SMTC CORP
Form 10-K
March 08, 2012

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 1, 2012
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 0-31051

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

Delaware
(State or other jurisdiction of incorporation or organization)

98-0197680
(IRS Employer Identification Number)

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

L3R 4N6
(Zip Code)

Registrant’s telephone number, including area code: 905-479-1810
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $.01 per share	NASDAQ Global Market
	Toronto Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of common stock of the registrant held by non-affiliates of the registrant was approximately $34.3 million on July 3, 2011, including the value of the common stock for which the exchangeable shares of the registrant's subsidiary, SMTC Manufacturing Corporation of Canada, are exchangeable. 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 price of the common stock as reported on The NASDAQ Global Market on July 3, 2011, the last business day of the registrant's most recently completed second quarter.

As of March 5, 2012, SMTC Corporation had 15,711,226 shares of common stock, par value $0.01 per share, and one share of special voting stock, par value $.01 per share, outstanding. As of March 5, 2012, SMTC Corporation's subsidiary, SMTC Manufacturing Corporation of Canada, had 494,548 exchangeable shares outstanding, excluding 7,453,762 exchangeable shares owned by the Company's wholly-owned subsidiary, SMTC Nova Scotia Company, each of which is exchangeable for 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 2012 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. See “Forward-looking statements” below. 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 “Risk-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.

Where we say “we”, “us”, “our”, the “Company” or “SMTC”, we mean SMTC Corporation or SMTC Corporation and its subsidiaries, as applicable. Where we refer to the “industry”, we mean the electronics manufacturing services industry. Certain statements in this Annual Report contain words such as ‘‘could’’, ‘‘expects’’, ‘‘may’’, ‘‘anticipates’’, ‘‘believes’’, ‘‘int ‘‘estimates’’, ‘‘plans’’, ‘‘envisions’’, ‘‘seeks’’ and other similar language and are considered forward looking statements or information under applicable securities laws. These statements are based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate. These statements are subject to important assumptions, risks and uncertainties, which are difficult to predict and the actual outcome may be materially different. Although we believe expectations reflected in such forward-looking statements are reasonable based upon the assumptions in this Annual Report, they may prove to be inaccurate and consequently our actual results could differ materially from our expectations set out in this Annual Report.

Item 1: Business

BUSINESS

Overview

SMTC Corporation is a mid-tier provider of end-to-end electronics manufacturing services, or EMS, including product design and sustaining engineering services, printed circuit board assembly, or PCBA, production, enclosure fabrication, systems integration and comprehensive testing services, configuration to order and end customer fulfillment. SMTC facilities span a broad footprint in the United States, Canada, Mexico, and China, with approximately 1,875 full-time employees. SMTC’s services extend over the entire electronic product life cycle from the development and introduction of new products through to growth, maturity and end-of-life phases. SMTC offers fully integrated contract manufacturing services to global original equipment manufacturers, or OEMs, and technology companies primarily within the industrial, networking and computing, communications and medical market sectors.

SMTC has customer relationships with industry leading OEMs. We developed these relationships by capitalizing on the continuing trend of OEMs to outsource non-core manufacturing services, to consolidate their supply base and to form long-term strategic partnerships with selected high quality EMS providers. We work closely with and are highly responsive to our customers throughout the design, manufacturing and distribution process, providing value-added services. We seek to grow our business through the addition of new, high quality customers, the expansion of our share of business with existing customers, and growth of existing customers, while minimizing the impact of attrition.

We believe that fundamental to our key benefits is our strategic approach in working with customers premised upon gaining insight into their business and bringing innovative solutions to enhancing our customers’ competitiveness and profitability. SMTC lowers total cost of ownership; improves product quality and reliability; accelerates new products to market; improves service and end customer delivery; reduces working capital requirements and capital expenditures that results in improvement of our customers' overall margins and end customer satisfaction.

Our Markham, Ontario (Toronto) site serves as the Company's primary technical center of excellence, with particular emphasis on assisting current and new customers to develop, prototype and bring new products to full production. This site also continues to manufacture lower volume, higher complexity printed circuit board assemblies.

Our Chihuahua, Mexico facility serves as SMTC's largest assembly operation, offering customers high quality services in a highly efficient, cost effective site. In 2008, we expanded our operations in Chihuahua, Mexico to offer low cost Enclosure Systems manufacturing capabilities previously performed in our Boston, Massachusetts operation. As a result of the challenging economy and the resulting reduced revenue, the Boston facility was closed at the end of the second quarter of 2009.

Our San Jose, California operations specialize in new product integration, printed circuit board assemblies, system integration, configuration-to-order services and provides U.S. Federal Standard 209E class 10,000 clean room capabilities for medical device final assemblies and packaging. In 2011, we expanded our operations in San Jose, California with the acquisition of ZF Array Technology, Incorporated, a privately held electronics manufacturing services provider. We are in the process of integrating the two facilities for expected future benefits and cost savings. ZF specializes in manufacturing complex electronics equipment and providing systems integration services for some of the world's leading telecommunication, wireless and life science equipment manufacturers.

The Company has an ongoing manufacturing relationship with Alco Electronics Ltd. (Alco), a Hong Kong-headquartered, publicly-traded company with large scale manufacturing operations in China. SMTC, through its subsidiary SMTC Asia Ltd., and Alco have a dedicated manufacturing facility in Chang An, China. Capitalizing on the strengths of both companies, this site provides SMTC's current and prospective customers with highly efficient, low cost Asia-based manufacturing solutions. This facility provides a full suite of integrated manufacturing services including assembly, testing, box build, final product integration, and expanded supply chain capabilities through an international sourcing and procurement office.

Industry Background

The EMS sector is the outsourced portion of the worldwide electronics assembly industry. There is currently considerable outsourcing of manufacturing by OEMs in response to rapidly changing markets, technologies and accelerating product life cycles as well as the need to lower total costs and convert typical fixed costs into a variable cost model.

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 were 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 relied upon EMS outsourcing strategies. Over time, OEMs engaged 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, configuration, 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, specializing in manufacturing and offering expertise.

By outsourcing manufacturing, OEMs take advantage of the technology and manufacturing expertise of EMS companies and focus on their core business, while leveraging the manufacturing efficiency and capital investment of EMS providers. OEMs use EMS providers to enhance their competitive position by:

- Lowering Product Costs. EMS providers are better able to reduce total product costs due to electronic manufacturing expertise and higher utilization of manufacturing capacity spread over a wider range of product types. Due to their scale of operations as well as established and ongoing relationships with suppliers, EMS providers are able to demonstrate aptitude to achieve better pricing and better inventory management.

- Reducing Time-to-Market. Electronics products are experiencing 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 that manufacture internally are faced with greater complexities in planning, sourcing, 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 that 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 technological 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 and to distribute products efficiently around the world at lower costs.

- Reducing Capital Investments. OEMs are able to reduce their capital investments in inventory, facilities and equipment by outsourcing their manufacturing to EMS providers and allocating their resources towards their core business activities.

- Shift from a Fixed to Variable Cost Model. Through outsourcing, OEMs are able to shed substantial fixed costs of manufacturing and take advantage of EMS providers' efficient and highly utilized facilities, resulting in a highly variable and efficient cost structure.

SMTC Capabilities and Performance

SMTC's electronic manufacturing services span the entire electronic product life cycle from the development and introduction of new products through the growth, maturity, and end-of-life phases. We believe that SMTC's manufacturing services have the capabilities and innovation to reduce our customers' product costs and time-to-market to improve competitiveness. We continuously work with our customers to identify, prioritize and implement opportunities for cost reduction.

SMTC offers two vertically integrated manufacturing streams: PCBA Products and Larger-scale Systems. For each of these streams, SMTC provides a broad range of end-to-end manufacturing services, from assembly, test, integration and box-build through to system level test, configure-to-order, and end-customer order fulfillment. These core services are complemented with enclosure and precision metal fabrication, cable assembly, interconnect and engineering design services. SMTC's two manufacturing streams are vertically integrated to better control quality, lead times and inventory risk and to avoid the "margin stacking" when these services are provided by loosely connected entities. Customers benefit from lower costs, better quality, and shorter lead times.

Our vertically integrated manufacturing services include:

PCBA Assembly Services. We provide advanced product assembly and system level integration and test services combined with advanced manufacturing equipment and processes. Our flexible environment allows SMTC to support medium to high mix and volume manufacturing requirements as well as deliver a final product directly to the end customer.

System-Level Integration, Box-Build and Test. Our system and subsystem assembly services involve combining a wide range of subassemblies, including PCBAs, cables and harnesses, battery boxes and connector blocks, power supplies, backplanes and thermal controls. Our test expertise encompasses the full array of technologies present in today's system-level products, including high-speed digital, radio frequency (RF), precision analog, power, thermal and optical. We provide complete electrical and mechanical testing for cables, harnesses, PCBA's, subassemblies and systems to meet our customers' requirements and specifications. Our in-house expertise enables us to provide custom test development services to our customers and to implement their product-specific tests.

Enclosures and Precision Metal Fabrication. SMTC uses premium grade sheet steel, stainless steel, and aluminum ensuring high quality. Technologically advanced equipment and processes enable SMTC to produce medium to complex product enclosures and metal parts while still achieving a low overall product cost. Our soft tooling approach minimizes upfront costs and provides flexibility to respond quickly to engineering changes.

Custom Interconnect. We are experienced in the design, development and manufacturing of interconnect assemblies such as optical and electrical cable and harness assemblies offering customers advanced expertise and low cost options.

Engineering Services. We provide services across the entire product life cycle including product design, prototyping, qualification testing, value and sustaining engineering through product end of life.

Global Procurement and Supply Chain Network. As an extension of our offering of vertically integrated manufacturing services, SMTC's Global Procurement Group plays a fundamental role in our managing a portfolio of assets and relationships in the most efficient manner. Our Global Procurement expertise includes outsourcing based on market conditions and demand management criteria established with the customer; building flexibility into the supply chain network; designing a supply chain specific to individual customer needs; and having the ability to proactively plan. SMTC's supply chain management team is responsible for all aspects of the Company's supply network. This team works together with its customers to establish customized inventory, logistics and distribution services to ensure that any unique delivery requirements are met. Through the use of various management tools, this team focuses on driving improved inventory turns, lowers excess and obsolete inventory risk and reduces overall costs to SMTC customers.

Management Methods and Tools. SMTC has a web-based system through which it can communicate, collaborate and plan throughout the entire supply chain in real-time with its customers and suppliers. This system accelerates the timeliness and effectiveness of decision making and the efficiency and flexibility with which SMTC can respond to customers experiencing unexpected market fluctuations. SMTC employs technologically advanced quality assurance systems, manufacturing process planning and continuous improvement methodologies.

SMTC Footprint

SMTC has four manufacturing/technology centers worldwide, approximately 500,000 square feet of capacity, and more than 40 manufacturing and assembly lines, including a manufacturing relationship with Alco Electronics in China. These facilities are strategically located across a broad footprint in the United States, Canada, Mexico, and China, offering regional centers for new product introductions and low volume product production as well as low cost centers for higher volume production. All SMTC facilities adhere to the “Copy Exact” methodology. That means every SMTC facility employs virtually the same manufacturing equipment and software systems and follows the same standardized processes. “Copy Exact” allows for a seamless and timely transition of production between facilities helping customers reach their cost and volume targets faster. SMTC assigns a dedicated manufacturing unit to each customer. Certain equipment is customer specific including computer controlled inventory carousels, high-speed surface mount technology placement systems, customer specific x-ray, ICT or functional test, assembly and packing solutions.

SMTC Key Benefits to Customers

Three overarching themes form the core of SMTC’s differentiation and unique customer value proposition: Trusted, Proven, and Professional.

Operational Counterpart: We take the time to understand our customers’ business objectives, end markets, performance expectations, competitive advantage, positioning and strategy—to drive better value. We get involved with our customers at both a strategic and operational level. Inevitably, we become an extension of their business, helping our customers grow, improve competitiveness, margins, and gain market share.

The SMTC Customer Experience: We believe that SMTC combines strong performance with a partnership approach that delivers tangible, bottom line benefits through committing expertise and resources towards customer goals. It is one of many reasons why most SMTC customers have been with us for more than 9 years, and some more than 18 years.

Our People: SMTC’s customer-based teams are tied to the customer at a strategic, operational and organizational level. Our people create an environment that celebrates collaboration and teamwork. We foster a participatory workplace that enables people, at every level of the organization, to get involved in making decisions that put the customer first.

Executive Mindshare: SMTC fully engages with its customers on many levels—from operational and executive mindshare, to custom-tailored solutions to its strategic partnership approach. Senior management is accessible to and involved with customers. Our customers receive the attention they need from highly experienced professional management.

Strategic Fit: Fit matters. Winning OEMs look for winning manufacturing partners. SMTC mitigates the risk of outsourcing and consistently delivers results and value. Nine of our top ten customers are leaders in their respective markets.

Global Footprint: SMTC offers the best strategic and operational footprint with four manufacturing / technology centers worldwide, approximately 500,000 square feet of capacity, and more than 40 manufacturing and assembly lines. Our facilities are strategically located across a broad footprint in the United States, Canada, Mexico, and China.

Superior Value: SMTC continuously works collaboratively with customers to identify, prioritize and implement opportunities for cost reduction. Working collaboratively helps ensure superior service, operations excellence and continuous cost improvement.

Customized Solutions: SMTC is proactive—we provide innovative manufacturing solutions responsive to the dynamics of the customer's marketplace.

SMTC's Strategy

Our objective is to create increasing long term value to our stockholders through continuing growth in sales, profitability and debt reduction. A cornerstone to SMTC's strategy is our customer-centric focus throughout the organization. Our key strategies include:

Provide Outstanding Customer Service and Performance Customer acquisition and loyalty comes from our ongoing commitment to understanding our customers' business performance requirements and our expertise in meeting or exceeding these requirements and enhancing their competitive edge. SMTC's customer focus extends to our unique offering of dedicated resources, a detailed understanding of our customers' challenges and how we can support our customers in meeting their goals. Our dedicated teams approach is used throughout SMTC facilities and comprises of members from all functional areas working together to better understand the unique needs of the customer, their challenges and future plans. Our strong customer partnership approach includes involvement from both operations and SMTC's senior executive team demonstrating our commitment to understanding each customer's goals, challenges, strategies, operations and products to provide a better overall solution.

Focus on Well Defined Customer Markets SMTC focuses on specific customer sectors that align well with the Company's capabilities. These sectors primarily include industrial, networking and computing, communications and medical industries. Customers with unique medium to high mix and volume production requirements with a need for a high level of responsiveness to changing market demands are particularly well suited for SMTC's capabilities. SMTC continues to leverage its experience and established relationships in its existing market segments.

Provide Advanced Technological Capabilities We remain committed to enhancing our capabilities and value-added services to become an integral part of our customers' operations. Through our investment in assembly technologies and in design, engineering and test capabilities, we are able to provide our customers with a variety of advanced design and manufacturing solutions.

Provide Comprehensive Service Offerings SMTC's broad array of electronic manufacturing services spans the entire electronic product life cycle from introduction and development of new products to the support of products to growth and maturity phases. We perform advanced printed circuit board assembly and test and complement these capabilities with precision enclosure fabrication, system integration, product configuration, and build-to-order services. As products mature, we provide comprehensive value engineering services to reduce the cost of the products we produce without compromising quality or function. As products near their end of life, SMTC sustaining engineering, warranty repair, and supply chain management systems ensure continued availability and support of hard to source components while mitigating the risks associated with declining inventories. We believe that our breadth of services provides greater control over quality, delivery and costs and enables us to offer our customers a complete, end-to-end solution that is time and cost effective.

Maintain a Competitive, Scalable Cost Structure. We maintain a competitive cost structure that not only delivers highly competitive pricing to customers but also is both variable and scalable as market conditions dictate. We strive to improve profitability through tight cost containment measures, performance excellence, leveraging fixed costs and increased capacity utilization. We have made key investments in manufacturing capacity and will continue to do so as we continue to grow.

Technology, Processes and Development

The SMTC engineering services team delivers a range of design, engineering and manufacturing solutions. We have electronic engineering expertise in many markets, including power, instrumentation, wired, wireless and optical telecommunications, industrial and consumer markets. We maintain manufacturing equipment and tools to the highest calibration standards possible. We follow a comprehensive preventative maintenance program. Customers rely on our full range of design services—from software and firmware development, to electronic design and PCB layout. We partner with our customers to deliver innovative manufacturing solutions aligned with their business objectives. We offer everything from full-service, turnkey product development and manufacturing to on-site engineering support.

Our test expertise encompasses the full array of technologies present in today's system-level products, including high-speed digital, RF, precision analog, power, thermal, and optical. We provide complete electrical and mechanical testing for cables, harnesses, PCBAs, subassemblies and systems to meet our customer's requirements and specifications. Our in-house expertise enables us to provide custom test development services to our customers and to implement their product-specific tests.

SMTC's box build experience spans the past 12 years with all manufacturing sites supporting current customers in this level of outsourcing. Our integration and box build assembly services involve combining a wide range of subassemblies, including PCBAs, cables and harnesses, external housing (plastic and metal), monitors, battery boxes and connector blocks, power supplies, fan trays, backplanes and thermal controls. Integrated units are packaged, together with manuals, software, and peripherals. Order fulfillment and configuration to order is handled throughout the integration service, specific to the needs of the customer.

SMTC's order fulfillment and distribution operations help our customers reduce material storage, lower handling costs and achieve higher inventory turns. We can implement a responsive, efficient and cost-effective configure-to-order and order fulfillment solution. We align our processes with the customers' operations, selling and distribution objectives to eliminate redundancies and associated costs.

Our design services capability optimizes product design for maximum performance, higher yields, and faster time-to-market., with the objective to assist our customers become more profitable and more competitive. SMTC provides access to an extensive range of design, value engineering and sustaining engineering services in addition to key process and test engineering capabilities. We support the customer in bringing products to market, enhancing and cost reducing current products and extending life cycle. Early in the product development cycle, SMTC's design services assist customers in selecting the best architecture for their product based on unit and development cost targets, product functionality and time to market goals. SMTC helps customers develop detailed design specifications and test plans to ensure that their products are both designed and fully tested to their requirements prior to going into volume manufacturing.

We believe that SMTC applies best-in-class quality programs, processes and metrics to achieve exceptional quality standards. We endeavor to fully understand the quality requirements for every customer and we continuously review and improve our quality performance to exceed customer expectations. All SMTC sites use Computer Integrated Manufacturing (CIM), a common quality management platform. The CIM System tracks quality assurance processes in real-time and reports on all steps in the manufacturing process. We use a customer-centric, team-based approach to quality assurance. Dedicated professionals work with our customers to determine key quality requirements, and where applicable, they ensure suppliers adhere to those standards as well. All SMTC owned and operated sites are registered to the ISO-9001 quality management system standard. The corporate headquarters is registered as a TL9000 facility and is ISO 13485 certified. Our San Jose and Mexico facilities are also ISO 13485 certified. SMTC builds PCB assemblies according to IPC guidelines. We also work closely with standards organizations such as UL and CSA, in compliance with customer requirements.

Marketing and Sales

SMTC has a direct sales channel model with territorial assignments based on geographical coverage of our target markets in North America. Our geographical coverage is enhanced through select manufacturers' representative companies. Our marketing and sales team works collectively to gain insight on potential customers' business, market positioning and business challenges and focuses on a solutions-based approach to enhancing profitability, market positioning and business performance for that customer. Our customer-centric focus continues through to the execution phase of our relationships with a dedicated team-based manufacturing approach throughout all SMTC facilities.

Global Procurement and Supply Chain Management

SMTC delivers supply chain capabilities and solutions that support the total product lifecycle. Our teams work closely with customers' supply-base partners to integrate the entire supply chain. Our extended supply chain model recognizes the need for collaboration between OEM customers, SMTC and supply partners to ensure overall supply chain optimization, from product design processes, manufacturing, sourcing, order management and fulfillment to transportation and logistics. The end result is greater control over a complex, extended supply chain to help SMTC customers realize flexibility, cost savings, process improvements, and competitive advantages.

In lean manufacturing environments, success is defined by how fast and how effectively manufacturers can respond to evolving customer demands and new global supply chain conditions. SMTC leverages supply chain tools and systems to respond rapidly and effectively to changing real-world conditions. Our customers rely on SMTC's core processes and capabilities to drive the success of their supply chains. Each supply chain solution we deliver is tailored to address each customer's unique requirements.

SMTC employs Agile Product Lifecycle Management ("Agile") solutions software to help OEMs accelerate revenue, reduce costs, improve quality, ensure compliance, and drive innovation throughout the product lifecycle. Agile provides comprehensive support for product lifecycle business processes, platform and integration requirements. Agile enables a single enterprise view of the product and part records across the entire system, helping customers accelerate new product introduction time, reduce direct material costs and ensure regulatory compliance.

The demand management process is a core process at SMTC which drives short and long term planning and execution activities. Effective demand management optimizes materials availability, supply base performance and overall liability management. At SMTC we recognize the need to deploy people, process and technology, as well as extensive customer communication and visibility, to ensure effective demand management execution. This allows for real time analysis, feedback and implementation of changes in customer and end-market demand. Rapid communication to suppliers of changes in requirements, and a truly responsive end-to-end supply chain.

SMTC also employs Kinaxis RapidResponse, an integrated Response Management tool that allows supply chain professionals to access real-time information and enable collaboration across extended supply networks. The tool allows SMTC to perform real-time demand scenario simulation, review supply constraints, perform rapid manufacturing resource planning, and communicate changes in requirements to suppliers—all on the same day. With RapidResponse, SMTC teams achieve high levels of supply chain agility, with immediate response to changes in demand, supply, capacity and daily operations. The platform enables real-time supply chain visibility and on-line collaboration anywhere in the world. SMTC gains the insight needed to quickly and effectively respond to a wide variety of supply chain challenges.

Visibility solutions are customized to support a range of requirements, including inventory visibility, MPS simulation, clear-to-build (CTB), available-to-promise (ATP), end-market demand steering, and service parts management. Kinaxis provides a single view of inventory across all SMTC plants and hubs as well as a view of materials supply. Custom reports can be set up to automatically email within SMTC and to SMTC customers on regular intervals. Inventory and supply base liabilities dashboard has proven to be a valuable tool for both SMTC and our customers. Visibility solutions include intercompany processes and multi-node supply chains.

The Company established a purchasing office in Kowloon, Hong Kong in 2010 which serves to improve access to the broad base of component suppliers in the Asia region and provide the Company with competitive pricing. The Hong Kong office manages component sourcing to support the Asian manufacturing operations, as well as providing support for the Company's operations in North America.

SMTC Suppliers

RapidResponse works hand-in-hand with E-plenishment, SMTC's electronic business-to-business process that provides real-time and daily information exchange and transactions with suppliers. Through E-plenishment, SMTC has an ongoing view into supplier on hand inventories and is able to more effectively plan factory capacities and provide customer delivery commitments. The tools allow SMTC to support the available to promise process of our OEM customers, and increase the reliability of their commitments to the end customers.

With 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 fiscal 2011, our cost of goods sold was approximately $158 million, most of which was purchases of 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 typically are passed through to customers. We may agree, upon request from our customers, to temporarily delay shipments, which causes a corresponding delay in our revenue recognition and an increase in inventory. Ultimately, however, our customers generally are responsible for all materials purchased and goods manufactured on their behalf.

SMTC Customers

SMTC is a distinctive mid-tier EMS provider, supporting customers in industrial, networking and computing, communications, and medical markets.

Revenue in fiscal 2011 was attributed to the following industry sectors: 73.1% from industrial, 14.2% from networking and computing, 7.3% from communications and 5.4% from medical. We have focused on developing relationships with a large number of industrial customers to achieve a level of diversification and to reduce exposure to the volatility of certain electronics sectors.

Industrial product expertise includes:

- Semiconductor manufacturing and test equipment
- Electrical distribution, industrial controls
- Point of sale (POS) terminals

- Currency recognition devices
- Residential and commercial security systems
- GPS navigation and positioning systems
- Components and sub-systems for rapid prototyping equipment
- RF modules for satellite -based tracking systems
- Protocol analyzers

- High end audio systems
- Power supplies for high precision instruments

Networking and Computing product expertise includes:

- Professional audio and video processing and distribution systems
- Handheld internet access devices
- High-end storage devices
- Office printers, networked production and industrial printing systems
- Mid-range servers and computing systems
- Electronic display systems
- Financial terminals with biometric authentication

Communications product expertise includes:

- VoIP infrastructure, accessing, IVR systems
- Carrier class switching and routing systems
- Broadcast communication equipment
- Broadband accessing, ADSL and wireless gateway, modem
- Video and audio signal processing and distribution systems
- Network traffic management devices
- Network application delivery and optimization

Medical product expertise includes:

- Infusion pumps
- Blood glucose meters
- Medical imaging
- Patient monitoring systems

Consumer product expertise includes:

- Home security systems
- Recreational gear

Renewable energy product expertise includes:

- Solar photovoltaic modules
- Solar inverters, combiners and power products

SMTC has achieved ISO 13485 certification at its Mexico, Markham and San Jose facilities. ISO 13485 is an internationally recognized quality management system and standard for the manufacture of medical devices. The standard is governed by the International Organization for Standardization (ISO). All SMTC owned and operated sites are registered to the ISO 9001 quality management system standard. The ISO 13485 certification may open up new opportunities in the medical device industry for SMTC. The certification validates SMTC's expertise and capabilities that provide the safe design, manufacturing, testing, servicing and installation of products for the medical industry and builds on more than 20 years experience working in partnership with OEMs in the industrial, computing and networks, and communications markets.

SMTC completed the required compliances and received licensing by the State of California Food and Drug Branch (FDB) to manufacture Class 1 and Class 2 medical devices at their San Jose, California facility. The FDB, which partners with the Food and Drug Administration (FDA), has authorized SMTC to operate under the rigorous quality guidelines of California's Device Manufacturing Licensing laws. SMTC have demonstrated compliance with all applicable state laws including the federal Good Manufacturing Practice (GMP), and the Quality System Regulations (QSR). Manufacturers must renew their license annually, and the FDB conducts periodic renewal inspections.

SMTC has been recognized with 2012 Global Electronics Manufacturing Service (EMS) Product Quality Leadership Award from Frost & Sullivan a global research organization. Each year, Frost & Sullivan presents this award to the company that consistently delivers and exceeds customer expectations in maintaining a high level of quality throughout its organization. This award, like other Frost & Sullivan Best Practices honors, recognizes the relevance of quality, innovation and leadership by SMTC in the EMS industry.

Our Competition

The EMS industry is composed of numerous companies that provide a range of manufacturing services for OEMs, from printed circuit board assembly, to design, prototyping, final system assembly, configuration, order fulfillment, repair and aftermarket services. The EMS market consists of contract manufacturers, or CMs, and original design manufacturers, or ODMs. CMs manufacture products that have been designed by the OEM; ODMs also design their own products, primarily commodities, and in many instances are in direct competition with the OEMs. SMTC participates in the mid-sized CM sector.

CM providers fall within one of four tiers:

Large/Tier 1: Global operations with manufacturing facilities in North America, Europe and Asia, and low-cost manufacturing sites in Asia, Mexico and Eastern Europe. Large CMs annual revenues normally are greater than $1.5 billion.

Mid-size/Tier 2: Usually focused in one region such as North America, or Europe or Asia, with facilities in that region supported by additional facilities in low-cost regions. Mid-sized CMs may have annual revenues ranging from approximately $200 million up to $1.5 billion.

Regional /Tier 3: Usually focused in a sub-region, northeast USA for instance, typically with no low-cost facilities.

Small/Tier 4: Usually single facility operations, with annual revenues less than $20 million.

SMTC competes against large contract manufacturers such as Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., Sanmina-SCI, Inc., Benchmark Electronics Inc., and Plexus Corp., as well as numerous mid-size, regional and smaller EMS providers.

Governmental Regulation

Our operations are subject to certain federal, state, provincial and local regulatory requirements primarily 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.

Our commitment is to conduct our business in such a way that protects and preserves the environment, health and safety of our employees, our customers and the communities where we all live and operate. The Company fully cooperates with government agencies that have the mandate to verify compliance to relevant environmental laws.

In 2006, the electronics industry became subject to the European Union’s Restrictions of Hazardous Substances, or RoHS, and Waste Electrical and Electronic Equipment, or WEEE, directives. Beginning January 1, 2007 the State of California put into effect a similar measure under the Electronic Waste Recycling Act of 2003 which requires the California Department of Toxic Substances Control to adopt regulations to prohibit the sale of electronic devices if they are prohibited from sale in the European Union because they contain certain heavy metals. Parallel initiatives are being proposed in other jurisdictions, including several other states in the United States and in the People's Republic of China. RoHS prohibits the use of lead, mercury and certain other specified substances in electronics products and WEEE requires industry OEMs to assume responsibility for the collection, recycling and management of waste electronic products and components. SMTC's sites are fully capable of producing RoHS compliant products as directed by our customers. In the case of WEEE, the compliance responsibility rests primarily with OEMs rather than with EMS companies. However, OEMs may turn to EMS companies for assistance in meeting their WEEE obligations.

To date, the costs of compliance and environmental remediation have not been material. 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 additional expenditures.

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)
Radio Componentes de Mexico, S.A. de S.V. (Mexico)
SMTC Asia Ltd. (Hong Kong)
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 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)
ZF Array Technology, Inc. (California)

Our Company's present corporate structure resulted from the July 1999 combination of predecessor companies Surface Mount and HTM Holdings Inc. in a transaction accounted for under the purchase method of accounting as the acquisition of Surface Mount by HTM Holdings Inc. 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., became subsidiaries of HTM Holdings Inc.

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 only by firm purchase orders is a meaningful measure of future sales since additional orders may be added, or orders rescheduled or canceled.

Employees

As of January 1, 2012, we employed approximately 1,875 full time employees. 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 adjust our production levels 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. Because of the surplus of available talent on the market, and the strength of our total compensation packages, to date we have not experienced any issues attracting skilled employees.

As of January 1, 2012, our only unionized employees were at our Mexico facility. We have never experienced a work stoppage or strike and believe we have sound employee relations.

Item 1A: Risk Factors

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. 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 possible that actual results will differ materially from those contemplated by such forward-looking statements. Factors that may cause such differences include: (1) increased competition; (2) increased costs; (3) the inability to implement our business plan and maintain covenant compliance under our credit agreements; (4) the loss or retirement of key members of management; (5) increases in SMTC's cost of borrowings or lack of availability of additional debt or equity capital on terms considered reasonable by management; (6) adverse 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

The financial markets have constricted in recent years.

If we attempt to obtain future financing or renegotiate our current financing, the constriction of the credit market could negatively impact our ability to obtain such financing. In addition, the constriction of the credit market could negatively impact certain of our customers, certain of their customers, and our suppliers. These impacts could lead to a decrease in demand for our products, as well as our customers' products, or a decrease in supply of our inputs, which could result in a negative effect on our results of operations or they could result in customers having insufficient financing to support their business.

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

As a result of unfavorable economic conditions, reduced capital spending and changes in our customers' manufacturing requirements, our sales declined during fiscal years 2002 to 2005, in 2009 and in 2011. If general economic conditions deteriorate we may experience an adverse impact on our business, operating results and financial condition, since end customer demand for our customers' products could be adversely affected. Due to the uncertainty surrounding the economy and the Company's ability to predict the effect such conditions will have on its customers, the Company cannot predict the scope or magnitude of the negative effect that such economic slowdown will have on it.

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

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

Three of our largest customers represented 21.8%, 10.6% and 10.2% of total revenue from continuing operations for the year ended January 1, 2012. Our top ten largest customers collectively represented 79.4% of our total revenue for the year. Although the business has become more diversified, 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 would experience a significant reduction in our revenue. 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 would decrease revenue. As many of our costs and operating expenses are relatively fixed, a reduction in net revenue can decrease our profitability and adversely affect our business, financial condition and results of operations.

We are exposed to fluctuations in currencies, particularly the weakening of the US dollar.

Most of our sales and component purchases are denominated in U.S. dollars. Our Canadian, Mexican and Asian payroll, Euro based component purchases and other various expenses are denominated in local currencies. As a result, in fiscal 2011 the Company entered into forward foreign exchange contracts to reduce its exposure to foreign exchange currency rate fluctuations related to forecasted Canadian dollar and Mexican peso as every $0.01 change in the US dollar results in a change in expenses of approximately $0.3 million. The strengthening of the Canadian dollar results in an increase in costs to the organization and may lead to a reduction in reported earnings.

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 large domestic and foreign EMS providers including Celestica Inc., Flextronics International Ltd., Jabil Circuit, Inc., Sanmina-SCI, Inc., Benchmark Electronics Inc. and Plexus Corp. In addition, we compete against numerous smaller competitors. We may in the future encounter competition from additional large electronics manufacturers that are selling, or may begin to sell, electronics manufacturing services. Some of our competitors have substantially greater manufacturing, financial, research and development and marketing resources and lower cost structures than us. We also face competition from the manufacturing operations of current and potential customers, which are continually evaluating the merits of manufacturing products internally versus the advantages of using external manufacturers.

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

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

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

In addition, most of our customers typically do not commit to firm production schedules more than 30 to 90 days in advance. Accordingly, it is difficult for us to forecast the level of customer orders with certainty. As a result, we may not be able to schedule production to maximize utilization of our manufacturing capacity. In the past, we have been required to increase staffing, purchase materials and incur other expenses to meet the anticipated demand of our customers. Sometimes anticipated orders from certain customers have failed to materialize, and at times delivery schedules have been deferred as a result of changes in a customer's needs. Any material delay, cancellation or reduction of orders from our larger customers could cause our revenue to decline. In addition, as many of our costs and operating expenses are relatively fixed, a reduction in customer demand can decrease our gross margins and adversely affect our business, financial condition and results of operations. On other occasions, customers have required rapid and unexpected increases in production, which have placed burdens on our manufacturing capacity and supply chain function and adversely affected costs.

Any of these factors or a combination of these factors could have an adverse impact 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.

Most 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, the electronics industry is subject to economic cycles and has in the past experienced downturns. A decline in the electronics industry would likely have an adverse impact on our business, financial condition and results of operations.

Consolidation in the electronics industry may adversely affect our business by increasing customer buying power or increasing competition.

Consolidation in the electronics industry among our competitors, our customers, or both may result in increasing or strengthening large electronics companies. The significant buying and market power of these companies may increase competitive pressures on us. In addition, if any of our large customers is acquired or merged with another provider of similar services, we may lose that customer’s business.

Shortages or price fluctuations of 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 an adverse impact on our business, financial condition and results of operations. In addition, delays, cancellations or reductions of orders by our customers could result in an excess of materials. Orders received from customers within component lead time, rapid increases in orders or lengthening of lead times by suppliers could cause a shortage 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 production of all products using that component or cause cost increases in the services we provide. In addition, in the past, some of the materials we use, such as memory and logic devices, have been subject to industry-wide shortages. As a result, suppliers allocate available quantities among their customers, and we have not been able to obtain all of the materials required. Our inability to obtain these materials could slow production or assembly, delay shipments to our customers, increase costs and reduce operating income. Also, we may bear the risk of periodic component price increases, which could 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 an adverse impact on our business, financial condition and results of operations.

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

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

If our components and or products are defective, demand for our services may decline and we may be exposed to product liability and product warranty liability.

Defects in the products we manufacture, whether caused by a design, engineering, manufacturing or component failure or deficiencies in our manufacturing processes, could result in product or component failures, which may damage our business reputation, and expose us to product liability or product warranty claims.

Although, generally liability for these claims in our contracts rest with our customers, our customers may not, or may not have the resources to, satisfy claims for costs or liabilities arising from a defective product or component for which they have assumed responsibility.

If our product or component is found to cause any personal injury or property damage or is otherwise found to be defective, we could incur significant expenditures to resolve the claim. A successful product liability or product warranty claim could have a material adverse effect on our business and its results.

We may encounter significant delays or defaults in payments owed to us by customers for products we have manufactured or components that are unique to particular customers.

We structure our agreements with customers to mitigate our risks related to obsolete or unsold inventory. However, enforcement of these contracts may result in material expense and delay in payment for inventory. If any of our significant customers become unable or unwilling to purchase such inventory, our business may be materially harmed.

We are subject to the risk of increased taxes.

We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. Our tax position, however, is subject to review and possible challenge by taxing authorities and to possible changes in law. We cannot determine in advance the extent to which some jurisdictions may assess additional tax or interest and penalties on such additional taxes.

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

Our business depends on our ability to continue to recruit, train and retain skilled employees, particularly executive management, engineering and sales personnel. Recruiting personnel in our industry is highly competitive. Our ability to successfully implement our business plan depends in part on our ability to attract and retain management and existing employees. There can be no assurance that we will be able to attract and retain executive officers and key personnel or attract qualified management in the future. The Company is currently in the process of recruiting a Chief Financial Officer. In addition, if we receive a significant volume of new orders at any one time, we may have difficulty recruiting skilled workers to respond to such orders and accordingly may experience delays that could adversely affect our ability to meet customers' delivery schedules.

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

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

- fluctuations in the value of currencies and high levels of inflation;
- longer payment cycles and greater difficulty in collecting amounts receivable;
- reduced credit and payment terms with vendors;
- 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; and
- trade restrictions

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

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

Our customers may cancel their orders, change production quantities or locations, or delay production, and the inherent difficulties involved in responding to these demands could harm our business.

Our industry must provide increasingly rapid product turnaround for its customers. We generally do not obtain firm, long-term purchase commitments from our customers and we continue to experience reduced lead-times in customer orders. Customers may cancel their orders, change production quantities, delay production or change their sourcing strategy for a number of reasons. Such changes, delays and cancellations may lead to our production and possession of excess or obsolete inventory which we may not be able to sell to the customer or a third party. The success of our customers' products in the market affects our business. Cancellations, reductions, delays or changes in sourcing strategy by a significant customer or by a group of customers could negatively impact our operating results by reducing the number of products that we sell, delaying the payment to us for inventory that we purchased and reducing the use of our manufacturing facilities which have associated fixed costs not dependent on our level of revenue.

In addition, we make significant decisions, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimate of customer requirements. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products reduce our ability to accurately estimate the future requirements of those customers.

On occasion, customers may require rapid increases in production, which can stress our resources and reduce operating margins. In addition, because many of our costs and operating expenses are relatively fixed, a reduction in customer demand can harm our gross profits and operating results.

Intellectual property infringement claims against our customers or us could harm our business.

Our design and manufacturing services offerings involve the creation and use of intellectual property rights, which subject us to the risk of claims of intellectual property infringement from third parties, as well as claims arising from the allocation of intellectual property rights among us and our customers. In addition, our customers may require that we indemnify them against the risk of intellectual property infringement. If any claims are brought against us or our customers for such infringement, whether or not these have merit, we could be required to expend significant resources in defense of such claims. In the event of such an infringement claim, we may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. We may not be successful in developing such alternatives or obtaining such licenses on reasonable terms or at all.

If OEMs stop or reduce their manufacturing and supply chain outsourcing, our business could suffer.

Future growth in our revenues depends on new outsourcing opportunities in which we assume additional manufacturing and supply chain management responsibilities from OEMs. Current and prospective customers continuously evaluate our capabilities against other providers and the merits of manufacturing products themselves. To the extent that outsourcing opportunities are not available, either because OEMs decide to perform these functions internally or because they use other providers of these services, our future growth would be limited.

From time to time, we are involved in various legal proceedings.

In the past, we have been notified of claims relating to various matters including intellectual property rights, contractual matters or other issues arising in the ordinary course of business. In the event of such a claim, we may be required to spend a significant amount of money to defend or otherwise address the claim. Any litigation, even where a claim is without merit, could result in substantial costs and diversion of resources. Accordingly, the resolution or adjudication of such disputes, even those encountered in the ordinary course of business, could have a material adverse effect on our business, consolidated financial conditions 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.

On September 22, 2011, the Company signed a Revolving Credit and Security Agreement with PNC Bank, National Association and its Canadian branch (collectively, “PNC”). This revolving credit facility (the “PNC Facility”) replaced the previous revolving loan agreement with Wells Fargo Capital Finance Corporation (“Wells Fargo”) and has a term of three years. The Company continues to have a term debt facility with Export Development Canada (“EDC”, and the “EDC Facility”), and on September 22, 2011 signed an amendment to its agreement with EDC to accommodate the change in revolving credit lender, but is otherwise largely unchanged from the existing agreement. The revolving credit facility will bear interest at the base commercial lending rate of PNC in the respective country, which should approximate prime rate. The EDC Facility bears interest at LIBOR plus 2.5% to 3.5% depending on the achievement of financial performance levels as specified in the amended debt agreement. The Company is in compliance with its financial covenants as at January 1, 2012. Management believes that the Company will be in compliance with these covenants for the foreseeable future. Accordingly, the outstanding balances under the lending agreements continue to be classified as long-term. Continued compliance with its covenants, however, is dependent on the Company achieving certain forecasts. While management is confident in its plans, market conditions have been difficult to predict and there is no assurance that the Company will achieve its forecasts.

Our debt under the PNC and EDC Facilities 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 in our borrowing of additional funds and making strategic investments by restrictive covenants and the borrowing base formula in our credit arrangements.
- We may fail to comply with covenants under which we borrowed our indebtedness, including various financial covenants under our PNC and EDC Facilities. These covenants, applicable to specific four quarter rolling periods, include (i) a minimum consolidated EBITDA target, (ii) a maximum total debt to EBITDA ratio, (iii) maximum capital expenditures and (iv) a minimum fixed charge coverage ratio. Our failure to comply with covenants could result in an event of default. If an event of default occurs and is not cured or waived, it could result in all amounts outstanding, together with accrued interest, becoming immediately due and payable. If we were unable to repay such amounts, our lenders could proceed against any collateral granted to them to secure that indebtedness. There can be no assurance that we will maintain compliance with the covenants under the PNC and EDC Facilities.

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

We face significant restrictions on our ability to operate under the terms of our credit facilities.

The terms of our credit facilities generally restrict, among other things, our ability to incur additional indebtedness, complete acquisitions, make certain investments, pay dividends or make certain other restricted payments, consummate certain asset sales, make capital expenditures, enter into certain transactions with affiliates, merge, consolidate or sell, assign, transfer, lease, convey or otherwise dispose of our assets (other than in the ordinary course of business). The revolver portion of the credit facilities also has a borrowing base formula that limits our ability to borrow based on the characteristics, including geographic location, of our accounts receivable and inventory. Substantially all of our assets and those of our subsidiaries are pledged as security under our credit facilities.

If we are not able to comply with these covenants and requirements, customers may lose confidence in us and reduce or eliminate their orders with us, which may have an adverse impact on our business, financial condition and results of operations. If our borrowing base is diminished we may not have sufficient access to capital to finance operations or capital needs.

Our ability to recognize tax benefits on our existing U.S. net operating loss position may be limited.

We have generated substantial loss carryforwards and other tax assets for U.S. tax purposes that can be used to reduce our future federal income tax obligations. Our ability to fully use these tax assets will be adversely affected if we have an “ownership change” within the meaning of Section 382 of the Internal Revenue Code (“IRC”). An ownership change is generally defined as a greater than 50 percentage point increase in equity ownership by “five-percent shareholders” (as that term is defined for purposes of Section 382 of the IRC) in a rolling three-year period.

On June 8, 2011, our board of directors and shareholders approved an extension to a Tax Benefits Preservation Plan, (the "Plan") in order to protect our ability to utilize our NOLs and other tax assets from an "ownership change" under U.S. federal income tax rules. However, there is no guarantee that the Plan will be effective in protecting our NOLs and other tax assets.

There may be adverse consequences resulting from future governmental tax audits of the Company's tax returns.

The Company has taken various tax positions in determining its tax liabilities and the related expense. It is possible that future tax audits or changes in tax regulation may require the Company to change its prior period tax returns and also to incur additional costs. This may negatively affect future period results.

Certain differences may exist between the trading market of our common stock and the trading market for the exchangeable shares of SMTC Canada

Although the exchangeable shares of SMTC Canada are intended to be functionally and economically equivalent to shares of our common stock, there can be no assurance that the market price of the exchangeable shares will be identical, or even similar, to the market price of our common stock.

Changes in the securities laws and regulations have increased, and may continue to increase, our costs; and any future changes would likely increase our costs.

The Sarbanes-Oxley Act of 2002, as well as related rules promulgated by the SEC and NASDAQ, required changes in some of our corporate governance, securities disclosure and compliance practices. Compliance with these rules has increased our legal and financial accounting costs for several years following the announcement and effectiveness of these new rules. While these costs are no longer increasing, they may in fact increase in the future. In addition, given the recent turmoil in the securities and credit markets, as well as the global economy, many U.S. and international governmental, regulatory and supervisory authorities including, but not limited to, the SEC and NASDAQ, have recently enacted additional changes in their laws, regulations and rules (such as the recent Dodd-Frank Wall Street Reform and Consumer Protection Act) and may be contemplating additional changes. These changes, and any such future changes, may cause our legal and financial accounting costs to increase.

There are inherent uncertainties involved in estimates, judgments and assumptions used in the preparation of financial statements in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). Any changes in U.S. GAAP or in estimates, judgments and assumptions could have a material adverse effect on our financial position and results of operations.

The Consolidated Financial Statements included in the periodic reports we file with the SEC are prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets, liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities and related reserves, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operations. In addition, the principles of U.S. GAAP are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the SEC and various bodies formed to create appropriate accounting policies, and interpret such policies. A change in those policies can have a significant effect on our accounting methods. For example, although not yet currently required, the SEC could require us to adopt the International Financial Reporting Standards in the next few years, which could have a significant effect on certain of our accounting methods.

Item 1B: Unresolved Staff Comments.

None.

Item 2: Properties

Facilities

We conduct our operations within approximately 500,000 square feet of building space. We believe our facilities are currently adequate for our operating needs and provide capacity for future volume growth. Our principal service at all locations is assembly of electronic components, with the exception of the Chihuahua facility where we also manufacture precision enclosures. Our operating facilities are as follows:

Location	Approx. Square Footage	Leased/Owned
Markham, Ontario	100,000	Leased
San Jose, California	125,000	Leased
Chihuahua, Mexico	275,000	Owned

In addition, SMTC has a relationship with Alco Electronics Ltd. in Chang An, China providing access to a 40,000 square foot facility designed around SMTC's copy-exact model.

All of our owned and operated 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 Organization for Standardization 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. In addition, SMTC achieved ISO 13485 certification at its Mexico, Markham and San Jose facilities. ISO 13485 is an internationally recognized quality management system and standard for the manufacture of medical devices.

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 an adverse effect on our financial position or results of operations.

PART II

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

Market Information

Our common stock trades on the NASDAQ Stock Market under the symbol “SMTX.” The following table shows the high and low sales price for our common stock as reported by the NASDAQ Stock Market for each quarter in the years ended January 1, 2012 and January 2, 2011.

	Common Stock Price			
	2011		2010	
	High	Low	High	Low
First Quarter	$ 3.74	$ 2.49	$ 2.95	$ 0.80
Second Quarter	2.75	1.90	4.30	2.50
Third Quarter	2.34	1.17	3.69	2.33
Fourth Quarter	2.90	1.34	4.67	3.04

Stock performance graph

The following graph sets forth the Company’s total cumulative stockholder return as compared to the NASDAQ Composite Index, a peer group chosen by the Company for fiscal 2011 (the “Peer Group”). The Peer Group is comprised of the following companies: Benchmark Electronics, Inc., Celestica Inc., CTS Corp., Flextronics International Ltd., Jabil Circuit, Inc., Key Tronic Corp., Plexus Corp., Sanmina-Sci Corporation and Sigmatron International Inc.

The total stockholder return assumes $100 invested on December 31, 2006 in Common Stock of the Company, the NASDAQ Composite Index and the Peer Group of companies that are, (i) publicly traded, and (ii) mid or large tier providers of advanced electronics manufacturing services. Total return assumes reinvestment of dividends. Historical stock price performance is not necessarily indicative of future price performance.

Holders

As of March 5, 2012, there were approximately 150 holders of record of the Company’s common stock.

As of March 5, 2012, the Company’s capital stock consisted of 26,000,000 authorized shares of common stock, par value $.01 per share, of which, as of such date, 15,711,226 shares were issued and outstanding, and 5,000,000 authorized shares of special voting stock, par value $.01 per share, of which, as of such date, one share was issued and outstanding. As of March 5, 2012, SMTC Corporation’s subsidiary, SMTC Manufacturing Corporation of Canada, had 494,548 exchangeable shares outstanding, excluding 7,453,762 exchangeable shares owned by the Company’s wholly-owned subsidiary, SMTC Nova Scotia Company, each of which is exchangeable for one share of common stock of SMTC Corporation.

Dividends

The Company has never declared a cash dividend on its common stock. The Board of Directors of the Company has no present intention to authorize the payment of 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 credit facilities restrict the Company from paying dividends.

Item 6: Selected Financial Data

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 accounting principles generally accepted in the United States (“US GAAP”).

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

	Years Ended				
	January 1, 2012	January 2, 2011	January 3, 2010	January 4, 2009	December 31, 2007
Revenue	$220.4	$262.6	$179.5	$206.9	$201.0
Cost of sales	199.0	233.1	162.0	188.5	180.7
Gross profit	21.4	29.5	17.5	18.4	20.3
Selling, general and administrative expenses	14.8	17.9	12.7	12.9	12.6
Restructuring (a)	2.7	—	0.8	0.5	0.2
Loss on extinguishment of debt	0.3	—	—	0.6	0.4
Other expenses (recoveries) (b)	0.1	—	—	(0.2)	—
Operating earnings	3.5	11.6	4.0	4.6	7.1
Interest expense	1.5	1.7	2.0	2.9	5.5
Earnings before income taxes and discontinued operations	2.0	9.9	2.0	1.7	1.6
Income tax expense (recovery)	0.8	(2.5)	(0.3)	0.1	(1.3)
Earnings from continuing operations	1.2	12.4	2.3	1.6	2.9
Loss from discontinued operations (c)	—	—	(5.9)	(7.5)	(0.2)
Net earnings (loss), also being comprehensive income (loss)	$1.2	$12.4	$(3.6)	$(5.9)	$2.7
Basic earnings (loss) per share					
Basic earnings per share from continuing operations	$0.07	$0.82	$0.16	$0.11	$0.19
Basic loss per share from discontinued operations	—	—	(0.41)	(0.51)	(0.01)
Basic earnings (loss) per common share	$0.07	$0.82	$(0.25)	$(0.40)	$0.18
Diluted earnings (loss) per share					
Diluted earnings per share from continuing operations	$0.07	$0.79	$0.16	$0.11	$0.19
Diluted loss per share from discontinued operations	—	—	(0.41)	(0.51)	(0.01)
Diluted earnings (loss) per common share	$0.07	$0.79	$(0.25)	$(0.40)	$0.18
Weighted average number of shares outstanding					
Basic	16.1	15.1	14.6	14.6	14.6

Diluted	16.2	15.6	14.6	14.6	15.0

(a) During Fiscal 2011, the Company recorded restructuring charges of $2.7 million consisting of severance related to the 2011 Plan. During 2009, the Company recorded net restructuring charges of $0.8 million consisting of severance charges related to the 2009 Plan. During Fiscal 2008, the Company recorded restructuring charges consisting of severances of $0.7 million relating to the 2008 Plan, partially offset by proceeds of liquidation pertaining to assets written off under the 2002 Plan, of $0.2 million. During 2007, the Company recorded net restructuring charges of $0.2 million consisting of severance charges related to the 2007 Plan.

(b) In Fiscal 2011, the Company recorded $0.1 million in expenses relating to the acquisition of a subsidiary. In Fiscal 2008, the Company recorded an unrealized gain on derivative instruments of $0.2 million.

(c) Discontinued operations - Effective June 30, 2009, the Company closed its Boston, Massachusetts facility. Results of this operation are reported as discontinued operations for the current and comparative reporting periods.

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

	At and for the Years Ended				
	January 1, 2012	January 2, 2011	January 3, 2010	January 4, 2009	December 31, 2007
Cash	$2.6	$0.9	$1.6	$2.6	$0.2
Working capital	32.5	23.2	24.3	20.8	21.8
Total assets	114.3	98.4	93.6	87.3	94.8
Long term debt and capital lease obligations, less current portion,	17.4	8.0	21.2	17.5	19.2
Shareholders' equity	34.6	32.8	18.3	21.3	26.8
Capital expenditures	4.0	2.2	1.0	2.8	2.5
Cash flows provided by (used in) operating activities	2.0	14.0	(6.3)	7.1	24.7
Cash flows provided by (used in) financing activities	3.6	(13.5)	5.5	(3.6)	(22.6)
Cash flows (used in) investing activities	(3.9)	(1.2)	(0.2)	(1.1)	(1.9)

Quarterly Results

The following tables set forth our unaudited historical quarterly results for the eight quarters ended January 1, 2012. 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 January 1, 2012 and January 2, 2011. The operating results for any previous quarter are not necessarily indicative of results for any future periods.

(in millions, except per share amounts)

	Quarters Ended							
	Apr 4, 2010	July 4, 2010	Oct 3, 2010	Jan 2, 2011	Apr 3, 2011	July 3, 2011	Oct 2, 2011	Jan 1, 2012
Revenue	$61.4	$71.2	$65.4	$64.6	$56.3	$48.8	$44.1	$71.1
Gross profit	6.4	8.3	7.9	6.9	5.1	4.6	3.8	7.8
Net earnings (loss)	2.1	3.2	2.6	4.5	0.7	(1.0)	(1.4)	2.9
Earnings (loss) per share from continuing operations – basic	$0.14	$0.21	$0.17	$0.29	$0.05	$(0.06)	$(0.09)	$0.17
Earnings (loss) per share from continuing operations – diluted	$0.14	$0.20	$0.16	$0.28	$0.05	$(0.06)	$(0.09)	$0.17
Weighted average number of shares outstanding — basic	14.6	14.8	15.0	15.8	16.0	16.0	16.2	16.2
Weighted average number of shares outstanding — diluted	14.8	15.7	15.7	16.2	16.3	16.0	16.2	16.3

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

Where we say “we”, “us”, “our”, the “Company” or “SMTC”, we mean SMTC Corporation or SMTC Corporation and its subsidiaries, as it may apply. Where we refer to the “industry”, we mean the electronics manufacturing services industry.

You should read this Management’s Discussion and Analysis of Financial Condition and Results of Operation (“MD&A”) in combination with the accompanying audited consolidated financial statements and the accompanying notes to the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) included within this annual report on Form 10-K. 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 “Risk-Factors That May Affect Future Results” section above. Certain statements in this MD&A contain words such as ‘‘could’’, ‘‘expects’’, ‘‘may’’, ‘‘anticipates’’, ‘‘believes’’, ‘‘in ‘‘estimates’’, ‘‘plans’’, ‘‘envisions’’, ‘‘seeks’’ and other similar language and are considered forward looking statements or information under applicable securities laws. These statements are based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate. These statements are subject to important assumptions, risks and uncertainties, which are difficult to predict and the actual outcome may be materially different. Although we believe expectations reflected in such forward-looking statements are reasonable based upon the assumptions in this MD&A, they may prove to be inaccurate and consequently our actual results could differ materially from our expectations set out in this MD&A. We may not update these forward-looking statements after the date of this Annual Report, even though our situation may change in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

This MD&A contains discussion in US dollars unless specifically stated otherwise.

Overview

SMTC Corporation is a mid-tier provider of end-to-end electronics manufacturing services, or EMS, including product design and sustaining engineering services, printed circuit board assembly, or PCBA, production, enclosure fabrication, systems integration and comprehensive testing services. SMTC facilities span a broad footprint in the United States, Canada, Mexico, and China, with approximately 1,875 full-time employees. SMTC's services extend over the entire electronic product life cycle from the development and introduction of new products through to growth, maturity and end-of-life phases. SMTC offers fully integrated contract manufacturing services with a distinctive approach to global original equipment manufacturers, or OEMs, and technology companies primarily within the industrial, computing and networking, communications, and medical market segments.

Developments in the year ended January 1, 2012

Revenue increased in the fourth quarter by $27.0 million to $71.1 million, compared to $44.1 million in the third quarter. The sharp increase was due to demand increases from both existing and new customers combined with the impact of the acquisition of ZF Array Technology Incorporated ("ZF Array"). Gross profit and earnings before income taxes were both substantially improved going from 8.7% and a loss before income taxes of $1.3 million to 10.8% and earnings before income taxes of $3.1 million respectively.

For the year ended January 1, 2012 ("fiscal 2011") revenue decreased $42.2 million, or 16.1%, from $262.6 million for the year ended January 2, 2011 ("fiscal 2010") to $220.4 million. The majority of the decrease in revenue related to one program of a long standing customer going end of life and a disengagement of another long standing customer.

Earnings from continuing operations before income taxes decreased to $2.0 million in fiscal 2011 compared to $9.9 million in fiscal 2010. The decrease was mainly due to reduced revenue levels and the resulting impact on the ability to cover fixed costs, increased labor costs due to the negative impact of the strengthening Canadian dollar and Mexican peso, restructuring charges and the write off of the remaining unamortized deferred financing costs related to the extinguished revolving credit facility.

In response to expected reductions in revenues early in the year, the Company took early action to reduce costs during fiscal 2011. Selling, general and administrative expenses for the year were at their lowest in three years and margins were maintained at low levels despite the reductions in revenue. The Company recorded restructuring charges of $2.7 million, consisting largely of severance charges of $0.6 million in the Mexican segment, $2.0 million in the Canadian segment, and $0.1 million in the U.S. segment and reduced staff levels by 241, 150 and 1 in each segment respectively, in response to expected lower revenues in the year. Subsequently, headcount has increased to respond to revenue increases from the third quarter to fourth quarter of 61%.

On September 22, 2011, the Company signed a $45 million asset-backed revolving credit and security agreement with PNC Bank, National Association and its Canadian branch, replacing the previous revolving loan agreement with Wells Fargo Capital Finance Corporation ("Wells Fargo"). The new facility increases financial flexibility by permitting increases in potential borrowings by $10 million by adding Mexican inventory to the borrowing base and reduces the variable interest rate on the revolver by 1.0% to the prime rate as the tiered system is removed. As a result of the new credit facility, deferred financing costs of $0.3 million related to the previous revolving loan agreement with Wells Fargo were written off.

On August 31, 2011 the Company acquired 100% of the outstanding common shares of ZF Array Technology, Inc. ("ZF Array"), a privately held electronics manufacturing services provider based in San Jose, California. The acquisition enhances and expands engineering and operational capabilities in prototype development, new product introduction and structural test services to both new and existing customers. The purchase price was $6.4 million, of which $2.4 million is composed of a 2-year performance based earn out, which was fully accrued as of January 1, 2012. The purchase price was essentially for book value with a nominal gain recorded on the acquisition.

In addition, the Company has purchased $0.9 million of new machinery and equipment with cash and acquired $3.1 million of machinery and equipment via capital leases in fiscal 2011.

While the Company generated cash from operations of $2.0 million, net bank debt increased by $6.7 million from fiscal 2010, bringing net bank debt up to $16.6 million. The increase in debt was primarily used for the acquisition of ZF Array and the increase in inventory related to the increase in orders for the first quarter of fiscal 2012.

Growth, profitability and debt reduction remain the primary goals of the Company. The acquisition of ZF Array, discontinuance of low margin business, tight cost management and refinancing, combined with numerous customer program wins, including a customer in the medical sector, throughout the year resulted in a strong Q4 in fiscal 2011 and anticipated improved performance in fiscal 2012.

Results of Operations

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

The consolidated financial statements of SMTC are prepared in accordance with US GAAP.

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

	January 1, 2012		January 2, 2011		January 3, 2010	
Revenue	100.0	%	100.0	%	100.0	%
Cost of sales	90.3	%	88.8	%	90.2	%
Gross profit	9.7	%	11.2	%	9.8	%
Selling, general and administrative expenses	6.7	%	6.9	%	7.1	%
Restructuring charges	1.2	%	—		0.4	%
Loss on extinguishment of debt	0.1	%	—		—	
Other charges	0.1	%	—		—	
Operating earnings	1.6	%	4.3	%	2.2	%
Interest expense	0.7	%	0.6	%	1.1	%
Earnings from continuing operations before income taxes	0.9	%	3.7	%	1.1	%
Income tax (recovery) expense						
Current	0.3	%	0.1	%	(0.3	)%
Deferred	0.1	%	(1.1	)%	0.1	%
	0.4	%	(1.0	)%	(0.2	)%
Net earnings from continuing operations	0.5	%	4.7	%	1.3	%
Loss from discontinued operations	—		—		(3.3	)%

Net earnings (loss)	0.5 %	4.7 %	(2.0)%

Fiscal period ended January 1, 2012 compared to the fiscal period ended January 2, 2011

Revenue

Revenue decreased by $42.2 million, or 16.1%, from $262.6 million for fiscal 2010 to $220.4 million for fiscal 2011. The majority of the decrease in revenue related to one program of a long standing customer going end of life and a disengagement of another long standing customer. Other decreases were offset by increased share of business with certain customers, new customer wins and the acquisition of ZF Array. New customer revenue was approximately $31 million for fiscal 2011.

During fiscal 2011, revenue from the industrial sector represented 73.1% of revenue compared to 80.5% of revenue in fiscal 2010. Revenue from the industrial sector decreased by $50.1 million or 23.7% mainly due to the end of life product and customer disengagement described above. Revenue from the networking and enterprise computing sector in fiscal 2011 decreased compared to fiscal 2010 by $0.8 million mainly due to decreases in revenue of two customers, slightly offset by an increase in revenue from one customer. However, the percentage of revenue attributable to the network and enterprise sector increased to 14.2% during fiscal 2011 from 12.2% during fiscal 2010 due to the greater percentage decrease in the industrial sector. Revenue from the communications sector decreased by $1.2 million or 7.0% in fiscal 2011 mainly due to a decrease in revenue of one customer, slightly offset by revenue from two new customers in this sector. However, the percentage of revenue attributable to the communications sector increased to 7.3% during fiscal 2011 from 6.6% during fiscal 2010 due to the greater percentage decrease in the industrial sector. Revenue for the medical sector represented 5.4% of revenue in fiscal 2011 mainly due to the increase in revenue from one customer. Since the medical sector in fiscal 2010 was less than 1.0% of revenue it was grouped with the networking and enterprise computing sector and not disclosed separately.

During fiscal 2011, the Company recorded approximately $2.7 million of sales of raw materials inventory to customers, which carried no margin, compared to $3.9 million in fiscal 2010. The Company purchases raw materials based on customer purchase orders. To the extent a customer requires an order to be altered or changed, the customer is generally obligated to purchase the original on-order raw material at cost.

Due to changes in market conditions, the life cycle of products, the nature of specific programs and other factors, revenues from a particular customer typically vary from year to year. The Company's ten largest customers represented 79.4% of revenue during fiscal 2011, compared to 88.1% in fiscal 2010 as the business has become more diversified. Revenue from our three largest customers during fiscal 2011 was $48.1 million, $23.3 million and $22.5 million, representing 21.8%, 10.6% and10.2% of revenue from continuing operations for fiscal 2011, respectively. This compares with revenue from our four largest customers of $41.6 million, $38.0 million, $34.9 million and $33.2 million, representing 15.8%, 14.5%, 13.3% and 12.7%, of revenue from continuing operations for fiscal 2010, respectively. No other customer represented more than 10% of revenue in either year.

During fiscal 2011, 57.5% of our revenue from continuing operations was attributable to our operations in Mexico, 17.2% in Asia, 14.3% in Canada and 11.0% in the US. During fiscal 2010, 47.7% of our revenue from continuing operations was attributable to our operations in Mexico, 23.8% in Asia, 20.3% in Canada and 8.2% in the US. The decrease in Canada and increase in Mexico was a result of production transferring to our lower cost facilities and some attrition in Canada.

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

Gross Profit

Gross profit decreased to $21.3 million in fiscal 2011from $29.5 million in fiscal 2010. This was largely due to decreased revenue levels and the resulting impact on the ability to cover fixed costs, the negative impact of the strengthening Canadian dollar and Mexican peso resulting in increased site labor cost of over $0.6 million and a $0.5 million foreign exchange loss on net liabilities.

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

Selling, General & Administrative Expenses

Selling, general and administrative expenses decreased from $17.9 million in fiscal 2010 to $14.8 million in fiscal 2011, and decreased as a percentage of revenue to 6.7% for fiscal 2011 compared to 6.9% of revenue for fiscal 2010. The decrease in fiscal 2011 was mainly due to reduced employee costs, a decrease in stock based compensation and a decrease in legal expenses.

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

Restructuring Charges

During fiscal 2011, the Company recorded restructuring charges of $2.7 million, consisting largely of severance charges of $0.6 million in the Mexican segment, $2.0 million in the Canadian segment, and $0.1 million in the U.S. segment and reduced staff levels by 241, 150 and 1 in each segment respectively, in response to expected lower revenues in the year. There were no restructuring activities during fiscal 2010.

Unrealized Loss on Derivative Financial instruments

In fiscal 2011 the Company entered into forward foreign exchange contracts to reduce its exposure to foreign exchange currency rate fluctuations related to forecasted Canadian dollar and Mexican peso expenditures. These contracts were effective as hedges from an economic perspective, but did not meet the requirements for hedge accounting under ASC 815. Accordingly, changes in the fair value of these contracts were recognized into net income in the consolidated statement of operations and comprehensive income. The unrealized loss recognized in earnings as a result of revaluing the instruments to fair value was nominal. The realized gain on these contracts in fiscal 2011 was $109 included as a component of cost of goods sold. There were no derivative instruments in fiscal 2010.

Acquisition Costs

In fiscal 2011 the Company acquired 100% of the outstanding common shares of ZF Array a privately held electronics manufacturing services provider based in San Jose, California. The purchase price was $6.4 million, of which $2.4 million is composed of a 2-year performance based earn out, which was fully accrued as of January 1, 2012. Acquisition costs related to this purchase were $0.1 million. There were no acquisition charges in fiscal 2010.

Interest Expense

Interest expense decreased by $0.2 million, from $1.7 million in fiscal 2010 to $1.5 million in fiscal 2011. Included in interest expense is amortization of deferred financing fees of $0.3 million in fiscal 2011, compared to $0.2 million in fiscal 2010.

Interest expense decreased in fiscal 2011 due to lower average debt balances outstanding and lower interest rates compared to fiscal 2010 due to the interest rate reduction as a resulting of completing the revolving credit and security agreement with PNC Bank on September 22, 2011 and the achievement of financial performance levels of the previous Wells Fargo debt agreement . The weighted average interest rates with respect to the debt were 3.6% and 4.7%, for the periods ended January 1, 2012 and January 2, 2011, respectively.

Income Tax Expense

The net tax expense for fiscal 2011 of $0.8 million is due to minimum taxes in the United States and Mexico, combined with state taxes in California, slightly offset by a recovery in Canadian taxes due to the settlement of previously uncertain tax positions.

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. Guidance under Accounting Standards Codification (“ASC”) 740, “Income Taxes”, (“ASC 740”) states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. At the end of the second quarter of

2003, the Company concluded that given the weakness and uncertainly in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets. Commencing in 2004, it was determined by management that it was more likely than not that the deferred tax assets associated with the Mexican jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets since 2004. In 2010, it was determined by management that it was more likely than not that certain deferred tax assets associated with the U.S. jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets. The same determination was made by management in 2011. The Canadian jurisdiction continues to have a full valuation allowance recorded against the deferred tax assets.

At January 1, 2012, the Company had total net operating loss carry forwards of $105, 708, of which $1,260 will expire in 2012, $10,278 will expire in 2014, $4,154 will expire in 2015, $1,078 will expire in 2018, $60 will expire in 2019, $30 will expire in 2020, $11,365 will expire in 2021, $16,207 will expire in 2022, $27,270 will expire in 2023, and the remainder will expire between 2025 and 2031.

Fiscal period ended January 2, 2011 compared to the fiscal period ended January 3, 2010

Revenue

Revenue increased by $83.1 million, or 46.3%, from $179.5 million for fiscal 2009 to $262.6 million for fiscal 2010. The substantial increase in revenue was due to several factors. The majority of SMTC's customers' end markets were favorably impacted by increased demand and rebuilding of inventories as they recovered from the impact of the recession in 2009. In addition, newer customers have contributed $40.7 million of the increased revenue, more than offsetting attrition. The Company also benefited from increased share of business with certain customers.

During fiscal 2010, revenue from the industrial sector represented 81.2% of revenue compared to 84.5% of revenue in fiscal 2009. Revenue from the industrial sector increased by $33.7 million or 22.2%, however greater percentage increases in the networking and communications sectors resulted in a marginal decrease in the industrial sector as a percentage of total revenue. The percentage of revenue attributable to the networking and enterprise computing sector was 13.0% during fiscal 2010, increasing from 11.4% in fiscal 2009 mainly due to one new customer and an increase of revenue from an existing customer, resulting in an increase in absolute dollars of $13.5 million or 65.8%. The percentage of revenue attributable to the communications sector increased to 5.8% during fiscal 2010 from 4.1% during fiscal 2009. Revenue from the communications sector increased by $7.9 million or approximately double the fiscal 2009 revenue mainly due to a new customer in this sector.

During fiscal 2010, we recorded approximately $3.9 million of sales of raw materials inventory to customers, which carried no margin, compared to $1.3 million in fiscal 2009. The Company purchases raw materials based on customer purchase orders. To the extent a customer requires an order to be altered or changed the customer is generally obligated to purchase the original on-order raw material at cost.

Due to changes in market conditions, the life cycle of products, the nature of specific programs and other factors, revenues from a particular customer typically vary from year to year. The Company's ten largest customers represented 88.1% of revenue from continuing operations during fiscal 2010, compared to 91.8% in fiscal 2009. Revenue from our four largest customers during fiscal 2010 was $41.6 million, $38.0 million, $34.9 million and $33.2 million, representing 15.8%, 14.5%, 13.3% and 12.7%, of revenue from continuing operations for fiscal 2010, respectively. This compares with revenue of $39.2 million, $28.6 million, $28.2 million, $24.9 million and $18.7 million, representing 21.9%, 15.9%, 15.7%, 13.9% and 10.4% of revenue from continuing operations for the five largest customers of fiscal 2009, respectively. No other customer represented more than 10% of revenue in either year.

During fiscal 2010, 47.7% of our revenue from continuing operations was attributable to our operations in Mexico, 23.8% in Asia, 20.3% in Canada and 8.2% in the US. During fiscal 2009, 38.6% of our revenue from continuing operations was attributable to our operations in Mexico, 27.3% in Canada, 26.4% in Asia and 7.7% in the US. The decrease in Canada and increase in Mexico was a result of production transferring to our lower cost facilities and some attrition in Canada.

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

Gross Profit

Gross profit increased from $17.6 million in fiscal 2009 to $29.5 million in fiscal 2010. This was largely due to increased revenue levels, leveraging fixed costs, combined with continued cost management. Gross profit as a percentage of revenue improved from 9.8% in fiscal 2009 to 11.2% in fiscal 2010. The improvement in gross profit as a percentage of revenue was primarily due to cost reduction initiatives, product mix and additional products transferring to our lower cost facilities.

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

Selling, General & Administrative Expenses

Selling, general and administrative expenses increased from $12.8 million in fiscal 2009 to $17.9 million in fiscal 2010, but decreased as a percentage of revenue to 6.8% for fiscal 2010 from 7.1% of revenue for fiscal 2009. The increase in fiscal 2010 was due to an increase in variable compensation tied to Company performance, an increase in salaries and benefits, an increase in stock based compensation mark to market adjustments, increased professional fees for recruiting and legal expenses and increased sales and marketing expenses to obtain new customers.

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

Restructuring Charges

During fiscal 2009, the Company recorded restructuring charges of $0.8 million, consisting largely of severance charges of $0.5 million in the Mexican segment, $0.3 million in the Canadian segment, and a nominal amount in the U.S. segment. The Company reduced staff levels by approximately 160 in response to expected lower revenues resulting from the global economic recession. There were no restructuring activities during fiscal 2010.

Interest Expense

Interest expense decreased by $0.3 million from $2.0 million in fiscal 2009 to $1.7 million in fiscal 2010. Included in interest expense is amortization of deferred financing fees of $0.2 million in fiscal 2010, compared to $0.3 million in fiscal 2009.

Interest expense decreased in fiscal 2010 due to lower average debt balances outstanding and lower interest rates compared to fiscal 2009 due to the achievement of financial performance levels as specified in the amended debt agreement signed on May 18, 2010. The weighted average interest rates with respect to the debt were 4.7% and 5.4%, for the periods ended January 2, 2011 and January 3, 2010, respectively.

Income Tax Expense

The net tax recovery for fiscal 2010 of $2.5 million is due to a $3.0 million deferred tax recovery primarily related to a release of valuation allowance associated with deferred tax assets in the U.S., offset by minimum taxes in Mexico and income taxes in California, compared with a net income tax recovery for fiscal 2009 of $0.3 million which was due to a $0.5 million recovery of certain minimum taxes previously paid as a result of changes in tax legislation, offset by minimum taxes in Mexico.

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. Guidance under Accounting Standards Codification (“ASC”) 740, “Income Taxes”, (“ASC 740”) states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. At the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainly in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets. Commencing in 2004, it was determined by management that it was more likely than not that the deferred tax assets associated with the Mexican jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets since

2004. In 2010, it was determined by management that it was more likely than not that certain deferred tax assets associated with the U.S. jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets. The Canadian jurisdiction continues to have a full valuation allowance recorded against the deferred tax assets.

At January 2, 2011, the Company had total net operating loss carry forwards of $101.3 million, of which $1.3 million will expire in 2012, $10.3 million will expire in 2014, $4.2 million will expire in 2015, $1.1 million will expire in 2018, $0.1 million will expire in 2019, $13.7 million will expire in 2021, $16.2 million will expire in 2022, $27.3 million will expire in 2023, and the remainder will expire between 2025 and 2029.

Discontinued Operations

In June 2009, the Company ceased manufacturing operations at its Boston, Massachusetts facility. The Company entered into an agreement with the landlord to terminate the existing lease and conducted a sale of plant equipment. As of July 5, 2009, the Boston facility was classified as a discontinued operation and its results of operations have been separately reported for all periods presented.

Loss from discontinued operations before disposal was $3.6 million in fiscal 2009. There were no discontinued operations in fiscal 2010.

Liquidity and Capital Resources

Our principal sources of liquidity are cash provided from operations and borrowings under the PNC and EDC Facilities. We have also previously relied on our access to the capital markets. Our principal uses of cash have been to meet debt service requirements, pay down debt, invest in capital expenditures and to finance working capital requirements. In the future, cash may also be used for strategic purposes.

The following table outlines the summary level cash flow changes for:

	Period ended January 1, 2012	Period ended January 2, 2011	Period ended January 3, 2010
Cash provided by (used in):			
Operating activities	$2.0	$14.0	$(6.3)
Financing activities	3.6	(13.5)	5.5
Investing activities	(3.9)	(1.2)	(0.2)
Increase (decrease) in cash and cash equivalents	1.7	(0.7)	(1.0)
Cash, beginning of year	0.9	1.6	2.6
Cash, end of the year	$2.6	$0.9	$1.6

Fiscal 2011 Liquidity:

Net cash provided by operating activities for fiscal 2011 was $2.0 million. The source of cash resulted from income from operations, decreases in accounts receivable and increases in accounts payable offset by an increases in inventory and accrued liabilities. Accounts receivable days sales outstanding for fiscal 2011 remained consistent with fiscal 2010 at 49 days for the fourth quarter of 2011 compared to 50 days for the same period in fiscal 2010. Inventory turnover on an annualized basis was 4.8 times for fiscal 2011 and 5.5 times for fiscal 2010. The decrease in turnover was due to an increase in inventory at the end of the year in fiscal 2011 to ramp up for the increase in orders for the first quarter of 2012. Accounts payable days outstanding for fiscal 2011 remained consistent with fiscal 2010 at 67 days for the fourth quarter of 2011 compared to 68 days for the same period in fiscal 2010. During fiscal 2011, the Company paid $1.8 million in connection with restructuring charges. There were no restructuring charges paid in 2010.

Net cash provided by financing activities during fiscal 2011 was $3.6 million, consisting of net increase in revolving debt of $8.2 million from the revolving credit facility and $0.3 million from the issuance of common stock upon the exercise of executive stock options. These were partially offset by repayments of term debt of $2.5 million, repayment of capital leases of $1.4 million and $1.0 million in financing fees incurred in financing the Company's credit facility with PNC bank and refinancing the credit facility with EDC.

Net cash used in investing activities for fiscal 2011 of $3.9 million consisted of $3.0 million for the acquisition of ZF Array and $0.9 million for purchases of machinery and equipment.

Fiscal 2010 Liquidity:

Net cash provided by operating activities for fiscal 2010 was $14.0 million. The source of cash resulted from income from operations, decreases in accounts receivable, increases in accounts payable and accrued liabilities, offset by an increase in inventory. Accounts receivable days sales outstanding were 50 days for the fourth quarter of 2010 compared to 67 days for the same period in fiscal 2009 largely due to payments received on a timely basis in 2010 compared to payments received immediately after year end in fiscal 2009. Some payments were also received early to offset the impact of holding inventory for certain customers. Inventory turnover on an annualized basis was 5.5 times for 2010 and 4.9 times for fiscal 2009. The increase in turnover was due to the volume mix as some of the larger customers were turning at a much higher rate as the demand increased compared to the prior year, resulting in an overall increase in turnover. Accounts payable days outstanding were 68 days for the fourth quarter of 2010 compared to 84 days for the same period in fiscal 2009 as we made an effort to pay vendors quicker in 2010. During fiscal 2009 the Company paid $0.8 million in connection with restructuring charges. There were no restructuring charges paid in 2010.

Net cash used in financing activities during fiscal 2010 was $13.5 million, consisting of net repayments of $14.5 million to the revolving credit facility, repayments of term debt of $0.4 million, repayment of capital leases of $0.9 million and $0.1 million in financing fees incurred in refinancing the Company’s credit facilities. These were partially offset by proceeds of $0.4 million generated on a sale leaseback on capital equipment, and $2.0 million from the issuance of common stock upon the exercise of executive stock options.

Net cash used in investing activities for fiscal 2010 of $1.2 million consisted of purchases of machinery and equipment.

Capital Resources

On September 22, 2011, the Company signed a Revolving Credit and Security Agreement with PNC Bank, National Association and its Canadian branch (collectively, “PNC”). This revolving credit facility replaced the previous revolving loan agreement with Wells Fargo Capital Finance Corporation and has a term of three years. The Company continues to have a term debt facility with Export Development Canada, and on September 22, 2011 signed an amendment to its agreement with EDC to accommodate the change in revolving credit lender, but is otherwise largely unchanged from the existing agreement. The maximum amount of funds available under the PNC Facility is $45 million. The new facility increases financial flexibility by permitting increases in potential borrowings by $10 million by adding Mexican inventory to the borrowing base and reduces the variable interest rate on the revolver by 1.0% to the prime rate as the tiered system is removed. Availability under the revolving credit facility is subject to certain borrowing base conditions based on the eligible inventory and accounts receivable. Advances made under the revolving credit facility will bear interest at the base commercial lending rate of PNC in the respective country, which should approximate prime rate. The EDC Facility bears interest at LIBOR plus 2.5% to 3.5% depending on the achievement of financial performance levels as specified in the amended debt agreement.

We believe that cash generated from operations, available cash and amounts available under our PNC and EDC Facilities and additional financing sources such as leasing companies and other lenders will be adequate to meet our debt service requirements, capital expenditures and working capital needs at our current level of operations and organic growth in the future, although no assurance can be given in this regard, particularly with respect to amounts available from lenders. We have agreed to a borrowing base formula under which the amount we are permitted to borrow under the PNC Facility is based on our accounts receivable and inventory. Further, there can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to enable us to service our indebtedness. Our future operating performance and ability to service indebtedness will be subject to future economic conditions and to financial, business and other factors, certain of which are beyond our control.

During 2011, there were $3.1 million of additions of property, plant and equipment acquired via capital leases.

We anticipate that our cash and cash equivalents, as well as available our revolving credit facility and additional financing sources will be sufficient to fund our anticipated cash requirements for working capital, contractual commitments, and capital expenditures for the next 12 months.

As at January 1, 2012, contractual repayments due within each of the next five years and thereafter are as follows:

(in US$ millions)	2012	2013	2014	2015	2016	Thereafter	Total
Long term debt	$4.0	$2.8	$12.4	$—	$—	$—	$19.2
Capital lease obligations	1.7	1.4	0.8	—	—	—	3.9
	1.1	0.9	0.7	0.5	0.5	—	3.7

Operating lease obligations							
Purchase obligations	1.1	—	—	—	—	—	1.1
Total	$7.9	$5.1	$13.9	$0.5	$0.5	$—	$27.9

In the normal course of business, we may be subject to litigation and claims from customers, suppliers and former employees. We believe that adequate provisions have been recorded in the accounts, where required. We do not believe that it is reasonably possible that a loss exceeding the amounts already recognized may have been incurred that would be material. 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 an adverse effect on our financial position, results of operations or cash flows.

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Accounting changes and recent accounting pronouncements

Please refer to Note 2 of the accompanying consolidated financial statements.

Critical Accounting Estimates

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

Note 2 to 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 affected significantly by judgments, assumptions and estimates used in the preparation of financial statements. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Allowance for Doubtful Accounts

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

Inventory Valuation

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

Long-lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with subtopic 10 of ASC 360, “Property, Plant and Equipment”. Under ASC 360-10 assets must be classified as either held-for-use or held-for-sale. An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is measured by discounted cash flows when quoted market prices are not available. For assets held-for-sale, an impairment loss is recognized when the carrying amount exceeds fair value less costs to sell.

Income Tax Valuation Allowance

In assessing the realization of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Guidance under ASC 740 states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. Based upon consideration of these factors, management believes the recorded valuation allowance related to all of its deferred tax assets arising in Canada and a portion of its deferred tax assets arising in the United States is appropriate.

Item 7A: Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our credit facilities bear interest at floating rates. The weighted average interest rate incurred on debt for the period ended January 1, 2012 was 3.6%. At January 1, 2012 the interest rate on our U.S. revolving credit facility is 3.25% based on the U.S. prime rate and our term debt bore interest at 3.8% based on LIBOR. If base rates increased by 10%, our interest expense would have increased by approximately $0.1 million annually.

Foreign Currency Exchange Risk

Most of our sales and component purchases are denominated in U.S. dollars. Our Canadian, Mexican and Asian payroll, Euro based component purchases and other various expenses are denominated in local currencies. As a result, in fiscal 2011 the Company entered into forward foreign exchange contracts to reduce its exposure to foreign exchange currency rate fluctuations related to forecasted Canadian dollar and Mexican peso as every $0.01 change in the US dollar results in a change in expenses of approximately $0.3 million. The strengthening of the Canadian dollar results in an increase in costs to the organization and may lead to a reduction in reported earnings.

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-44.

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

None.

Item 9A: Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Company's Chief Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and the Company's Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Principal Financial Officer, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Exchange Act Rule 13a-15(f). The Company’s management conducted an assessment of the Company’s internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (COSO). Based on this assessment, the Company’s management has concluded that, as of January 1, 2012, the Company’s internal control over financial reporting is effective and no material weaknesses were identified.

This annual report on Form 10-K does not include an attestation report by the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

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 Principal Financial Officer.

Item 9B: Other Information

None

PART III

Item 10: Directors, Executive Officers and Corporate governance

The information required by this Item is included under the captions "The Proposal: Election of Directors," "Directors and Executive Officers," "Additional Information—Section 16(a) Beneficial Ownership Reporting Compliance," and Compensation Discussion and Analysis in the proxy statement for use in connection with the Company's 2012 Annual Meeting of Stockholders (the "Proxy Statement") and is incorporated herein by reference.

The Company has adopted a Code of Conduct applicable to all employees, including the principal executive officer, principal financial officer, and principal accounting officer. The Code of Conduct is available on the Company's website at http://www.smtc.com/investor/corpgov/corpgov.htm and in print to any stockholder who requests it. The Company intends to post on its website any amendments to, or waivers from, its Code of Conduct.

Item 11: Executive Compensation

The information required by this Item is included under the captions "Executive Compensation and Related Information" and "Compensation Discussion and Analysis" 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 SMTC Corporation 2010 Incentive Plan (the "2010 Plan"), which was adopted by the Board of Directors and the stockholders of the Company in July of 2010. 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 Board of Directors and the stockholders of the Company approved an amendment to the 2000 Plan in April 2004 and May 2004, respectively and a second amendment to the 2000 Plan in March 2007 and May 2007, respectively (the "Amended 2000 Plan").

The following table gives information about awards under the 2010 Plan and Amended 2000 Plan as of January 2, 2011:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a) (c)

Equity compensation plans approved by shareholders:	1,202,826	$2.82	98,000	(1)
Equity compensation plans not approved by shareholders:	—	$—	—	
Total	1,202,826	$2.82	98,000	

Notes:

(1) No further stock awards are available for granting under the Amended 2000 Plan.

Item 13: Certain Relationships and Related Transactions and Director Independence

The information required by this Item is included under the captions "Director Independence" and "Related Party Transactions" in the Proxy Statement and is incorporated herein by reference.

Item 14: Principal Accountant Fees and Services

The information required by this Item concerning principal accountant fees and services is included in the Proxy Statement under the caption "Independent Auditors" and is incorporated herein by reference.

PART IV

Item 15: Exhibits, Financial Statement Schedules, and Reports on Form 10-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 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		
	January 3, 2010	January 2, 2011	January 1, 2012
Balance, beginning of year	(505)	(558)	(312)
Recovery (charge) to expense	(53)	89	—
Written off	—	157	257
Balance, end of year	(558)	(312)	(55)

(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.

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)
3.1.1	Amended and Restated Certificate of Incorporation (as amended by Certificate of Amendment on May 21, 2004 and Certificate of Correction on June 18, 2004). (12)
3.1.2	Amendment to Amended and Restated Certificate of Incorporation dated September 30, 2004. (25)

3.1.3 Third Amended and Restated Certificate of Incorporation dated August 29, 2008 (29).

3.1.4 Fourth Amended and Restated Certificate of Incorporation dated July 10, 2009 (31).

3.2 Amended and Restated By-Laws. (28)

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 Canadian Loan Agreement dated as of June 1, 2004 by and between Congress Financial Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (12)

10.1.2 First Amending Agreement dated as of March 10, 2005 by and between Congress Financial Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (superseded in its entirety by Exhibit 10.1.3) (17)

10.1.3 First Amending Agreement dated as of March 31, 2005 by and between Congress Financial Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (18)

10.2.1 US Loan Agreement dated as of June 1, 2004 by and among Congress Financial Corporation (Central), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (12)

10.2.2 First Amending Agreement dated as of March 10, 2005 by and among Congress Financial Corporation (Central), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (superseded in its entirety by Exhibit 10.4.3) (17)

10.2.3 First Amending Agreement dated as of March 31, 2005 by and among Congress Financial Corporation (Central), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (18)

10.2.4 Second Amending Agreement dated as of August 17, 2005 by and among Congress Financial Corporation (Central), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (20)

10.2.5 Second Amending Agreement dated as of August 17, 2005 by and between Congress Financial Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (20)

10.2.6 Third Amending Agreement dated as of June 12, 2006 by and among Wachovia Capital Finance Corporation (as successor to Congress Financial Corporation (Central)), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (22)

10.2.7

Third Amending Agreement dated as of June 12, 2006 by and between Wachovia Capital Finance Corporation (Canada) (as successor to Congress Financial Corporation (Canada)) and SMTC Manufacturing Corporation of Canada. (22)

10.2.8 Letter Agreement effective as of August 2, 2006 by and among Wachovia Capital Finance Corporation (Central) (as successor to Congress Financial Corporation (Central)), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (23)

10.2.9 Letter Agreement effective as of August 2, 2006 by and between Wachovia Capital Finance Corporation (Canada) (as successor to Congress Financial Corporation (Canada)) and SMTC Manufacturing Corporation of Canada. (23)

10.2.10 Fourth Amending Agreement dated as of September 20, 2006 by and among Wachovia Capital Finance Corporation (Central) (as successor to Congress Financial Corporation (Central)), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Wisconsin, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (24)

10.2.11 Fourth Amending Agreement dated as of September 20, 2006 by and between Wachovia Capital Finance Corporation (Canada) (as successor to Congress Financial Corporation (Canada)) and SMTC Manufacturing Corporation of Canada. (24)

10.3 Form of Subscription Agreement for Special Warrants (Non-U.S. Purchaser). (11)

10.4 Form of Subscription Agreement for Special Warrants (U.S. Purchaser). (11)

10.5 Special Warrant Indenture and Escrow Agreement dated as of March 3, 2004 between SMTC Manufacturing Corporation of Canada and CIBC Mellon Trust Company. (11)

10.6 Share Purchase Warrant Indenture dated as of March 3, 2004 between SMTC Manufacturing Corporation of Canada and CIBC Mellon Trust Company. (11)

10.8 Real Property Lease dated as of September 15, 1998 between Warden-McPherson Developments Ltd. And The Surface Mount Technology Centre Inc. (5)

10.9 Lease Agreement dated as of August 11, 2000 between SMTC Manufacturing Corporation of Massachusetts and Lincoln-Franklin LLC. (7)

10.10 First Amendment to Lease and Extension Agreement effective as of October 1, 2004 between Teachers Insurance and Annuity Association of America and SMTC Manufacturing Corporation of Massachusetts. (19)

10.11 Employment Agreement dated as of February 7, 2005 between John Caldwell and SMTC Manufacturing Corporation of Canada. (25)*

10.12 Warrant Agreement dated as of June 1, 2004 between the Company and Mellon Investor Services LLC. (12)

10.13 Amended and Restated SMTC (HTM) 1998 Equity Incentive Plan. (1)

10.14 Amended SMTC Corporation/SMTC Manufacturing Corporation of Canada 2000 Equity Incentive Plan. (12)

10.15 Guarantee by SMTC Manufacturing Corporation of California dated June 1, 2004. (12)

10.16 Guarantee by SMTC Manufacturing Corporation of Massachusetts dated June 1, 2004. (12)

10.17 Guarantee by SMTC Mex Holdings, Inc. dated June 1, 2004. (12)

10.18 Guarantee by SMTC Manufacturing Corporation of Wisconsin dated June 1, 2004. (12)

10.19 Guarantee by SMTC Corporation, HTM Holdings, Inc., SMTC Manufacturing Corporation of Texas and SMTC Manufacturing Corporation of North Carolina dated June 1, 2004. (12)

10.20 Guarantee by SMTC Corporation, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts, HTM Holdings, Inc., SMTC Manufacturing Corporation of Texas, SMTC Manufacturing Corporation of North Carolina, SMTC Manufacturing Corporation of Wisconsin, SMTC Mex Holdings, Inc., SMTC de Chihuahua, S.A. de C.V. and Radio Componentes de Mexico, S.A. de C.V. dated June 1, 2004. (12)

10.21 General Security Agreement by SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts, SMTC Manufacturing Corporation of Wisconsin and SMTC Mex Holdings, Inc. dated June 1, 2004. (12)

10.22	General Security Agreement by SMTC Corporation, HTM Holdings, Inc., SMTC Manufacturing Corporation of Texas and SMTC Manufacturing Corporation of North Carolina dated June 1, 2004. (12)
10.23	General Security Agreement by SMTC Manufacturing Corporation of Canada dated June 1, 2004. (12)
10.24	Guarantee by 940862 Ontario Inc. and SMTC Nova Scotia Company dated June 1, 2004. (12)
10.25	General Security Agreement by 940862 Ontario Inc. and SMTC Nova Scotia Company dated June 1, 2004. (12)
10.26	Employment Letter dated as of June 24, 2004 between Jane Todd and SMTC Corporation. (13)*
10.27	Exchange Agent Agreement dated as of October 1, 2004 by and between SMTC Corporation and Mellon Investor Services LLC. (14)
10.28	Letter of Understanding dated as of November 16, 2004 by and between Congress Financial Corporation (Canada) and SMTC Corporation. (14)
10.29	Waiver and Consent dated December 13, 2004 by and among Congress Financial Corporation (Canada), Congress Financial Corporation (Central), SMTC Corporation, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Canada, SMTC Manufacturing Corporation of Massachusetts, SMTC Manufacturing Corporation of Wisconsin and SMTC Mex Holdings. (15)

10.30	Deferred Share Units Agreement dated as of February 7, 2005 between John Caldwell and SMTC Manufacturing Corporation of Canada. (16)*
10.31	Bonus Plan dated as of February 7, 2005 provided by SMTC Manufacturing Corporation of Canada to John Caldwell. (16)*
10.32	Summary of Board Compensation. (25)
10.33	Option Grant Certificate issued by SMTC Corporation to John Caldwell, dated October 6, 2004. (25)*
10.34	Employment Summary Sheet dated as of April 12, 2005 for Patrick Dunne. (25)*
10.35	Employment Summary Sheet dated as of April 12, 2005 for Steven G. Hoffrogge. (25)*
10.36	Employment Summary Sheet dated as of December 14, 2005 for Don Simpson. (21) *
10.37	Employment Agreement dated as of May 16, 2007 between John Caldwell and SMTC Manufacturing Corporation of Canada. (26)*
10.38	Deferred Share Unit Agreement dated as of May 16, 2007 between John Caldwell and SMTC Manufacturing Corporation of Canada. (26)*
10.39	Amended and Restated U.S. Loan Agreement dated August 3, 2007 by and between Wachovia Capital Finance Corporation (as successor to Congress Financial Corporation (Canada)), SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (26)
10.40	Amended and Restated Canadian Loan Agreement dated August 3, 2007 by and between Wachovia Capital Finance Corporation (as successor to Congress Financial Corporation (Canada)) and SMTC Manufacturing Corporation of Canada. (26)
10.41	Amended and Restated Guarantee by SMTC Manufacturing Corporation of Canada dated August 10, 2007. (27)
10.42	Amended and Restated Guarantee by SMTC Manufacturing Corporation of California dated August 10, 2007. (26)
10.43	Amended and Restated Guarantee by SMTC Manufacturing Corporation of Massachusetts dated August 10, 2007. (26)
10.44	Amended and Restated Guarantee by SMTC Mex Holdings, Inc. dated August 10, 2007. (26)
10.45	Amended and Restated General Security Agreement by SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. dated August 3, 2007. (26)
10.46	Amended and Restated Guarantee by SMTC Corporation, HTM Holdings, Inc. and SMTC Holdings, LLC dated August 10, 2007. (26)

10.47	Amended and Restated General Security Agreement by SMTC Corporation, HTM Holdings, Inc. and SMTC Group Holdings, LLC dated August 10, 2007. (26)
10.48	Amended and Restated General Security Agreement by SMTC Manufacturing Corporation of Canada dated August 10, 2007. (26)
10.49	Amended and Restated General Security Agreement by SMTC Nova Scotia Company dated August 10, 2007. (26)
10.50	Amended and Restated Guarantee by SMTC Nova Scotia Company dated August 10, 2007. (26)
10.51	Second Amended and Restated U.S. Loan Agreement, dated August 7, 2008, by and between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts, and SMTC Mex Holdings, Inc. (28)
10.52	Second Amended and Restated Canadian Loan Agreement, dated August 7, 2008, by and between Wachovia Capital Finance Corporation (Canada), and SMTC Manufacturing Corporation of Canada. (28)
10.53	Amending Agreement dated August 7, 2008. (28)

10.54	Letter of waiver and amendment dated April 2, 2009 between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (30)
10.55	Letter of waiver and amendment dated April 2, 2009 between Wachovia Capital Finance Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (30)
10.56	Letter of amendment dated August 4, 2009 between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc.
10.57	Letter of amendment dated August 4, 2009 between Wachovia Capital Finance Corporation (Canada) and SMTC Manufacturing Corporation of Canada.
10.58	Letter of amendment dated December 4, 2009 between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (32)
10.59	Letter of amendment dated December 4, 2009 between Wachovia Capital Finance Corporation (Canada) and SMTC Manufacturing Corporation of Canada. (32)
10.60	Letter of amendment dated May 18, 2010 between Wachovia Capital Finance Corporation (Central), Export Development Canada, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Massachusetts and SMTC Mex Holdings, Inc. (33)
10.61	Letter of amendment dated May 18, 2010 between Wells Fargo Capital Finance Corporation Canada (Formerly known as Wachovia Capital Finance Corporation (Canada)) and SMTC Manufacturing Corporation of Canada. (33)
10.62	SMTC Corporation 2010 Incentive Plan (34)
10.63	SMTX Tax Benefits Preservation Plan (34)
10.64	Employment Agreement Amendment dated as at November 10, 2010 between John Caldwell and SMTC Manufacturing Corporation of Canada. (35)*
21.1	Subsidiaries of the Registrant.
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Alex Walker pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 8, 2012.
31.2	Certification of Claude Germain pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 8, 2012.
32.1	Certification of Alex 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 8, 2012.
32.2	Certification of Claude Germain, 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 8, 2012.
101.INS**	XBRL Instance

101.SCH**	XBRL Taxonomy Extension Schema
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101.PRE**	XBRL Taxonomy Extension Presentation

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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(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.
(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 Quarterly Report on Form 10-Q for the quarter 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 Annual Report on Form 10-K for the year ended December 31, 2000 filed on April 2, 2001 (File No. 0-31051) and incorporated by reference herein.

(11) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 30, 2004 (File No. 0-31051) and incorporated by reference herein.
(12) Filed as an Exhibit to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on June 25, 2004 (File No. 333-115400) and incorporated by reference herein.
(13) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended July 4, 2004 filed on August 18, 2004 (File No. 0-31051) and incorporated by reference herein.
(14) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended October 3, 2004 filed on November 17, 2004 (File No. 0-31051) and incorporated by reference herein.
(15) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on December 16, 2004 (File No. 0-31051) and incorporated by reference herein.
(16) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on February 11, 2005 (File No. 0-31051) and incorporated by reference herein.
(17) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on March 16, 2005 (File No. 0-31051) and incorporated by reference herein.
(18) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on April 6, 2005 (File No. 0-31051) and incorporated by reference herein.
(19) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended April 3, 2005 filed on May 18, 2005 (File No. 0-31051) and incorporated by reference herein.
(20) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended July 3, 2005 filed on August 17, 2005 (File No. 0-31051) and incorporated by reference herein.
(21) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on April 13, 2006 (File No. 0-31051) and incorporated by reference herein.
(22) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on June 16, 2006 (File No. 0-31051) and incorporated by reference herein.
(23) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on August 8, 2006 (File No. 0-31051) and incorporated by reference herein.
(24) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on September 26, 2006 (File No. 0-31051) and incorporated by reference herein.
(25) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 filed on April 15, 2005 (File No. 0-31051) and incorporated by reference herein.
(26) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended April 1, 2007 filed on May 16, 2007 (File No. 0-31051) and incorporated by reference herein.
(27) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2007 filed on November 14, 2007 (File No. 0-31051) and incorporated by reference herein.
(28) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 29, 2008 filed on August 13, 2008 (File No. 0-31051) and incorporated by reference herein.
(29) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 28, 2008 filed on November 12, 2008 (File No. 0-31051) and incorporated by reference herein.
(30) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended January 4, 2009 filed on April 6, 2009 (File No. 0-31051) and incorporated by reference herein.
(31) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on July 10, 2009 (File No. 0-31051) and incorporated by reference herein.
(32) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended January 3, 2010 filed on March 19, 2010 (File No. 0-31051) and incorporated by reference herein.
(33) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended April 4, 2010 filed on May 19, 2010 (File No. 0-31051) and incorporated by reference herein.
(34) Filed as an Appendix to the Company's Definitive Notice and Proxy Statement on Form DEF14A filed on June 18, 2010 (File No. 0-31051) and incorporated by reference herein.
(35)

Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended October 3, 2010 filed on November 12, 2010 (File No. 0-31051) and incorporated by reference herein.

* Management contract or compensatory plan

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/ ALEX WALKER
Alex Walker
President and Chief Executive Officer

Date: March 8, 2012

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/ ALEX WALKER Alex Walker	President, Chief Executive Officer, Interim Chief Financial Officer and Director (Principal Executive Officer)	March 8, 2012
/s/ CLAUDE GERMAIN Claude Germain	President, Chief Executive Officer (Principal Executive Officer)	March 8, 2012
/s/ DAVID SANDBERG David Sandberg	Director and Chair of the Board	March 8, 2012
/s/ CLARKE BAILEY Clarke Bailey	Director	March 8, 2012
/s/ ANTON SIMUNOVIC Anton Simunovic	Director	March 8, 2012

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EXHIBIT INDEX

Exhibit Number	Document
21.1	Subsidiaries of the Registrant.
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SMTC CORPORATION

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Consolidated Statements of Operations and Comprehensive Income for the periods from January 3, 2011 to January 1, 2012, from January 4, 2010 to January 2, 2011 and from January 5, 2009 to January 3, 2010	F-4
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REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
SMTC Corporation

We have audited the accompanying consolidated balance sheets of SMTC Corporation and subsidiaries (the "Company") as of January 1, 2012 and January 2, 2011, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the periods from January 3, 2011 to January 1, 2012, January 4, 2010 to January 2, 2011 and January 5, 2009 to January 3, 2010. In connection with our audits, we also have audited the related financial statement schedule appearing in the annual report on Form 10-K for the fiscal year ended January 1, 2012. These consolidated financial statements and the related financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the related financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SMTC Corporation and subsidiaries as of January 1, 2012 and January 2, 2011 and the results of their operations and their cash flows for the periods from January 3, 2011 to January 1, 2012, January 4, 2010 to January 2, 2011 and January 5, 2009 to January 3, 2010 in conformity with United States 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.

/s/ KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 8, 2012

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

	January 1, 2012	January 2, 2011
Assets		
Current assets:		
Cash	$2,635	$933
Accounts receivable—net (note 3)	37,904	35,291
Inventories (note 3)	52,648	42,413
Prepaid expenses	1,638	2,096
	94,825	80,733
Property, plant and equipment—net (note 3)	15,355	13,891
Deferred financing costs—net (note 3)	916	480
Deferred income taxes (note 10)	3,200	3,323
	$114,296	$98,427
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$46,352	$42,921
Accrued liabilities (note 3)	10,164	9,299
Income taxes payable	367	700
Current portion of long-term debt (note 4)	4,014	3,705
Current portion of capital lease obligations (note 4)	1,449	928
	62,346	57,553
Long-term debt (note 4)	15,233	7,086
Capital lease obligations (note 4)	2,150	959
Commitments and contingencies (note 14)		
Shareholders' equity:		
Capital stock (note 5)	5,631	5,903
Additional paid-in capital	257,583	256,723
Deficit	(228,647)	(229,797)
	34,567	32,829
	$114,296	$98,427

See accompanying notes to consolidated financial statements.

SMTC CORPORATION
Consolidated Statements of Operations and Comprehensive Income
(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

	Period from January 3, 2011 to January 1, 2012	Period from January 4, 2010 to January 2, 2011	Period from January 5, 2009 to January 3, 2010
Revenue	$220,351	$262,580	$179,509
Cost of sales	199,008	233,061	161,951
Gross profit	21,343	29,519	17,558
Selling, general and administrative expenses	14,812	17,961	12,767
Restructuring charges (note 7)	2,678	—	783
Loss on extinguishment of debt (note 8)	300	—	—
Unrealized loss on derivative financial instruments (note 9)	43	—	—
Acquisition expenses (note 15)	87	—	—
Operating earnings	3,423	11,558	4,008
Interest expense (note 3)	1,468	1,697	1,960
Earnings from continuing operations before income taxes	1,955	9,861	2,048
Income tax expense (recovery) (note 10)			
Current	583	544	(498)
Deferred	222	(3,033)	189
	805	(2,489)	(309)
Net earnings from continuing operations	1,150	12,350	2,357
Net loss from discontinued operations (note 11)	—	—	(5,952)
Net earnings (loss), also being comprehensive income (loss)	$1,150	$12,350	$(3,595)
Basic earnings (loss) per share (note 12)			
—continuing operations	$0.07	$0.82	$0.16
—discontinued operations	$—	$—	$(0.41)
Basic earnings (loss) per share	$0.07	$0.82	$(0.25)
Diluted earnings (loss) per share			
—continuing operations	$0.07	$0.79	$0.16
—discontinued operations	$—	$—	$(0.41)
Diluted earnings (loss) per share	$0.07	$0.79	$(0.25)
Weighted average number of shares outstanding			
Basic	16,136,114	15,072,425	14,646,333
Diluted	16,242,010	15,619,243	14,646,333

See accompanying notes to consolidated financial statements.

SMTC CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of U.S. dollars)

	Capital stock	Warrants	Additional paid-in capital	Deficit	Total Shareholders' equity
Balance, January 4, 2009	$7,456	$10,372	$249,655	$(246,169)	$ 21,314
Cumulative effect of change in accounting principle – January 5, 2009 reclassification of warrants to opening deficit (note 5)	—	(7,617)	—	7,617	—
Adjusted balance, January 5, 2009	$7,456	$2,755	$249,655	$(238,552)	$ 21,314
Conversion of shares from exchangeable to common stock	(363)	—	363	—	—
Expiry of warrants	—	(2,755)	2,755	—	—
Stock-based compensation	—	—	531	—	531
Net loss for the period	—	—	—	(3,595)	(3,595)
Balance, January 3, 2010	$7,093	$—	$253,304	$(242,147)	$ 18,250
Exercise of stock options	13	—	1,967	—	1,980
Conversion of shares from exchangeable to common stock	(1,203)	—	1,203	—	—
Stock-based compensation	—	—	249	—	249
Net income for the period	—	—	—	12,350	12,350
Balance, January 2, 2011	$5,903	$—	$256,723	$(229,797)	$ 32,829
Exercise of stock options	3	—	314	—	317
Conversion of shares from exchangeable to common stock	(275)	—	275	—	—
Stock-based compensation	—	—	271	—	271
Net income for the period	—	—	—	1,150	1,150
Balance, January 1, 2012	$5,631	$—	$257,583	$(228,647)	$ 34,567

See accompanying notes to consolidated financial statements.

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

	Period from January 3, 2011 to January 1, 2012	Period from January 4, 2010 to January 2, 2011	Period from January 5, 2009 to January 3, 2010
Cash provided by (used in):			
Operations:			
Net income (loss)	$1,150	$12,350	$(3,595)
Items not involving cash:			
Depreciation	2,794	2,549	2,877
Gain on disposition of property, plant and equipment	—	—	(224)
Unrealized loss on derivative instrument	43	—	—
Deferred income taxes	222	(3,033)	189
Non-cash interest	285	247	310
Stock-based compensation	250	962	582
Loss on extinguishment of debt	300	—	—
Gain on acquisition of business	(22)	—	—
Change in non-cash operating working capital:			
Accounts receivable	1,349	2,397	(9,040)
Inventories	(3,248)	(5,387)	(203)
Prepaid expenses	738	26	(919)
Income taxes payable	(466)	160	36
Accounts payable	388	1,332	4,380
Accrued liabilities	(1,750)	2,404	(706)
	2,033	14,007	(6,313)
Financing:			
Increase (decrease) in revolving debt	8,204	(14,538)	9,736
Repayment of long-term debt	(2,470)	(350)	(2,738)
Principal payment of capital lease obligations	(1,416)	(881)	(1,356)
Proceeds from issuance of common stock	317	1,980	—
Proceeds from sale and leaseback	—	435	—
Debt issuance and deferred financing costs	(1,021)	(100)	(151)
	3,614	(13,454)	5,491
Investment:			
Purchase of property, plant and equipment	(912)	(1,209)	(1,042)
Acquisition of business, net of cash acquired	(3,033)	—	—
Proceeds from sale of property, plant and equipment	—	—	830
	(3,945)	(1,209)	(212)
Increase (decrease) in cash	1,702	(656)	(1,034)
Cash, beginning of year	933	1,589	2,623
Cash, end of the year	$2,635	$933	$1,589

Supplemental Information:			
Cash interest paid	$1,114	$1,575	$1,874
Cash taxes paid—net	$1,050	$447	$82
Property, plant and equipment acquired through capital lease	$3,128	$1,001	$—

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of US. dollars, except numbers of shares and per share amounts)

1. Nature of the business

SMTC Corporation (the "Company") is a worldwide provider of advanced electronics manufacturing services to original equipment manufacturers. The Company services its customers through manufacturing and technology centers located in the United States, Canada, Mexico and China. The Company has a manufacturing relationship with Alco Electronics Ltd. ("Alco"), a Hong Kong-headquartered, publicly-traded company with large scale manufacturing operations in China. All facilities provides a full suite of integrated manufacturing services including assembly, testing, box build, final product integration, and expanded supply chain capabilities. In addition, the Company operates an international sourcing and procurement office.

Effective June 30, 2009, the Company closed its Boston, Massachusetts facility. Results of this operation are reported as discontinued operations in comparative reporting periods.

The Company's financial reporting year is a 52 or 53 week fiscal period, ending on the Sunday nearest December 31. Accordingly, the consolidated statements of operations and comprehensive income, the consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows are reported for the periods from January 3, 2011 to January 1, 2012 ("period ended January 1, 2012"), January 4, 2010 to January 2, 2011 ("period ended January 2, 2011") and January 5, 2009 to January 3, 2010 ("period ended January 3, 2010").

2. Significant accounting policies

(i) Basis of presentation

The Company's accounting principles are in accordance with accounting principles generally accepted in the United States ("US GAAP"). These consolidated financial statements are denominated in United States ("US") dollars. Some comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.

(ii) Principles of consolidation

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Variable Interest Entities ("VIEs") (which include, but are not limited to, special purpose entities, trusts, partnerships, certain joint ventures and other legal structures), as defined in subtopic 10 of ASC 810, "Consolidation" ("ASC 810"), are entities in which equity investors generally do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the Company when it is determined that it will, as the primary beneficiary, absorb the majority of the VIEs expected losses and/or expected residual returns. The Company has no interests in VIEs in any of the years presented. Inter-company accounts and transactions are eliminated upon consolidation.

(iii) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates include, but are not limited to, allowance for doubtful accounts, inventory valuation, deferred tax asset valuation allowance, restructuring and other accruals, determination of useful lives of property, plant and equipment, impairment of long-lived assets and legal contingencies. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Actual results may differ from those estimates.

(iv) Revenue recognition

Revenue is derived primarily from the sale of electronics equipment that has been built to customer specifications. Revenue from the sale of products is recognized when goods are shipped to customers since title has passed to the customer, persuasive evidence of an arrangement exists, performance has occurred, all customer-specified test criteria have been met and collectability is reasonably assured. The Company has no significant obligations after product shipment other than its standard manufacturing warranty. The Company records a provision for future warranty costs based on management's best estimate of probable claims under its product warranties. The provision is based on the terms of the warranty which vary by customer and product, and historical experience. The Company regularly evaluates this provision.

In addition, the Company has contractual arrangements with the majority of its customers that provide for customers purchasing unused inventory that the Company has purchased to fulfill that customer's forecasted manufacturing demand. Revenue from the sale of excess inventory to the customer is recognized when title passes to the customer. The Company also derives revenue from engineering and design services. Service revenue is recognized as services are performed.

For arrangements where the customer agrees to purchase products but the Company retains possession until the customer requests shipment ("bill and hold arrangements"), revenue is not recognized unless all recognition criteria under SEC Staff Accounting Bulletin No. 104 have been met.

Sales taxes collected from customers and remitted to governmental authorities are presented on a net basis.

(v) Allowance for doubtful accounts

The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the accounts receivable balance. Management determines the allowance based on factors including the length of time the receivables have been outstanding, customer and industry concentrations, credit insurance coverage, the current business environment and historical experience.

(vi) 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. Fixed production overheads are allocated to inventory based on normal capacity of production facilities. The Company writes down estimated obsolete or excess inventory for the difference between the cost of inventory and estimated net realizable value based upon customer forecasts, shrinkage, the aging and future demand for the inventory, past experience with specific customers, and the ability to sell inventory back to customers or return to suppliers. If these assumptions change, additional write-downs may be required. The Company recognizes as current period charges abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) costs.

(vii) Property, Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is generally calculated on a straight-line basis over the expected useful lives as follows:

Buildings	5 - 20 years
Machinery and equipment - fabrication business	15 years
Machinery and equipment – all other	7 – 10 years
Office furniture and equipment	7 years
Computer hardware and software	3 years
Leasehold improvements	Over shorter of the lease term and estimated useful life

Land is stated at cost.

(viii) Deferred financing costs

Long-term debt financing related costs are deferred and amortized over the term of the related debt and the related amortization is included within interest expense. Deferred financing costs relating to term debt are amortized using the effective interest method while deferred financing costs relating to revolving credit facilities are amortized on a straight-line basis over the term of the facility.

(ix) Income taxes

The Company accounts for income taxes using the asset and liability method. This approach recognizes the amount of taxes payable or refundable for the current year as well as deferred tax assets and liabilities for the future tax consequence of events recognized in the financial statements and tax returns. The effect of changes in tax rates is recognized in the year in which the rate change occurs.

In establishing the appropriate valuation allowances for deferred tax assets, the Company assesses its ability to realize its deferred tax assets based on available evidence, both positive and negative, to determine whether it is more likely than not that the deferred tax assets or a portion thereof will be realized.

The Company follows the guidance under ASC 740 with respect to accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

This guidance requires the Company to determine if it is more likely than not that the tax position will be sustained based on the technical merits of the position and for those tax positions that meet the more likely than not threshold, the Company would recognize the largest amount of tax benefit that is greater than fifty percent likely of being realized when ultimately settled with the tax authorities.

(x) Earnings (loss) per common 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.

The treasury stock method is used to compute the potential dilutive effect of stock options and warrants issued.

(xi) Translation of foreign currencies

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

(xii) Financial instruments

The Company accounts for derivative financial instruments in accordance with applicable guidance. In accordance with these standards, all derivative instruments are recorded on the balance sheet at their respective fair values. Generally, if a derivative instrument is designated as a cash flow hedge, the change in the fair value of the derivative is recorded in other comprehensive income to the extent the derivative is effective, and recognized in the statement of operations when the hedged item affects earnings. If a derivative instrument is designated as a fair value hedge, the change in fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in the statement of operations and comprehensive income in the current period. Changes in fair value of derivatives that are not designated as hedges are recorded in the statement of operations and comprehensive income.

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short-term nature of these instruments. The fair values of long-term debt and capital lease obligations, including the current portion, bear rates currently available to the Company for debt with similar terms and maturities and, therefore, approximate carrying values.

(xiii) Shipping and handling costs

Shipping and handling costs are included as a component of cost of sales.

(xiv) Stock-based compensation

The Company applies ASC 718, “Compensation – Stock Compensation”, (“ASC 718”) using a fair value based method for all outstanding awards. The fair value at grant date of stock options is estimated using the Black-Scholes option-pricing model. Compensation expense is recognized over the stock option vesting period on a straight line basis. ASC 718 also requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

(xv) Fair Value Measurements

In accordance with ASC 820, “Fair Value Measurements and Disclosures”, (“ASC 820”), the Company determines fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 establishes a hierarchical structure to prioritize the inputs to valuation techniques used to measure fair value into three tiers:

Level 1 - Quoted prices in active markets for identical assets or liabilities
Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities
Level 3 - No observable pricing inputs in the market (e.g., discounted cash flows)

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

(xvi) Impairment of long-lived assets

The Company tests long-lived assets or asset groups held and used for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; the accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and a current expectation that the asset will more likely than not be sold or disposed significantly before the end of its estimated useful life. Recoverability is assessed based on the carrying amount of the asset and the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset. If the carrying value of the asset is not recoverable, the impairment loss is measured as the amount by which the carrying amount exceeds fair value. For assets classified as held for sale, an impairment loss is recognized when the carrying amount exceeds the fair value less costs to sell.

(xvii) Restructuring costs

The Company accounts for restructuring costs related to an exit or disposal activity when a liability is incurred and can be measured at fair value.

(xviii) Asset retirement obligations

The Company recognizes the fair value of liabilities for asset retirement obligations when the Company incurs the obligation. There was no asset retirement obligation recorded for the periods ended January 1, 2012 or January 2, 2011.

(xix) Guarantees

The Company accounts for guarantees, including the recognition of a liability at the inception of certain guarantees, based on the fair value of the guarantee. The Company did not enter into any guarantees in the periods ended January 1, 2012 or January 2, 2011.

(xx) Comprehensive income (loss):

Comprehensive income (loss) includes all changes in equity (net assets) during a period from non-owner sources. During each of the periods ended January 1, 2012, January 2, 2011 and January 3, 2010, comprehensive income (loss) was equal to net earnings (loss).

(xxi) Business Combinations:

Business combinations are accounted for using the acquisition method of accounting. The fair value of the net assets acquired and the results of the acquired businesses are included in the Company's consolidated financial statements from the acquisition dates forward. The Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations during the reporting period. Estimates are used in accounting for, among other things, the fair value of acquired net operating assets, property, plant and equipment, intangible assets and related deferred tax liabilities, useful lives of plant and equipment and amortizable lives for acquired intangible assets. Any excess of the purchase consideration over the recorded acquisition date amounts of the assets and liabilities acquired is recognized as goodwill. Any excess of the recorded amounts of the assets and liabilities acquired over purchase consideration is recognized as a gain in the statement of operations and comprehensive income (loss).

The Company estimates the fair value of acquired assets and liabilities as of the date of acquisition based on information available at that time. Contingent consideration is recorded at fair value as of the date of the acquisition with subsequent adjustments recorded in earnings. Changes to valuation allowances on acquired deferred tax assets are recognized in the provision for, or benefit from, income taxes. The valuation of these tangible and identifiable intangible assets and liabilities is subject to further management review and may change materially between the preliminary allocation and end of the purchase price allocation period. Any changes in these estimates may have a material effect on the Company's consolidated operating results or financial position.

(xxii) Restructuring Charges:

Costs associated with restructuring activities are accounted for in accordance with ASC Topic 420, Exit or Disposal Cost Obligations, or ASC Topic 712, Compensation – Nonretirement Postemployment Benefits, as applicable. Under ASC 712, liabilities for contractual employee severance are recorded when payment of severance is considered probable and the amount can be estimated. Liabilities for restructuring costs other than employee severance are accounted for in accordance with ASC 420, only when they are incurred.

(xxiii) Recent Accounting Pronouncements

a) In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No.2011-04, “Fair Value Measurement” (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). The amendments in this ASU change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in this ASU to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB’s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this ASU are to be applied prospectively for interim and annual periods beginning after December 15, 2011. We do not expect the adoption of ASU 2011-04 to have a material impact on our financial statements.

b) In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income" (Topic 220) — Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards update no. 2011-05 (ASU 2011-12), which defers the effective date of ASU 2011-05 only with respect to reclassification adjustments out of accumulated other comprehensive income. ASU 2011-05 as amended by ASU 2011-12 is effective for us in our first quarter of fiscal 2012 and will be applied retrospectively. We are currently evaluating the impact of our pending adoption of ASU 2011-05 as amended by ASU 2011-12 on our consolidated financial statements.

c) In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet" (Topic 210) – Disclosures about Offsetting Assets and Liabilities (ASU 2011-12).The amendments in this update require an entity that has financial instruments and derivative instruments that are either 1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or 2) subject to an enforceable master netting arrangement or similar agreement, to disclose information about offsetting and related arrangements. The amendments in this ASU will be required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Required disclosures should be presented retrospectively for all comparative periods. We are currently evaluating the impact of the adoption of ASU 2011-11 on our consolidated financial statements.

3. Consolidated financial statement details

The following consolidated financial statement details are presented as of the period end dates indicated for the consolidated balance sheets and for each of the periods indicated for the consolidated statements of operations and comprehensive income.

Consolidated balance sheets

Accounts receivable—net:

	January 1, 2012	January 2, 2011
Accounts receivable	$ 37,959	$ 35,066
Taxes receivable	—	537
Allowance for doubtful accounts	(55)	(312)
Accounts receivable—net	$ 37,904	$ 35,291

Inventories:

	January 1, 2012	January 2, 2011
Raw materials	$ 37,438	$ 30,218
Work in process	9,716	8,384
Finished goods	4,047	2,461
Parts	1,447	1,350
Inventories	$ 52,648	$ 42,413

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Property, plant and equipment—net:

	January 1, 2012	January 2, 2011
Cost:		
Land	$ 1,648	$ 1,648
Buildings	9,878	9,878
Machinery and equipment (a)	35,743	32,068
Office furniture and equipment	2,417	2,396
Computer hardware and software (b)	9,365	9,113
Leasehold improvements	3,275	3,123
	62,326	58,226
Less accumulated depreciation:		
Land	—	—
Buildings	(5,795)	(5,283)
Machinery and equipment (a)	(26,833)	(24,957)
Office furniture and equipment	(2,350)	(2,326)
Computer hardware and software (b)	(9,001)	(8,825)
Leasehold improvements	(2,992)	(2,944)
	(46,971)	(44,335)
Property, plant and equipment—net	$ 15,355	$ 13,891

(a) Included within machinery and equipment were assets under capital leases with costs of $5,569 and $8,577, and associated accumulated depreciation of $1,088 and $4,958 as of January 1, 2012 and January 2, 2011, respectively. The related depreciation expense for the periods ended January 1, 2012, January 2, 2011 and January 3, 2010 were $627, $960 and $1,017, respectively. During the period ended January 1, 2012, the Company assumed ownership of machinery and equipment formerly under capital lease with cost of $6,136 and accumulated depreciation of $4,497, upon conclusion of the capital lease terms. Nominal consideration was paid for these assets. These assets were reclassified to owned machinery and equipment on a prospective basis.

(b) At January 2, 2011, included within computer hardware and software were assets under capital leases with costs of $268 and associated accumulated depreciation of $225. During the period ended January 1, 2012, the Company assumed ownership of these assets formerly under capital lease, which were fully depreciated upon conclusion of the capital lease terms. Nominal consideration was paid for these assets. The related depreciation expense for the periods ended January 1, 2012, January 2, 2011 and January 3, 2010 was $43, $88 and $88, respectively.

Deferred financing costs – net:

	January 1, 2012	January 2, 2011
Deferred financing costs	$ 1,356	$ 2,777
Accumulated amortization	(440)	(2,297)
	$ 916	$ 480

Accrued liabilities:

	January 1, 2012	January 2, 2011
Customer related	$ 1,892	$ 1,469
Payroll	3,169	6,424
Professional services	485	794
Restructuring (note 7)	915	—
Vendor related	722	35
Miscellaneous taxes	108	131
Acquisition related (note 15)	2,400	—
Other	473	446
Accrued liabilities	$ 10,164	$ 9,299

Consolidated statements of operations and comprehensive income

Interest expense:

	Period ended January 1, 2012	Period ended January 2, 2011	Period ended January 3, 2010
Long-term debt	$ 1,287	$ 1,660	$ 1,765
Obligations under capital leases	187	55	207
Other	(6)	(18)	(12)
Interest expense	$ 1,468	$ 1,697	$ 1,960

4. Long-term debt and capital leases

Long-term debt

The following table shows the components of long-term debt as at:

	January 1, 2012	January 2, 2011
Revolving	$12,454	$1,528
Term	6,793	9,263
	19,247	10,791
Less: Current portion of long-term debt	(4,014)	(3,705)
Long-term debt	$15,233	$7,086

On September 22, 2011, the Company signed a Revolving Credit and Security Agreement with PNC Bank, National Association and its Canadian branch (collectively, “PNC”). This revolving credit facility in both the United States and Canada, (collectively, the “PNC Facility”) has a term of three years. The previous revolving loan agreement with Wells Fargo Capital Finance Corporation (“Wells Fargo”) was repaid on the same date. The Company continues to have a term debt facility with Export Development Canada (“EDC”, and the “EDC Facility”), and on September 22, 2011 signed an amendment to its agreement with EDC to accommodate the change in revolving credit lender, but is otherwise largely unchanged from the existing agreement.

The maximum amount of funds available under the PNC Facility is $45 million. Availability under the revolving credit facility is subject to certain borrowing base conditions based on the eligible inventory and accounts receivable. Advances made under the revolving credit facility will bear interest at the base commercial lending rate of PNC in the respective country, which should approximate prime rate. The EDC Facility bears interest at LIBOR plus 2.5% to 3.5% depending on the achievement of financial performance levels as specified in the amended debt agreement.

The Company incurred costs of $997 in fiscal 2011 related to the PNC Facility and the amended EDC Facility. These costs were recorded as a non-current deferred charge and are being amortized over the terms of the respective debt agreements.

Remaining principal repayments of the term loan to EDC consist of one quarterly installment of $1,237, followed by six quarterly installments of $926 until the maturity date of August 13, 2013.

The PNC Facility and EDC Facility are jointly and severally guaranteed by the Company and secured by the assets and capital stock of each of the Company’s subsidiaries and its future subsidiaries.

The Company is required to use a “lock-box” arrangement, whereby remittances from customers are swept daily to reduce the borrowings under the revolving credit facilities, for which events of default are objectively determined.

At January 1, 2012 there was a Canadian dollar denominated debt balance of $1,312. At January 2, 2011, there was a Canadian dollar denominated cash balance of $78, which was classified as an offset to debt balances as it was used to reduce the outstanding revolving credit facilities.

The Company is in compliance with the financial covenants included in the PNC Facility and the EDC Facility as at January 1, 2012 and management believes that the Company will be in compliance with these covenants for at least the next twelve months. Continued compliance with its covenants, however, is dependent on the Company achieving certain forecasts. While management is confident in its plans, market conditions have been difficult to predict and there is no assurance that the Company will achieve its forecasts. In the event of non-compliance, the Company’s lenders have the right to demand repayment of the amounts outstanding under the lending agreements or pursue other remedies or, if the Company can reach an agreement with its lenders, to amend or waive the financial covenants.

Obligations under capital leases

Minimum lease payments for capital leases due within each of the next three years consist of the following

2012	$1,670
2013	1,407
2014	842
Total minimum lease payments	3,919
Amount representing interest of 3.8% to 8.9%	(320)
Present value of lease payments	3,599
Current portion of capital leases	1,449
Long term capital lease obligations	$2,150

Debt principal repayments

At January 1, 2012, principal repayments due within each of the next three years on long-term debt are as follows:

2012	$4,014
2013	2,780
2014	12,453
Total	$19,247

5. Capital stock

Common shares

Authorized share capital:

The authorized share capital of the Company at January 1, 2012 and January 2, 2011 consisted of:

(i) 26,000,000 shares of common stock, par value $0.01 per share: Holders are entitled to one vote per share and the right to share in dividends pro rata subject to any preferential dividend rights of any then outstanding preferred stock.

(ii) 5,000,000 shares of special voting stock, par value $0.01 per share: From time to time the Company may issue special voting stock in one or more series and will fix the terms of that series at the time it is created.

Issued and outstanding:

The outstanding number of common shares included in shareholders' equity consisted of the following as at the following dates:

	January 1, 2012		January 2, 2011		January 3, 2010	
	Number	$	Number	$	Number	$

	of shares		of shares		of shares	
Common Stock						
Exchangeable shares:						
Balance at beginning of the period	583,848	$ 5,524	711,048	$ 6,728	749,448	$ 7,091
Shares issued pursuant to:						
Conversion to common stock	(29,100)	(275)	(127,200)	(1,204)	(38,400)	(363)
Balance at end of the period	554,748	$ 5,249	583,848	$ 5,524	711,048	$ 6,728
Common shares						
Balance at beginning of the period	15,329,732	$ 379	13,935,284	$ 365	13,896,884	$ 365
Shares issued pursuant to:						
Exercise of stock options	292,194	3	1,267,248	13	—	—
Conversion of exchangeable shares	29,100	—	127,200	1	38,400	—
Balance at end of the period	15,651,026	$ 382	15,329,732	$ 379	13,935,284	$ 365
Special voting stock						
Balance at beginning of the period	1	$ —	1	$ —	1	$ —
Balance at end of the period	1	$ —	1	$ —	1	$ —
Total Common stock		$ 5,631		$ 5,903		$ 7,093
Warrants						
Common share warrants						
Balance at beginning of the period	—	$ —	—	$ —	11,166,947	$ 2,755
Expired	—	—	—	—	(11,166,947)	(2,755)
Balance at end of the period	—	$ —	—	$ —	—	$ —

Exchangeable shares:

During the periods ended January 1, 2012, January 2, 2011 and January 3, 2010, exchangeable shares of 29,100, 127,200 and 38,400 with a carrying value of $275, $1,204 and $363, respectively, were exchanged for common stock, with a carrying value of nil, $1 and nil, respectively, with the difference recorded as additional paid-in capital.

Exchangeable shares of SMTC Manufacturing Corporation of Canada (“SMTC Canada”), an indirect subsidiary of the Company, can be exchanged on a one-for-one basis for one share of the common stock of the Company. Each exchangeable share of SMTC Canada, as nearly as practicable, is intended to be the economic equivalent of a share of common stock of the Company and holders of the exchangeable shares of SMTC Canada are able to exercise essentially the same voting rights with respect to the Company as they would have if they had exchanged their exchangeable shares of SMTC Canada for common stock of the Company. Upon the earlier of July 27, 2015, or the number of outstanding exchangeable shares falling below 500,000, subject to certain adjustment and acceleration provisions, SMTC Canada will have the right to redeem all of the outstanding exchangeable shares by delivering common shares of the Company on a one-for-one basis. Subsequent to year end, 60,200 exchangeable shares as at March 5, 2012 were converted into common shares, resulting in 494,548 exchangeable shares outstanding.

Common Share Warrants:

On June 1, 2004, the Company’s pre-existing lenders exchanged $10,000 of outstanding debt and warrants for 2,233,389 shares of common stock and 11,166,947 warrants (the “Conversion Warrants”). Each warrant was exercisable for one-tenth of one share of common stock of the Company at an exercise price of $6.90 per share of common stock. The Conversion Warrants expired on March 4, 2009. Upon expiry of the unexercised warrants, the amount attributed to the Conversion Warrants was recorded as additional paid-in capital.

Exchangeable Share Warrants:

On March 3, 2004, the Company completed a private placement, fully underwritten by a syndicate of Canadian investment dealers, of 33,350,000 Special Warrants (each “Special Warrant” and collectively, the “Special Warrants”) of SMTC Manufacturing Corporation of Canada (“SMTC Canada”), an indirect subsidiary of the Company. Each Special Warrant was issued at a price of CDN $1.20 per Special Warrant, resulting in aggregate proceeds of CDN $40,020.

Each Special Warrant was exercisable for one unit, consisting of one-fifth of an exchangeable share of SMTC Canada, and one-half of a warrant to purchase one-fifth of an exchangeable share of SMTC Canada. Each whole warrant (a “Purchase Warrant”) was exercisable for one-fifth of an exchangeable share of SMTC Canada at an exercise price of CDN $9.25 per share. The Purchase Warrants expired on March 3, 2009.

Upon the adoption of guidance under ASC 815 on determining whether an instrument (or embedded feature) is indexed to an entity’s own stock on January 5, 2009, the Purchase Warrants were retrospectively reclassified as liabilities, without restatement of prior periods. As the fair value of these instruments at that date was determined to be nil, the amount attributed to these warrants was recorded as a reduction of opening deficit on January 5, 2009.

6. Stock based compensation

Stock 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"). The plan permitted 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 granted before the fourth quarter of 2007 generally vested over a four-year period and expired 10 years from their respective date of grant, while options granted thereafter vest over a three-year period and expire 5 years from their respective date of grant.

2010 Incentive Plan:

In July 2010, the Company approved a new stock option plan, the 2010 SMTC Incentive Plan (the "2010 Incentive Plan"). The plan permits the issuance of up to 350,000 shares plus an additional number of shares determined by the Board of Directors but not to exceed 1% of the total number of fully diluted shares outstanding per year. Options generally vest over a three-year period and expire 5 years from their respective date of grant.

The Company generally issues new shares when options are exercised. A summary of stock option activity for the periods ended January 3, 2010, January 2, 2011 and January 1, 2012 is as follows:

	Outstanding options	Weighted average exercise price	Aggregate intrinsic value	Weighted average remaining contractual term (years)
Outstanding balance at January 4, 2009	1,742,893	$ 1.97		
Options granted under the 2000 Equity Incentive Plan	335,000	$ 1.00		
Options forfeited	(140,453)	$ 3.10		
Outstanding balance at January 3, 2010	1,937,440	$ 1.72		
Options forfeited or expired	(7,440)	$ 5.93		
Options exercised	(1,267,248)	$ 1.55		
Outstanding balance at January 2, 2011	662,752	$ 2.00		
Options granted under the 2010 Equity Incentive Plan	922,000	$ 2.87		
Options forfeited or expired	(89,732)	$ 2.70		
Options exercised	(292,194)	$ 1.07		
Outstanding balance at January 1, 2012	1,202,826	$ 2.82	$ 522	4.1
Exercisable balance at January 1, 2012	361,994	$ 2.77	$ 73	2.8

The estimated fair value of options is determined using the Black-Scholes option pricing model and is amortized over the vesting period on a straight line basis. The Company has elected to use the simplified method for estimating the expected life which is equal to the midpoint between the vesting period and the contractual term. The simplified method is used as the Company does not have sufficient historical exercise data and the terms of share option grants have changed. The computation of expected volatility is based on the Company's historical volatility from its traded common stock over the expected term of the option grants. The interest rate for periods within the expected term of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The following weighted average assumptions were used in calculating the estimated fair value of options used to compute stock-based compensation expenses:

		Period ended January 1, 2012			Period ended January 3, 2010	
Black-Scholes weighted-average assumptions						
Expected dividend yield		0.0	%		0.0	%
Expected volatility		92.6	%		89.5	%
Risk-free interest rate		0.67	%		1.86	%
Expected option life in years		4.2			4.0	
Weighted-average stock option fair value per option granted	$	1.08		$	0.64	

There were no options granted during the period ended January 2, 2011.

During the periods ended January 1, 2012, January 2, 2011 and January 3, 2010, the Company recorded stock-based compensation expense and a corresponding increase in additional paid in capital of $271, $249 and $531, respectively.

During the periods ended January 1, 2012, January 2, 2011 and January 3, 2010, 227,632, 353,334 and 410,005 options vested, respectively. As at January 1, 2012, compensation expense of $859 related to non-vested stock options has not been recognized. This cost is expected to be recognized over a weighted average period of 3.2 years.

The following table presents information about stock options outstanding as of January 1, 2012:

Outstanding options		Weighted average exercise price	Exercisable options		Weighted average exercise price
56,465	$	0.70	56,465	$	0.70
96,397	$	1.00	68,065	$	1.00
20,000	$	1.17	20,000	$	1.17
24,364	$	1.64	24,364	$	1.64
375,000	$	2.38	87,500	$	2.38
40,000	$	3.11	40,000	$	3.11
547,000	$	3.20	22,000	$	3.20
3,000	$	3.75	3,000	$	3.75
30,000	$	4.00	30,000	$	4.00
3,120	$	15.00	3,120	$	15.00
3,120	$	25.00	3,120	$	25.00
4,360	$	40.00	4,360	$	40.00
1,202,826	$	2.82	361,994	$	2.77

Deferred Share Units

In previous periods, Deferred Share Units were granted to directors and the former Chief Executive Officer of the Company as remuneration. There were no units granted during the periods ended January 1, 2012, January 2, 2011 and January 3, 2010. During the period ended January 2, 2011, 202,425 deferred share units previously granted to the chief executive officer of the Company were cancelled. In the periods ended January 1, 2012, January 2, 2011 and January 3, 2010, cash payments of $128, $192 and $27, respectively, were made for 46,688, 86,553 and 46,688 deferred share units, respectively.

At January 1, 2012, January 2, 2011 and January 3, 2010, nil, 46,688 and 335,666 deferred share units were outstanding, respectively.

Deferred Share Unit compensation recovery for the period ended January 1, 2012 was $21, and Deferred Share Unit compensation expense for the periods ended January 2, 2011 and January 3, 2010 were $712 and $51, respectively, reflecting mark-to-market adjustments. There will be no further Deferred Share Unit compensation expenses or recoveries since there are no deferred share units outstanding.

7. Restructuring charges

Fiscal 2011 charges:

During the first quarter of 2011 the Company began executing its 2011 Plan to streamline operations in response to reductions in forecasted revenues. The Company recorded restructuring charges of $364, consisting of severance costs of $205 at the Mexico facility and $159 at the Markham facility. The Company reduced staff levels by approximately 120 full-time equivalents ("FTEs") in Mexico and 40 FTEs in Canada. In the second quarter of 2011, the Company continued its 2011 Plan and recorded additional restructuring charges of $1,743, consisting of severance costs of $408 at the Mexico facility, $427 at the Markham facility and $908 in the Corporate office. Staff levels were reduced by approximately 120 FTEs in Mexico and 70 FTEs in Canada. In the third quarter of 2011, the Company continued its 2011 Plan and recorded additional restructuring charges of $686, consisting of severance costs of $186 at the San Jose and ZF Array Technologies ("ZF Array") facilities reflecting the integration of the two businesses, $24 at the Mexico facility, $207 at the Markham facility and $269 in the Corporate office. Staff levels were reduced by approximately an additional 13 FTEs in the United States, 1 FTE in Mexico and 40 FTEs in Canada. In the fourth quarter of 2011, severance expense of $82 at the San Jose and ZF Array facilities, and of $33 at the Mexico facility, was reversed as the Company delayed its integration process.

The following table details original charges, payments and adjustments and the related amounts included in accrued liabilities relating to the 2011 Plan:

	Severance
2011 Plan	
Balance as at January 2, 2011	$ —
Charges	2,678
Payments	(1,763)
Balance as at January 1, 2012	$ 915

Remaining accrued amounts relating to the 2011 Plan consist of severance payments of $104 in the United States and $811 in Canada that are expected to be paid out by the end of fiscal 2012 through a drawdown on the revolving credit facilities.

Fiscal 2009 charges and recoveries:

In 2009, the Company reduced staff levels in response to expected lower revenues resulting from the global economic recession (the "2009 Plan"). In the first quarter of 2009, the Company recorded restructuring charges of $815, consisting of severance charges of $445 in the Mexican facility, $337 in the Canadian facility, and $33 in the U.S. facilities, reflecting a reduction of staff levels by approximately 160. In the second quarter of 2009, the Company recorded a restructuring recovery of $32 consisting of a recovery of severances.

The following table details original charges, payments and adjustments and the related amounts included in accrued liabilities relating to the 2009 Plan:

	Severance
2009 Plan	
Charges	$ 815
Recoveries	(32)
Payments	(783)

Balance as at January 3, 2010 and January 2, 2011	$	—

8. Loss on extinguishment of debt

Upon the repayment of the Company’s previous credit facility with Wells Fargo during the third quarter of 2011 (note 4), the Company recorded a non-cash charge to write off the remaining unamortized deferred financing costs related to the extinguished revolving credit facility of $300.

9. Derivative Financial Instruments

During the period ended January 1, 2012, the Company entered into forward foreign exchange contracts to reduce its exposure to foreign exchange currency rate fluctuations related to forecasted Canadian dollar denominated payroll, rent and utility cash flows in the fourth quarter of fiscal 2011 and the first four months of fiscal 2012, and Mexican peso denominated payroll, rent and utility cash flows in the first seven months of 2012. These contracts were effective as hedges from an economic perspective, but did not meet the requirements for hedge accounting under ASC 815. Accordingly, changes in the fair value of these contracts were recognized into net income in the consolidated statement of operations and comprehensive income. The Company does not enter into forward foreign exchange contracts for trading or speculative purposes.

The following table presents a summary of the outstanding foreign currency forward contracts as at January 1, 2012:

Currency	Buy/Sell	Foreign Currency Amount		Notional Contract Value in USD	
Canadian Dollar	Buy	CAD	7,256	$	6,944
Mexican Peso	Buy	MXN	100,891	$	7,450

The unrealized loss recognized in earnings as a result of revaluing the instruments to fair value on January 1, 2012 was $43 which was included in loss on derivative financial instruments in the statement of operations and comprehensive income. Fair value was determined using the market approach with valuation based on market observables (Level 2 quantitative inputs in the hierarchy set forth under ASC 820). The realized gain on these contracts was $109, and is included as a component of cost of goods sold, in the consolidated statement of operations.

The following table presents the fair value of the Company’s derivative instruments located on the consolidated balance sheet as at January 1, 2012:

Prepaid Expenses	$190
Accrued Liabilities	(233)
Net unrealized loss on derivative financial instruments	$(43)

There were no derivative instruments outstanding at January 2, 2011 or January 3, 2010.

10. Income taxes

The Company recorded the following income tax expense (recovery) from continuing operations for the periods noted:

	Period ended January 1, 2012	Period ended January 2, 2011	Period ended January 3, 2010
Current:			
Federal/State	$484	$50	$(633)
Foreign	99	494	135

	583	544	(498)
Deferred:			
Federal	—	(2,786)	—
Foreign	222	(247)	189
	222	(3,033)	189
Income tax expense (recovery)	$805	$(2,489)	$(309)

The overall income tax expense (recovery) as recorded in the consolidated statements of operations varied from the tax expense (recovery) calculated using U.S. federal and state income tax rates as follows for the periods noted:

	Period ended January 1, 2012	Period ended January 2, 2011	Period ended January 3, 2010
Federal income tax	$684	$3,451	$717
State income tax expense, net of federal tax benefit	279	335	41
Change in enacted income tax rates	3,051	(19)	1,911
Loss (income) of foreign subsidiaries taxed at different rates	1,160	(847)	(901)
Change in valuation allowance	(11,822)	(6,702)	(1,795)
Additional (release of) income tax exposures, net of alternative minimum taxes	(45)	28	(69)
Deemed income inclusion of foreign subsidiary	4,536	—	—
Permanent and other differences	2,962	1,265	(213)
Income tax expense (recovery)	$805	$(2,489)	$(309)

Earnings (loss) before income taxes and discontinued operations consisted of the following for the periods noted:

	Period ended January 1, 2012	Period ended January 2, 2011	Period ended January 3, 2010
U.S.	$9,116	$7,342	$1,065
Non U.S.	(7,161)	2,519	983
	$1,955	$9,861	$2,048

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 income tax liabilities and assets are comprised of the following at:

	January 1, 2012	January 2, 2011
Deferred income tax assets:		
Net operating loss carryforwards	$28,447	$37,602
Capital loss carryforwards	2,106	2,106
AMT credit carryforwards	—	548
Property, plant and equipment and other assets	3,678	5,348
Reserves, allowances and accruals	880	1,450
	35,111	47,054
Valuation allowance	(31,911)	(43,731)
Net deferred income tax assets	$3,200	$3,323

At January 1, 2012, the Company had total net operating loss ("NOL") carry forwards of $105, 708, of which $1,260 will expire in 2012, $10,278 will expire in 2014, $4,154 will expire in 2015, $1,078 will expire in 2018, $60 will expire in 2019, $30 will expire in 2020, $11,365 will expire in 2021, $16,207 will expire in 2022, $27,270 will expire in 2023, and the remainder will expire between 2025 and 2031.

At January 1, 2012 and January 2, 2011, the Company had gross unrecognized tax benefits of $274 and $330, respectively, which if recognized, would favorably impact the Company's effective tax rate in future periods. The change during the period relates to the settlement of the prior year uncertain tax positions offset by additional uncertain tax positions related to withholding tax. The Company does not expect any of these unrecognized tax benefits to reverse in the next twelve months.

Tax years 2008 to 2011 remain open for review by the tax authorities in Canada. Tax years 2004 and 2008 to 2011 remain open in the United States.

The Company accounts for interest and penalties related to unrecognized tax benefits in income tax expense based on the likelihood of the event and its ability to reasonably estimate such amounts. The Company has approximately $48 and $225 accrued for interest and penalties as of January 1, 2012 and January 2, 2011, respectively. The decrease is due to the reversal of prior year interest on uncertain tax positions settled during the period.

The following is a tabular reconciliation of the Company's beginning and ending amount of unrecognized tax benefits:

Balance as at January 2, 2011	$330	
Current year additions	274	
Reductions related to settlements	(330	)
Balance as at January 1, 2012	$274	

Deferred income taxes have not been provided on $10,794 of undistributed earnings of foreign subsidiaries. These earnings have been indefinitely reinvested and the Company currently does not plan to initiate any action that would precipitate payment of income taxes thereon. The amount of unrecognized deferred tax liabilities related to these earnings is $3,778.

Whether or not the recapitalization transactions undertaken in 2004 result in an ownership change for purposes of Section 382 of the Internal Revenue Code ("Section 382"), which imposes a limitation on a corporation's use of NOL carry forwards following an "ownership change," depends upon whether the exchangeable shares of SMTC Canada are treated as shares of the Company under U.S. tax principles. The Company has concluded that the recapitalization transactions did not result in an ownership change and as such the use of the NOL carry forwards has not been limited.

No incremental tax benefit has been recorded in respect of the loss from discontinued operations.

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. Guidance under Accounting Standards Codification ("ASC") 740, "Income Taxes", ("ASC 740") states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years in the jurisdictions to which the deferred tax assets relate. At the end of the second quarter of 2003, the Company concluded that given the weakness and uncertainty in the economic environment at that time, it was appropriate to establish a full valuation allowance for the deferred tax assets. Commencing in 2004, it was determined by management that it was more likely than not that the deferred tax assets associated with the Mexican jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets since 2004. In 2010, it was determined by management that it was more likely than not that certain deferred tax assets associated with the U.S. jurisdiction would be realized and no valuation allowance has been recorded against these deferred tax assets. The Canadian jurisdiction continues to have a full valuation allowance recorded against the deferred tax assets.

11. Discontinued operations

In June 2009, the Company ceased manufacturing operations at its Boston, Massachusetts facility, which was formerly included in the United States reporting segment. The decision was based primarily on the historical losses sustained in these operations. The Company entered into an agreement with the landlord to terminate the existing lease and conducted a sale of plant equipment. As at July 5, 2009, the Boston facility was classified as a discontinued operation and its results of operations are separately reported for all periods presented. Summarized financial information for discontinued operations is presented below:

		Period ended January 3, 2010
Discontinued Operations Before Disposal:		
Revenue	$	6,957
Loss from discontinued operations before disposal, net of taxes	$	(3,573)
Disposal:		
Loss on disposal, net of taxes		(2,379)
Loss from discontinued operations, net of taxes	$	(5,952)

There were no revenues or losses from discontinued operations in the periods ended January 2, 2011 and January 1, 2012.

The loss on disposal recorded in the period ended January 3, 2010 consisted largely of the settlement under the lease termination agreement, severance costs and other contracted facility exit costs, offset by a gain on disposal of plant equipment.

The following is a summary of the loss on disposal recorded in the period ended January 3, 2010:

Severance	$742
Lease obligations	1,518
Other facility exit costs	343
Gain on disposal of plant and equipment	(224)
Total	$2,379

The following table details the change in the discontinued operations accrual for the period ended January 1, 2012:

	Severance	Lease Obligations	Other Facility Exit Costs	Total
Accruals related to discontinued operations	$ 742	$ 2,296	$ 343	$ 3,381
Cash payments	(517)	(1,709)	(271)	(2,497)
Accrual balance as at January 3, 2010	$ 225	$ 587	$ 72	$ 884
Cash payments	(225)	(587)	(72)	(884)
Accrual balance as at January 2, 2011 and January 1, 2012	$ —	$ —	$ —	$ —

12. Earnings (loss) per common share

The following table details the weighted average number of common shares outstanding for the purposes of computing basic and diluted earnings (loss) per common share for:

(Number of common shares)	Period ended January 1, 2012	Period ended January 2, 2011	Period ended January 3, 2010
Basic weighted average shares outstanding	16,136,114	15,072,425	14,646,333
Dilutive stock options (a)	105,896	546,818	—
Diluted weighted average shares outstanding	16,242,010	15,619,243	14,646,333

(a) Dilutive stock options were determined by using the treasury stock method. For the periods ended January 1, 2012, January 2, 2011 and January 3, 2010, the average share prices used were $2.38, $2.91, and $0.70 per share, respectively.

During the periods ended January 1, 2012, January 2, 2011 and January 3, 2010, the calculations of diluted weighted average shares outstanding did not include 263,150, 231,173 and 1,937,440 options, respectively, as the effect would have been anti-dilutive.

13. Segmented information

General description

The Company derives its revenue from one dominant industry segment, the electronics manufacturing services industry. The Company is operated and managed geographically and has facilities in the United States, Canada, Mexico and Asia. As at July 5, 2009, the Boston facility was classified as a discontinued operation and its results of operations have been excluded from the U.S. segment for all periods reported. The Company monitors the performance of its geographic operating segments based on adjusted EBITDA (earnings before restructuring charges, loss on extinguishment of debt, loss on derivative financial instruments, acquisition costs, interest, taxes, depreciation and amortization). Intersegment adjustments reflect intersegment sales that are generally recorded at prices that approximate arm’s-length transactions. In assessing the performance of the operating segments management attributes revenue to the operating segment which ships the product to the customer. In previous periods, the segment measure of profitability previously reported on was adjusted EBITA (earnings before restructuring charges, loss on extinguishment of debt, interest, taxes and amortization). The measure was changed in the third quarter of 2011 to provide a more cash-flow based measure of performance that the chief operating decision makers use in evaluating the business. Information for prior periods has been restated to reflect the updated measure. Information about the operating segments is as follows:

	Period ended January 1, 2012	Period ended January 2, 2011	Period ended January 3, 2010
Revenues			
Mexico	$129.677	$127,318	$71,697
Canada	36,582	56,492	49,854
US	24,248	21,784	13,881

Asia	37,988	62,417	47,401
Total	$228,495	$268,011	$182,833
Intersegment revenue			
Mexico	$(2,862)	$(2,182)	$(2,398)
Canada	(4,998)	(3,182)	(910)
US	(95)	(67)	(16)
Asia	(189)	—	—
Total	$(8,144)	$(5,431)	$(3,324)
Net external revenue			
Mexico	$126,815	$125,136	$69,299
Canada	31,584	53,310	48,944
US	24,153	21,717	13,865
Asia	37,799	62,417	47,392
Total	$220,351	$262,580	$179,509
Adjusted EBITDA			
Mexico	$11,169	$11,191	$8,039
Canada	(3,880)	338	(1,320)
US	286	1,565	(334)
Asia	1,707	1,013	1,283
Total	$9,282	$14,107	$7,668

A reconciliation of adjusted EBITDA to net earnings is as follows:

Adjusted EBITDA	$9,282	$14,107	$7,668
Interest	1,468	1,697	1,960
Income tax expense (recovery)	805	(2489)	(309)
Depreciation	2,794	2,551	2,861
Restructuring charges	2,678	—	783
Loss on extinguishment of debt	300	—	—
Acquisition expenses	87	—	—
Net earnings	$1,150	$12,350	$2,357

Capital expenditures:

The following table contains capital expenditures for:

	Period ended January 1, 2012	Period ended January 2, 2011	Period ended January 3, 2010
Mexico	$2,289	$215	$653
Canada	1,576	166	334
US	166	1,045	26
Asia	9	784	29
Total	$4,040	$2,210	$1,042

Assets:

	January 1, 2012	January 2, 2011
Long-lived assets (a)		
Mexico	$10,170	$9,793
Canada	2,686	1,614
US	1,868	1,766
Asia	631	718
Total	$15,355	$13,891
Total assets		
Mexico	$65,828	$61,199
Canada	18,018	21,951
US	24,984	3,562
Asia	5,466	11,715
Total	$114,296	$98,427

(a) Long-lived assets information is based on the principal location of the asset.

Geographic revenues:

The following table contains geographic revenues based on the product shipment destination:

	Period ended January 1, 2012	Period ended January 2, 2011	Period ended January 3, 2010
US	$131,739	$157,746	$71,725
Canada	70,846	69,770	74,590
Europe	14,249	21,182	627
Asia	3,486	13,869	32,548
Mexico	32	13	19
Total	$220,351	$262,580	$179,509

Significant customers and concentration of credit risk

Sales of the Company's products are concentrated among specific customers in the same industry. The Company requires collateral only from new customers with insufficient credit until such time as credit insurance can be obtained. The Company is subject to concentrations of credit risk in trade receivables and mitigates this risk through ongoing credit evaluation of customers and the carriage of credit insurance. The Company considers concentrations of credit risk in establishing the allowance for doubtful accounts and believes the recorded allowances 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 future 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 the period ended January 1, 2012, three customers individually comprised 22%, 11% and 10% of revenue from continuing operations across all geographic segments. At January 1, 2012, these customers represented 22%, 4% and 11% of the Company's trade accounts receivable.

During the period ended January 2, 2011, four customers individually comprised 16%, 15%, 13% and 13% of revenue from continuing operations across all geographic segments. At January 2, 2011 these customers represented 8%, 4%, 10% and 5% of the Company's trade accounts receivable.

During the period ended January 3, 2010, five customers individually comprised 22%, 16%, 16%, 14% and 10% of revenue from continuing operations across all geographic segments. At January 3, 2010, these customers represented 35%, 24%, 3%, 9% and 5% of the Company's trade accounts receivable.

14. Commitments and contingencies

Operating leases

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

2012	$1065
2013	935
2014	708
2015	470
2016	484
Total	$3,662

Operating lease expense for the periods ended January 1, 2012, January 2, 2011 and January 3, 2010 was $1,318, $1,140 and $1,124, respectively.

Certain of the Company’s facility leases include renewal options and normal escalation clauses. Renewal options are included in the lease term if reasonably assured. Escalation clauses are accounted for on a straight-line basis over the lease term.

Purchase Obligations

Purchase obligations not recorded on the balance sheet as at January 1, 2012 consist of insurance installments of $164 to be paid during calendar year 2012, and machinery and equipment of $886. As at January 2, 2011, purchase obligations not recorded on the balance sheet consist of insurance installments of $160 that were paid during calendar year 2011, and commitments for machinery and equipment of $998.

Contingencies

In the normal course of business, the Company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the 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.

15. Business combination

On August 31, 2011, the Company completed its acquisition of 100% of the outstanding common shares of ZF Array Technology, Incorporated (“ZF Array”), a privately held electronics manufacturing services provider based in San Jose, California. The acquisition increases manufacturing and engineering capabilities in the region and diversifies the revenue base. In accordance with ASC Topic 805, this acquisition was accounted for as a business combination.

The results of ZF Array’s operations were included in the Company’s consolidated financial results beginning on September 1, 2011.

The Company paid $4 million in cash and accrued $2.4 million upon acquisition for contingent consideration. Contingent consideration is based on financial performance of the acquired company’s operations for a 24-month period following the acquisition date, to a maximum of $2.4 million.

Acquisition related expenses for the period ended January 1, 2012 were $87 on the consolidated statement of operations.

The recognized amounts of identifiable assets acquired and liabilities assumed, based upon fair values as of August 31, 2011 are set out below:

Current assets (inclusive of cash acquired of $967)	$12,196	
Noncurrent assets	245	
Total liabilities assumed	(6,019	)
Total identifiable net assets	$6,422	

Current assets included trade receivable balances with a fair value of $3,899, the entirety of which was subsequently collected.

Gain on purchase of $22 was recorded against Selling, General and Administrative expenses for the period ended January 1, 2012.

The amount of ZF Array's revenue and net income included in the Company's consolidated statements of operations for the period ended January 1, 2012, and the unaudited pro forma revenue and net income of the combined entity had the acquisition date been consummated as of January 4, 2010, are set forth below:

	Revenue	Net Income
Actual from September 1, 2011 to January 1, 2012	$9,703	$709

SSupplemental unaudited pro forma information	Period ended January 1, 2012	Period ended January 2, 2011
Total revenue	$ 239,804	$ 290,580
Net income	2,826	13,181

The unaudited pro forma financial information in the table above is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the period presented or the result that may be realized in the future.