]
Chief Financial Officer

Countersigned:

Dated:

Mellon Investor Services LLC,
as Warrant Agent

By

Authorized Signatory

[Form of Series A Warrant Certificate]

[Reverse]

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants expiring December ___, 2007 entitling the holder on exercise to receive shares of Common Stock, par value $0.01 per share, of the Company (the "Common Stock"), and are issued or to be issued pursuant to a Warrant Agreement dated as of December 31, 2002 (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Warrant Agreement"), duly executed and delivered by the Company to Mellon Investor Services LLC, a New Jersey limited liability company, as warrant agent (the "Warrant Agent"), which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Warrant Agent, the Company and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Warrants. A copy of the Warrant Agreement may be obtained by the holder hereof upon written request to the Company.

Warrants may be exercised at any time on or before 5:00 p.m. New York City time on December ___, 2007. The holder of Warrants evidenced by this Warrant Certificate may exercise them by surrendering this Warrant Certificate, with the form of election to purchase set forth hereon properly completed and executed, together with payment of the Exercise Price as specified in the Warrant Agreement at the office of the Warrant Agent. In the event that upon any exercise of Warrants evidenced hereby the number of Warrants exercised shall be less than the total number of Warrants evidenced hereby, there shall be issued to the holder hereof or his assignee a new Warrant Certificate evidencing the number of Warrants not exercised. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of this Warrant.

The Warrant Agreement provides that upon the occurrence of certain events the Exercise Price set forth on the face hereof and the number of shares of Common Stock issuable upon exercise may be adjusted. No fractions of a share of Common Stock will be issued upon the exercise of any Warrant, but the Company will pay the cash value thereof determined as provided in the Warrant Agreement.

The holders of the Warrants are entitled to certain registration rights with respect to the Common Stock purchasable upon exercise thereof. Said registration rights are set forth in full in a Registration Rights Agreement dated as of December ___, 2002, among the Company and certain investors named therein. A copy of the Registration Rights Agreement may be obtained by the holder hereof upon written request to the Company.

The holders of the Warrants have certain restrictions on transfer as outlined in the Warrant Agreement.

Warrant Certificates, when surrendered at the office of the Warrant Agent designated for such purpose by the registered holder thereof in person or by legal representative or attorney duly authorized in writing, may be exchanged, in the manner and subject to the

limitations provided in the Warrant Agreement, but without payment of any service charge, for another Warrant Certificate or Warrant Certificates of like tenor evidencing in the aggregate a like number of Warrants.

Upon due presentation for registration of transfer of this Warrant Certificate at the office of the Warrant Agent a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company and the Warrant Agent may deem and treat the registered holder(s) thereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, of any distribution to the holder(s) hereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary. Neither the Warrants nor this Warrant Certificate entitles any holder hereof to any rights of a stockholder of the Company.

Election to Exercise

(To Be Executed Upon Exercise Of Warrant)

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to receive ________ shares of Common Stock and herewith tenders payment for such shares to the order of SMTC Corporation in the amount of $________ in accordance with the terms hereof unless the holder is exercising Warrants pursuant to the net exercise provisions of Section 6 of the Warrant Agreement. The undersigned requests that a certificate for such shares be registered in the name of ______________, whose address is _______________________________ and that such shares be delivered to __________________ whose address is ________ _________________________. If said number of shares is less than all of the shares of Common Stock purchasable hereunder, the undersigned requests that a new Warrant Certificate representing

the remaining balance of such shares be registered in the name of ________,
whose address is _________________________, and that such Warrant Certificate be
delivered to ___________________, whose address is ____________________.

Signature:

Date:

Signature Guaranteed:

EXHIBIT B

[Form of Series B Warrant Certificate]

[Face]

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. SAID SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT.

EXERCISABLE ON OR BEFORE 5:00 P.M. NEW YORK CITY TIME ON DECEMBER ___, 2007.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE TRANSFERRED SEPARATE FROM THE WARRANT HOLDER'S INTERESTS IN LOANS OUTSTANDING UNDER THE AMENDED AND RESTATED CREDIT AND GUARANTEE AGREEMENT, DATED AS OF JULY 27, 2000 (AS AMENDED, SUPPLEMENTED AND OTHERWISE MODIFIED FROM TIME TO TIME), AMONG THE SMTC CORPORATION, HTM HOLDINGS, INC., SMTC MANUFACTURING CORPORATION OF CANADA, AND THE SEVERAL BANKS AND OTHER FINANCIAL INSTITUTIONS OR ENTITIES FROM TIME TO TIME PARTIES THERETO UNTIL AFTER DECEMBER 31, 2003.

THE SECURITIES EVIDENCED OR CONSTITUTED HEREBY ARE SUBJECT TO FORFEITURE TO SMTC CORPORATION UNTIL DECEMBER 31, 2003.

No. ____ ____ Warrants

Warrant Certificate

SMTC CORPORATION

This Warrant Certificate certifies that ______________________, or registered assigns, is the registered holder of ___________ Series B Common Stock Purchase Warrants expiring December ___, 2007 (the "Warrants") to purchase Common Stock, par value $0.01 per share (the "Common Stock"), of SMTC Corporation, a Delaware corporation (the "Company"). Each Warrant entitles the holder upon exercise to receive from the Company on or before 5:00 p.m. New York City Time on December ___, 2007, that number of fully paid and nonassessable shares of Common Stock (each, a "Warrant Share") as set forth below at the exercise price (the "Exercise Price") as determined pursuant to the Warrant Agreement referenced below payable in lawful money of the United States of America upon surrender of this Warrant Certificate and payment of the Exercise Price at the office or agency of the Warrant Agent, but only subject to the conditions set forth herein and in the Warrant Agreement referred to on the reverse hereof. Notwithstanding the foregoing, Warrants may be exercised without the exchange of funds pursuant to the net exercise provisions of Section 6 of the Warrant Agreement.

Each Warrant is initially exercisable for one share of Common Stock, and the initial Exercise Price per share of Common Stock for any Warrant is equal to $________ per share. The Exercise Price and number of Warrant Shares issuable upon exercise of the Warrants are subject to adjustment upon the occurrence of certain events set forth in the Warrant Agreement.

Warrants may be exercised at any time on or before 5:00 p.m. New York City Time on December ___, 2007 and to the extent not exercised by such time such warrants shall become void.

Reference is hereby made to the further provisions of this Warrant Certificate set forth on the reverse hereof and such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Warrant Certificate shall not be valid unless countersigned by the Warrant Agent, as such term is used in the Warrant Agreement.

This Warrant Certificate shall be governed and construed in accordance with the internal laws of the State of New York.

IN WITNESS WHEREOF, SMTC Corporation has caused this Warrant Certificate to be signed by its President and by its Chief Financial Officer.

SMTC Corporation

By

[Name]
President

By

[Name]
Chief Financial Officer

Countersigned:

Dated:

Mellon Investor Services LLC
as Warrant Agent

By

Authorized Signatory

[Form of Series B Warrant Certificate]

[Reverse]

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants expiring December ___, 2007 entitling the holder on exercise to receive shares of Common Stock, par value $0.01 per share, of the Company (the "Common Stock"), and are issued or to be issued pursuant to a Warrant Agreement dated as of December 31, 2002 (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Warrant Agreement"), duly executed and delivered by the Company to Mellon Investor Services LLC, a New Jersey limited liability company, as warrant agent (the "Warrant Agent"), which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Warrant Agent, the Company and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Warrants. A copy of the Warrant Agreement may be obtained by the holder hereof upon written request to the Company.

Warrants may be exercised at any time on or before 5:00 p.m. New York City time on December ___, 2007. The holder of Warrants evidenced by this Warrant Certificate may exercise them by surrendering this Warrant Certificate, with the form of election to purchase set forth hereon properly completed and executed, together with payment of the Exercise Price as specified in the Warrant Agreement at the office of the Warrant Agent. In the event that upon any exercise of Warrants evidenced hereby the number of Warrants exercised shall be less than the total number of Warrants evidenced hereby, there shall be issued to the holder hereof or his assignee a new Warrant Certificate evidencing the number of Warrants not exercised. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of this Warrant.

The Warrant Agreement provides that upon the occurrence of certain events the Exercise Price set forth on the face hereof and the number of shares of Common Stock issuable upon exercise may be adjusted. No fractions of a share of Common Stock will be issued upon the exercise of any Warrant, but the Company will pay the cash value thereof determined as provided in the Warrant Agreement.

The holders of the Warrants are entitled to certain registration rights with respect to the Common Stock purchasable upon exercise thereof. Said registration rights are set forth in full in an Registration Rights Agreement dated as of December ___, 2002 among the Company and certain investors named therein. A copy of the Registration Rights Agreement may be obtained by the holder hereof upon written request to the Company.

The holders of the Warrants have certain restrictions on transfer as outlined in the Warrant Agreement.

The holders of the Warrants must surrender all outstanding Warrants to the Company if all outstanding obligations under the Credit Agreement are paid in full and all commitments thereunder are terminated on or before December 31, 2003. Any shares of

Common Stock issued upon exercise of the Warrants are subject to right of repurchase by SMTC Corporation until December 31, 2003, for an amount equal to the exercise price of the Warrants exercised for such shares.

Warrant Certificates, when surrendered at the office of the Warrant Agent designated for such purpose by the registered holder thereof in person or by legal representative or attorney duly authorized in writing, may be exchanged, in the manner and subject to the limitations provided in the Warrant Agreement, but without payment of any service charge, for another Warrant Certificate or Warrant Certificates of like tenor evidencing in the aggregate a like number of Warrants.

Upon due presentation for registration of transfer of this Warrant Certificate at the office of the Warrant Agent a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company and the Warrant Agent may deem and treat the registered holder(s) thereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, of any distribution to the holder(s) hereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary. Neither the Warrants nor this Warrant Certificate entitles any holder hereof to any rights of a stockholder of the Company.

Election to Exercise

(To Be Executed Upon Exercise Of Warrant)

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to receive ________ shares of Common Stock and herewith tenders payment for such shares to the order of SMTC Corporation in the amount of $________ in accordance with the terms hereof unless the holder is exercising Warrants pursuant to the net exercise provisions of Section 6 of the Warrant Agreement. The undersigned requests that a certificate for such shares be registered in the name of ______________, whose address is _______________________________ and that such shares be delivered to __________________ whose address is ________ ________________________. If said number of shares is less than all of the shares of Common Stock purchasable hereunder, the undersigned requests that a new Warrant Certificate representing the remaining balance of such shares be registered in the name of ________, whose address is _________________________, and that such Warrant Certificate be delivered to ___________________, whose address is ____________________.

Signature:

Date:

Signature Guaranteed:

EXHIBIT C

[Form of Series C, D and E Warrant Certificate]

[Face]

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. SAID SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT.

EXERCISABLE ON OR BEFORE 5:00 P.M. NEW YORK CITY TIME ON FIFTH ANNIVERSARY OF ISSUE DATE.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE TRANSFERRED SEPARATE FROM THE WARRANT HOLDER'S INTERESTS IN LOANS OUTSTANDING UNDER THE AMENDED AND RESTATED CREDIT AND GUARANTEE AGREEMENT, DATED AS OF JULY 27, 2000 (AS AMENDED, SUPPLEMENTED AND OTHERWISE MODIFIED FROM TIME TO TIME), AMONG THE SMTC CORPORATION, HTM HOLDINGS, INC., SMTC MANUFACTURING CORPORATION OF CANADA, AND THE SEVERAL BANKS AND OTHER FINANCIAL INSTITUTIONS OR ENTITIES FROM TIME TO TIME PARTIES THERETO UNTIL NINE MONTHS AFTER THE ISSUE DATE.

THE SECURITIES EVIDENCED OR CONSTITUTED HEREBY ARE SUBJECT TO FORFEITURE TO SMTC CORPORATION UNTIL DECEMBER 31, 2003.

No. ____ ____ Warrants

Warrant Certificate

SMTC CORPORATION

This Warrant Certificate certifies that ______________________, or registered assigns, is the registered holder of ___________ Series [C][D][E] Common Stock Purchase Warrants expiring [___________] (the "Warrants") to purchase Common Stock, par value $0.01 per share (the "Common Stock"), of SMTC Corporation, a Delaware corporation (the "Company"). Each Warrant entitles the holder upon exercise to receive from the Company on or before 5:00 p.m. New York City Time on [___________], that number of fully paid and nonassessable shares of Common Stock (each, a "Warrant Share") as set forth below at the exercise price (the "Exercise Price") as determined pursuant to the Warrant Agreement referenced below payable in lawful money of the United States of America upon surrender of this Warrant Certificate and payment of the Exercise Price at the office or agency of the Warrant Agent, but only subject to the conditions set forth herein and in the Warrant Agreement referred to on the reverse hereof. Notwithstanding the foregoing, Warrants may be exercised without the exchange of funds pursuant to the net exercise provisions of Section 6 of the Warrant Agreement.

Each Warrant is initially exercisable for one share of Common Stock, and the initial Exercise Price per share of Common Stock for any Warrant is equal to $______ per share. The Exercise Price and number of Warrant Shares issuable upon exercise of the Warrants are subject to adjustment upon the occurrence of certain events set forth in the Warrant Agreement.

Warrants may be exercised at any time on or before 5:00 p.m. New York City Time on [___________] and to the extent not exercised by such time such warrants shall become void.

Reference is hereby made to the further provisions of this Warrant Certificate set forth on the reverse hereof and such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Warrant Certificate shall not be valid unless countersigned by the Warrant Agent, as such term is used in the Warrant Agreement.

This Warrant Certificate shall be governed and construed in accordance with the internal laws of the State of New York.

IN WITNESS WHEREOF, SMTC Corporation has caused this Warrant Certificate to be signed by its President and by its Chief Financial Officer.

SMTC Corporation

By

[Name]
President

By

[Name]
Chief Financial Officer

Countersigned:

Dated:

Mellon Investor Services LLC
as Warrant Agent

By

Authorized Signatory

[Form of Series C, D and E Warrant Certificate]

[Reverse]

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants expiring [___________] entitling the holder on exercise to receive shares of Common Stock, par value $0.01 per share, of the Company (the "Common Stock"), and are issued or to be issued pursuant to a Warrant Agreement dated as of December 31, 2002 (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Warrant Agreement"), duly executed and delivered by the Company to Mellon Investor Services LLC, a New Jersey limited liability company, as warrant agent (the "Warrant Agent"), which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Warrant Agent, the Company and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Warrants. A copy of the Warrant Agreement may be obtained by the holder hereof upon written request to the Company.

Warrants may be exercised at any time on or before 5:00 p.m. New York City time on [___________]. The holder of Warrants evidenced by this Warrant Certificate may exercise them by surrendering this Warrant Certificate, with the form of election to purchase set forth hereon properly completed and executed, together with payment of the Exercise Price as specified in the Warrant Agreement at the office of the Warrant Agent. In the event that upon any exercise of Warrants evidenced hereby the number of Warrants exercised shall be less than the total number of Warrants evidenced hereby, there shall be issued to the holder hereof or his assignee a new Warrant Certificate evidencing the number of Warrants not exercised. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of this Warrant.

The Warrant Agreement provides that upon the occurrence of certain events the Exercise Price set forth on the face hereof and the number of shares of Common Stock issuable upon exercise may be adjusted. No fractions of a share of Common Stock will be issued upon the exercise of any Warrant, but the Company will pay the cash value thereof determined as provided in the Warrant Agreement.

The holders of the Warrants are entitled to certain registration rights with respect to the Common Stock purchasable upon exercise thereof. Said registration rights are set forth in full in a Registration Rights Agreement dated as of December ___, 2002, among the Company and certain investors named therein. A copy of the Registration Rights Agreement may be obtained by the holder hereof upon written request to the Company.

The holders of the Warrants have certain restrictions on transfer as outlined in the Warrant Agreement.

The holders of the Warrants must surrender all outstanding Warrants to the Company if all outstanding obligations under the Credit Agreement are paid in full and all commitments thereunder are terminated on or before December 31, 2003. Any shares of

Common Stock issued upon exercise of the Warrants are subject to right of repurchase by SMTC Corporation until December 31, 2003, for an amount equal to the exercise price of the Warrants exercised for such shares.

Warrant Certificates, when surrendered at the office of the Warrant Agent designated for such purpose by the registered holder thereof in person or by legal representative or attorney duly authorized in writing, may be exchanged, in the manner and subject to the limitations provided in the Warrant Agreement, but without payment of any service charge, for another Warrant Certificate or Warrant Certificates of like tenor evidencing in the aggregate a like number of Warrants.

Upon due presentation for registration of transfer of this Warrant Certificate at the office of the Warrant Agent a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company and the Warrant Agent may deem and treat the registered holder(s) thereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, of any distribution to the holder(s) hereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary. Neither the Warrants nor this Warrant Certificate entitles any holder hereof to any rights of a stockholder of the Company.

Election to Exercise

(To Be Executed Upon Exercise Of Warrant)

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to receive ________ shares of Common Stock and herewith tenders payment for such shares to the order of SMTC Corporation in the amount of $________ in accordance with the terms hereof unless the holder is exercising Warrants pursuant to the net exercise provisions of Section 6 of the Warrant Agreement. The undersigned requests that a certificate for such shares be registered in the name of ______________, whose address is _______________________________ and that such shares be delivered to __________________ whose address is ________ _________________________. If said number of shares is less than all of the shares of Common Stock purchasable hereunder, the undersigned requests that a new Warrant Certificate representing the remaining balance of such shares be registered in the name of ________, whose address is _________________________, and that such Warrant Certificate be delivered to ___________________, whose address is ____________________.

Signature:

Date:

Signature Guaranteed:

EXHIBIT D

[Form of Series F, G and H Warrant Certificate]

[Face]

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. SAID SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE TRANSFERRED SEPARATE FROM THE WARRANT HOLDER'S INTERESTS IN LOANS OUTSTANDING UNDER THE AMENDED AND RESTATED CREDIT AND GUARANTEE AGREEMENT, DATED AS OF JULY 27, 2000 (AS AMENDED, SUPPLEMENTED AND OTHERWISE MODIFIED FROM TIME TO TIME), AMONG THE SMTC CORPORATION, HTM HOLDINGS, INC., SMTC MANUFACTURING CORPORATION OF CANADA, AND THE SEVERAL BANKS AND OTHER FINANCIAL INSTITUTIONS OR ENTITIES FROM TIME TO TIME PARTIES THERETO UNTIL NINE MONTHS AFTER THE ISSUE DATE.

EXERCISABLE ON OR BEFORE 5:00 P.M. NEW YORK CITY TIME ON FIFTH ANNIVERSARY OF ISSUE DATE.

No. ____ ____ Warrants

Warrant Certificate

SMTC CORPORATION

This Warrant Certificate certifies that _______________________, or registered assigns, is the registered holder of ___________ Series [F][G][H] Common Stock Purchase Warrants expiring [___________] (the "Warrants") to purchase Common Stock, par value $0.01 per share (the "Common Stock"), of SMTC Corporation, a Delaware corporation (the "Company"). Each Warrant entitles the holder upon exercise to receive from the Company on or before 5:00 p.m. New York City Time on [___________], that number of fully paid and nonassessable shares of Common Stock (each, a "Warrant Share") as set forth below at the exercise price (the "Exercise Price") as determined pursuant to the Warrant Agreement referenced below payable in lawful money of the United States of America upon surrender of this Warrant Certificate and payment of the Exercise Price at the office or agency of the Warrant Agent, but only subject to the conditions set forth herein and in the Warrant Agreement referred to on the reverse hereof. Notwithstanding the foregoing, Warrants may be exercised without the exchange of funds pursuant to the net exercise provisions of Section 6 of the Warrant Agreement.

Each Warrant is initially exercisable for one share of Common Stock, and the initial Exercise Price per share of Common Stock for any Warrant is equal to $______ per share. The Exercise Price and number of Warrant Shares issuable upon exercise of the Warrants are subject to adjustment upon the occurrence of certain events set forth in the Warrant Agreement.

Warrants may be exercised at any time on or before 5:00 p.m. New York City Time on [___________] and to the extent not exercised by such time such warrants shall become void.

Reference is hereby made to the further provisions of this Warrant Certificate set forth on the reverse hereof and such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Warrant Certificate shall not be valid unless countersigned by the Warrant Agent, as such term is used in the Warrant Agreement.

This Warrant Certificate shall be governed and construed in accordance with the internal laws of the State of New York.

IN WITNESS WHEREOF, SMTC Corporation has caused this Warrant Certificate to be signed by its President and by its Chief Financial Officer.

SMTC Corporation

By

[Name]
President

By

[Name]
Chief Financial Officer

Countersigned:

Dated:

Mellon Investor Services LLC
as Warrant Agent

By

Authorized Signatory

[Form of Series F, G and H Warrant Certificate]

[Reverse]

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants expiring [___________] entitling the holder on exercise to receive shares of Common Stock, par value $0.01 per share, of the Company (the "Common Stock"), and are issued or to be issued pursuant to a Warrant Agreement dated as of December 31, 2002 (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Warrant Agreement"), duly executed and delivered by the Company to Mellon Investor Services LLC, a New Jersey limited liability company, as warrant agent (the "Warrant Agent"), which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Warrant Agent, the Company and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Warrants. A copy of the Warrant Agreement may be obtained by the holder hereof upon written request to the Company.

Warrants may be exercised at any time on or before 5:00 p.m. New York City time on [___________]. The holder of Warrants evidenced by this Warrant Certificate may exercise them by surrendering this Warrant Certificate, with the form of election to purchase set forth hereon properly completed and executed, together with payment of the Exercise Price as specified in the Warrant Agreement at the office of the Warrant Agent. In the event that upon any exercise of Warrants evidenced hereby the number of Warrants exercised shall be less than the total number of Warrants evidenced hereby, there shall be issued to the holder hereof or his assignee a new Warrant Certificate evidencing the number of Warrants not exercised. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of this Warrant.

The Warrant Agreement provides that upon the occurrence of certain events the Exercise Price set forth on the face hereof and the number of shares of Common Stock issuable upon exercise may be adjusted. No fractions of a share of Common Stock will be issued upon the exercise of any Warrant, but the Company will pay the cash value thereof determined as provided in the Warrant Agreement.

The holders of the Warrants are entitled to certain registration rights with respect to the Common Stock purchasable upon exercise thereof. Said registration rights are set forth in full in a Registration Rights Agreement dated as of December ___, 2002, among the Company and certain investors named therein. A copy of the Registration Rights Agreement may be obtained by the holder hereof upon written request to the Company.

The holders of the Warrants have certain restrictions on transfer as outlined in the Warrant Agreement.

Warrant Certificates, when surrendered at the office of the Warrant Agent designated for such purpose by the registered holder thereof in person or by legal representative or attorney duly authorized in writing, may be exchanged, in the manner and subject to the

limitations provided in the Warrant Agreement, but without payment of any service charge, for another Warrant Certificate or Warrant Certificates of like tenor evidencing in the aggregate a like number of Warrants.

Upon due presentation for registration of transfer of this Warrant Certificate at the office of the Warrant Agent a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company and the Warrant Agent may deem and treat the registered holder(s) thereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, of any distribution to the holder(s) hereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary. Neither the Warrants nor this Warrant Certificate entitles any holder hereof to any rights of a stockholder of the Company.

Election to Exercise

(To Be Executed Upon Exercise Of Warrant)

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to receive ________ shares of Common Stock and herewith tenders payment for such shares to the order of SMTC Corporation in the amount of $________ in accordance with the terms hereof unless the holder is exercising Warrants pursuant to the net exercise provisions of Section 6 of the Warrant Agreement. The undersigned requests that a certificate for such shares be registered in the name of ______________, whose address is ______________________________ and that such shares be delivered to __________________ whose address is ________ ________________________. If said number of shares is less than all of the shares of Common Stock purchasable hereunder, the undersigned requests that a new Warrant Certificate representing the remaining balance of such shares be registered in the name of ________, whose address is _________________________, and that such Warrant Certificate be delivered to ___________________, whose address is ____________________.

Signature:

Date:

Signature Guaranteed:

EXHIBIT 21.1

Subsidiaries of the Registrant

Name	Jurisdiction of Incorporation
HTM Holdings, Inc.	Delaware
Qualtron, Inc.	Massachusetts
SMTC de Chihuahua S.A. de C.V.	Mexico
SMTC Ireland Company	Ireland
SMTC Manufacturing Corporation of California	California
SMTC Manufacturing Corporation of Canada	Ontario, Canada
SMTC Manufacturing Corporation of Colorado	Delaware
SMTC Manufacturing Corporation of Ireland Limited	Ireland
SMTC Manufacturing Corporation of Massachusetts	Massachusetts
SMTC Manufacturing Corporation of North Carolina	North Carolina
SMTC Manufacturing Corporation of Texas	Texas
SMTC Manufacturing Corporation of Wisconsin	Wisconsin
SMTC MEX Holdings, Inc.	Delaware
SMTC Nova Scotia Company	Nova Scotia, Canada
SMTC R&D Teoranta	Ireland
SMTC Teoranta	Ireland