SMTC CORP
Form 10-K
March 17, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 3, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 0-31051

SMTC CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

98-0197680

(IRS Employer Identification Number)

635 HOOD ROAD

MARKHAM, ONTARIO, CANDA

(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 $0.01 per share	NASDAQ Global Market

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

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

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

Indicate by check mark 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K §229.405 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, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of common stock of the registrant held by non-affiliates of the registrant was approximately $22.8 million on June 28, 2015. 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 June 28, 2015.

As of March 17, 2016, SMTC Corporation had 16,485,055 shares of common stock, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement relating to the registrant’s 2015 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A (the “2015 Proxy Statement”) are incorporated by reference in Part III of this Report.

PART I

Unless the context otherwise requires, in this report where we say "we", "us", "our", the "Company" or "SMTC", we mean SMTC Corporation and its subsidiaries, as applicable. Where we refer to the "industry", we mean the electronics manufacturing services industry. Unless otherwise noted or the context otherwise requires, all references to years in this report are to fiscal years.

A number of the statements made in this Form 10-K are forward-looking in nature. These statements are 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 report 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 statements. No assurance can be given that any of the results contemplated by those 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; (9) the inability to sustain historical margins as the industry develops and (10) challenges in maintaining manufacturing efficiencies with changing customer demands. In addition, SMTC's business and results of operations are subject to the risks and uncertainties described under the heading "Risk Factors" in this report and described from time to time in SMTC's other filings with the Securities and Exchange Commission.

Item 1. Business

BUSINESS

Overview

SMTC Corporation is a provider of end-to-end electronics manufacturing services ("EMS"), including product design and sustaining engineering services, printed circuit board assembly ("PCBA"), production, enclosure and precision metal fabrication, systems integration and comprehensive testing services, configuration to order ("CTO"), build to order ("BTO") and direct order fulfillment ("DOF"). SMTC has facilities in the United States, Canada, Mexico, and China, with approximately 1,170 full-time employees. SMTC's services extend over the entire electronic product life cycle from the new product development and new product introduction (“NPI”) through to growth, maturity and end-of-life phases. SMTC offers fully integrated contract manufacturing services to global original equipment manufacturers (“OEMs”), and technology companies primarily within the industrial, networking and communications, power and energy 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 supplier base and to form long-term strategic partnerships with select 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 participating in the growth of existing customers.

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

Our San Jose, California facility operates in a ‘Copy-Exact’ lean process environment specializing in new product integration, PCBA, system integration, CTO services and provides U.S. Federal Standard 209E class 10,000 clean room capabilities for medical device manufacturing.

Our Markham, Ontario (Toronto) site serves as the corporate office and a technical service center, with particular emphasis on supporting our global manufacturing locations in value engineering, transition management, global supply chain management and procurement engineering.

Our Chihuahua, Mexico facility serves as SMTC's largest manufacturing and assembly operation, offering customers high quality services in a cost effective site. This facility operates in a 'Copy-Exact' lean process environment located close to North American OEM's. Offering state of the art PCBA and a full suite of system integration services, along with enclosure and precision sheet metal fabrication, this facility services those OEMs requiring lowest cost North American manufacturing solutions.

SMTC operates two large scale manufacturing facilities located in China. One facility is in ChangAn (Dongguan) and the other facility in Suzhou. These sites both operate in 'Copy-Exact' environments and enable SMTC to capitalize on the strengths of both operations by providing SMTC's current and prospective customers with highly efficient, low cost Asia-based electronic manufacturing solutions. These facilities offer a full suite of integrated manufacturing services including PCBA, testing, box build, final product integration, world-wide customer logistics, and expanded supply chain capabilities through our Hong Kong 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 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 offering broader 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 achieve better pricing and better working capital management.

- *Reducing Time-to-Market.* Electronic 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 reduce 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.* Electronic products and electronic 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 those 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 innovative manufacturing services have the capabilities 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 three vertically integrated manufacturing streams: enclosures and precision metal fabrication products; 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, CTO, BTO and DOF. These core services are complemented with cable assembly, interconnect and value engineering services. SMTC's three 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 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 low, medium and 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, precision analog, power, thermal and optical. We provide complete electrical and mechanical testing for cables, harnesses, PCBAs, 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 via our partners, prototyping, qualification testing 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 our 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. These facilities are strategically located in the United States, Mexico, and China, offering regional centers for new product introductions as well as low cost centers for higher volume production. All SMTC facilities adhere to the “Copy Exact” methodology. “Copy Exact” allows for a seamless and timely transition of production between facilities to help customers reach their cost and volume targets faster. SMTC assigns a dedicated manufacturing unit to each customer.

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: 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 some SMTC customers have been with us for many 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.

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, 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 understand 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 team 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 communications, power and energy and medical markets. 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 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 industrial, networking and communications, power and energy and medical. 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. Our design services capability optimizes product design for maximum performance, higher yields, and faster time-to-market, with the objective of assisting our customers in becoming more profitable and more competitive. 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, 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 16 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. DOF and BTO are handled throughout the integration service, specific to the needs of the customer.

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

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SMTC's continues to invest in new processes and equipment that enable the assembly of industry leading product designs. In 2015, investments were made in automated 3D solder paste inspection, high volume selective wave solder, PCBA cleaning and conformal coating, hot bar attach for joining flex cables to rigid PCBAs, ultrasonic welding of plastics, and automated cable stripping and crimping for wire harnesses.

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 currently 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. SMTC is continuing to make investments in quality, and is in the process of replacing the existing CIM system with Factory Logix, a product from Aegis Industrial Software. Factory Logix was initially anticipated to be implemented in 2015, but is now expected to be implemented in the coming years across all sites. In 2015, we conducted a test run of Factory Logix in one site for select customers. This investment will improve transaction control on the production floor in addition to traceability at the component and product level. 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 sites are certified with the International Organization for Standardization ("ISO") ISO-9001 quality management system standard and ISO-13485 medical standards. Our China facility in Suzhou, San Jose and Mexico facilities have achieved the Environmental Management Standards ISO-14001 certification. Each of these standards is governed by the ISO. Our Suzhou facility has also achieved the QC08000 a hazardous substance process management system certification. SMTC builds PCBA's according to IPC standards, an association connecting electronic industries. We also work closely with standards organizations such as Underwriters Laboratories, a safety consulting and certification company and Canadian Standards Association, in compliance with customer requirements.

Marketing and Sales

Our direct sales channel model is organized and managed with territorial assignments based on geographical coverage of our target markets globally. Our marketing and sales team work collectively to gain insight on potential customers' business and market positioning and focus on a solutions-based approach to enhance profitability, market positioning and business performance for that customer.

We develop relationships with our customers and market our vertically integrated manufacturing services through our direct marketing and sales teams. Our direct sales teams work closely with the customers' engineering and technical personnel to better understand their requirements. Our marketing team supports our business strategy of providing end-to-end services by encouraging cross selling of vertically integrated manufacturing services across a broad range of major OEM products. To achieve this objective, our marketing and sales teams work closely with our various manufacturing, design and engineering groups to engage in marketing and sales activities targeted towards key customer opportunities.

Our customer-centric focus continues through to the execution phase of our relationships with a dedicated customer focused team-based manufacturing approach throughout all SMTC facilities. A dedicated account team including a global account manager are directly responsible for managing each of our key customer accounts. Global account managers coordinate activities across geographic locations to effectively satisfy customer requirements and have direct access to our senior management to quickly address customer concerns. Local customer account teams further support the global teams and are linked by a comprehensive communications and information management infrastructure.

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. 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 ***Rapid****Response,* 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, clear to build analysis and communicate changes in requirements to suppliers—all on the same day. With ***Rapid****Response*, 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. In this way, 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, master production schedule simulation, clear-to-build, available-to-promise, end-market demand steering, and service parts management. Kinaxis provides a single view of inventory across all SMTC plants and inventory hub locations 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. This 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 has a purchasing office in Kowloon, Hong Kong which serves to improve access to the broad base of component suppliers in the Asia region and provides 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

***Rapid**Response* 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.

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. We believe our 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 & commercial, networking & computing, communication and medical markets.

Commencing in the fourth quarter of 2015, SMTC redefined some of its industry sectors as follows, networking and enterprise computing sector and the communications sectors are now combined and a new power and energy sector is now presented based on new 2015 customers. The industrial and medical sectors are unchanged.

Revenue in 2015 was attributed to the following industry sectors: 47.1% from industrial, 39.3% from networking and communications, 8.2% from power and energy 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
- Laser precision measurement equipment
- CCD and CMOS cameras for machine vision systems
- Robotics & automation systems
- High-end audio systems
- Home security systems
- Sports and recreational equipment
- Digital imaging & camera products
- Touch screen & handheld panel devices
- GPS and sensor-enabled micro optics displays

Networking and Communication 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
Test & Measurement enhanced equipment
Private IP communications devices
Radio Frequency enhanced equipment
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
Digital media systems
Supercomputing and cloud computing platforms
Mobile Smart and Wi-Fi/Bluetooth devices

Medical product expertise includes:

- Diagnostic devices
- Imaging and laboratory equipment
- Patient monitoring systems
- Infusion pumps and dispensing systems
- Medication dispensing devices
- Health & wellness personal products
- Healthcare management
- Dental equipment
- Electron microscopes
- Environmental equipment, process for scientific instruments
- Blood glucose meters
- Medical imaging and laboratory X-ray equipment

Power & Energy product expertise includes:

- Solar capital equipment products
- PV module assembly and manufacturing
- Small, medium and large inverters, combiners and power products
- Smart grid products
- Solar power inverters
- Power storage & convertors
- Notebook and tablet rechargeable battery
- Power monitor & controllers
- Power battery chargers & analyzers
- Energy controllers and monitors
- Environment control thermostats
- LED lighting systems

SMTC achieved ISO-13485 certification at all sites worldwide with our site in Dongguan receiving certification in 2015. ISO-13485 is an internationally recognized quality management system and standard for the manufacture of medical devices. 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 25 years’ experience working in partnership with OEMs.

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

In 2014, SMTC launched our quick-turn prototype manufacturing services through our dedicated NPI Technical Center in San Jose, California. SMTC’s newest quick-turn prototyping facility is located in the heart of Silicon Valley in our San Jose facility. It caters to both existing customers who want a quick proof-of-concept, as well as emerging companies who need prototypes of their new inventions. The NPI Technical Center streamlines the traditional manufacturing process by minimizing non value-add steps while still leveraging robust supply chain and manufacturing expertise. In addition to providing fast turnaround times, SMTC’s NPI Technical Center provides services such as Bill of Materials validation, custom design, product testing, value analysis, value engineering and supply chain optimization. Additionally, tight integration with new product introduction and production teams means a smooth transition from prototype to manufacturing.

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 generally are greater than $2.0 billion.

Mid-size/Tier 2: Usually focused in one region such as North America, Europe or Asia, with facilities in that region supported by additional facilities in low-cost regions. Mid-sized CMs generally have annual revenues ranging from approximately $300 million up to $2.0 billion.

Regional /Tier 3: Usually focused in North America and typically with minimum operations in low-cost geographic regions and less than $300 million in annual revenues.

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, Inc., Benchmark Electronics Inc., Plexus Corp., Sparton, IEC, Sigmatron, Key Tronic Corp. as well as numerous mid-size, regional and small 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.

The electronics industry is subject to the European Union's Restrictions of Hazardous Substances, or RoHS, and Waste Electrical and Electronic Equipment, or WEEE, directives. 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.

At our Suzhou, China facility, one of our customers requires us to adhere to pre-export verification of conformity by the Bureau Veritas in addition to holding a hazardous substance process management certification (QC08000) and product safety testing through Underwriters Laboratories.

Our Structure and Our History

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 and Qualtron, Inc., became subsidiaries of HTM Holdings Inc. In 2011, we expanded our operations in San Jose, California with the acquisition of ZF Array Technology, Inc. ("ZF Array"), a privately held electronics manufacturing services provider. In 2012, the Asian entities of SMTC Electronics Dongguan Company Limited and SMTC Electronics (Suzhou) Company Limited were established.

Backlog

Our backlog is typically a combination of firm purchase orders and forecasts. Our customers typically provide firm orders for delivery of products due within 30 to 90 days. We are also provided additional demand beyond 90 days to drive material demand and perform resources and capacity planning. 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 3, 2016, we employed approximately 1,170 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 3, 2016, 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.

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Item 1A. Risk Factors

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Volatility in the financial markets.

Our ability to obtain future financing or renegotiate our current credit and long-term debt facilities on terms acceptable to us may be adversely impacted by the volatility of the credit markets. In addition, the volatility 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 services, 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 each of the last three years. 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 any economic slowdown will have on it.

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

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

Our two largest customers represented 13.4% and 10.9%, of total revenue, for the year ended January 3, 2016. Our top ten largest customers collectively represented 80.4% of our total revenue for the year. 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 significantly. A reduction in revenue can decrease our profitability and adversely affect our business, financial condition and results of operations.

We are exposed to fluctuations in currencies against the U.S 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, the Company enters into forward foreign exchange contracts to reduce its exposure to foreign exchange currency rate fluctuations related to the forecasted Canadian dollar and Mexican peso. The Company does not hedge exposure due to foreign exchange currency related to Euro purchases or Asian payroll. To the extent we are not able to manage this exposure to foreign exchange rate fluctuations, our revenues and profitability could be adversely affected.

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

The 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 Corp., Inc., Benchmark Electronics Inc. Sparton, IEC, Sigmatron 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 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, 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 industry sectors we service, which produce electronic products that are technologically advanced with short life cycles.

Most of our customers develop technologically advanced electronic products, which are characterized by intense competition, short product life-cycles and significant fluctuations in product demand. In addition, these products are 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 industry demand for these products would likely have an adverse impact on our business, financial condition and results of operations.

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

Consolidation in the industry sectors 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. At such times, 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. In addition, 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 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. We may not be able to 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. We may not be able to access capital for these purposes in the future and investments in new technologies may not result in commercially viable technological processes.

Cyber security incidents could have a material adverse effect on our operations and financial results.

Our operations and systems could be interrupted by cyber security attacks. Such events could make it difficult or to manufacture or deliver products to our customers due to our reliance on our systems in the day to day operations of our business. While we maintain security and back-up procedures to business recovery plans that are intended to allow us to recover from natural disasters or other events that can be disruptive to our business, some of our systems are not fully redundant and we cannot be sure that our plans will fully protect us from all such disruptions.

If the products we manufacture 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.

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, financial condition and results of operations.

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.

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. 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 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.

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.

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.

We have incurred substantial restructuring charges in the past and we may need to take material restructuring charges in the future.

We have incurred significant expenses related to restructuring of our operations in the past and may continue to do so in the future. We have incurred in the past, and may incur in the future, costs related to workforce reductions and facility closures. We may be required to record additional charges related to restructuring activities in the future, but cannot predict the timing or amount of such charges. Any such charges would reduce our earnings.

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 condition and results of operations.

RISKS RELATED TO OUR CAPITAL STRUCTURE

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

The Company borrows money under a Revolving Credit and Security Agreement which is comprised of the PNC Revolving Credit Facility and the Long-Term Debt Facility (collectively the "PNC Facilities") with PNC Bank, National Association ("PNC") which expires on January 2, 2018. Advances made under the PNC Revolving Credit Facility bear interest at the U.S. base rate plus 0.75%. The applicable interest rate for the Long-Term Debt Facility is U.S. base rate plus 1.00%. The base commercial lending rate should approximate prime rate.

Our debt under the PNC 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 our PNC Facilities. The financial covenants require the Company to maintain minimum fixed charge coverage ratio and limit unfunded capital expenditures (all as defined in the Revolving Credit and Security Agreement). The financial covenant relating to a minimum fixed charge coverage ratio is in effect on a rolling twelve month basis until January 2, 2018. Market conditions have been difficult to predict and there is no assurance that the Company will meet these covenants. A failure to comply with the 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 unless the Company obtains a waiver from the lender.

Our leverage and restrictions contained in the PNC Facilities may 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 and to satisfy our other 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.

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

The terms of our PNC 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 PNC 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 PNC Facilities.

If we are not able to comply with these covenants and requirements the lenders have the right to demand accelerated payment and we would have to seek alternative sources of financing, which may not be available, or be available on acceptable terms. In addition, 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.

RISKS RELATED TO TAX LOSS UTILIZATION AND TAX REGULATION

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.

At our 2015 Annual General Meeting, the Company ratified a Tax Benefits Preservation Plan, (the "Plan") in order to protect our ability to utilize our net operating losses ("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.

In the past, the Company has had historical net operating losses expire unutilized. If the Company continues to be unable to generate sufficient taxable income, these losses will continue to expire unutilized and we may not be able to recognize the tax benefits that could arise from such tax losses.

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.

RISKS RELATED TO SECURITIES REGULATIONS AND LAWS

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 turmoil in the securities and credit markets in 2008, 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, enacted additional changes in their laws, regulations and rules (such as the 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.

RISKS RELATED TO ASSESSMENT OF INTERNAL CONTROL

We may identify a material weakness in our internal control over financial reporting which, if not remediated, could result in material misstatements in our consolidated financial statements.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act.

We cannot assure you that significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. The existence of a significant deficiency or material weakness could result in errors in our financial statements that could in turn result in a restatement of financial statements, cause us to fail to meet our reporting obligations or cause lenders, suppliers, customers and investors to lose confidence in our reported financial information. Any combination of the above could lead to harmful effects on our business and a decline in our stock price.

Item 2. Properties

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
San Jose, California	65,000	Leased
Chihuahua, Mexico	216,000	Owned
Chang An (Dongguan), China	150,000	Leased
Suzhou, China	67,000	Leased

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not Applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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 3, 2016 and December 28, 2014.

	Common Stock Price			
	2015		**2014**	
	High	**Low**	**High**	**Low**
First Quarter	$1.81	$1.34	$2.66	$1.90
Second Quarter	1.88	1.20	2.09	1.43
Third Quarter	1.86	1.20	1.99	1.54
Fourth Quarter	1.69	1.28	1.85	1.58

Stock performance graph

The following graph sets forth the Company's total cumulative stockholder return as compared to the NASDAQ Composite Index and to a peer group chosen by the Company for 2015 (the "Peer Group"). The Peer Group is comprised of the following companies: API Technologies Corp., IEC Electronics Corp., Key Tronic Corp., Multi-Fineline Electronic Inc., Nortech Systems Inc., Sigmatron International Inc., Sparton Corp. and Sypris Solutions Inc.

Prior to 2015, the peer group was identified as Benchmark Electronics Inc., Celestica Inc., CTS Corp., Flextronics International Ltd., Jabil Circuit, Inc., Key Tronic Corp., Plexus Corp., Sanmina Corp. and Sigmatron International Inc. This new peer group has been established as this composition of Companies provide a better comparison when considering our Company's relative size and scope of operations.

The total stockholder return assumes $100 invested on January 2, 2011 in Common Stock or December 31, 2010 in 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.

Holders

As of March 4, 2016, there were approximately 109 holders of record of the Company’s common stock.

As of March 4, 2016, the Company’s capital stock consisted of 26,000,000 authorized shares of common stock, par value $0.01 per share, of which, as of such date, 16,485,055 shares were issued and outstanding, and 5,000,000 authorized shares of special voting stock, par value $0.01 per share, of which, as of such date, one share was issued and outstanding.

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.

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.

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 loss, the consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows are reported for the periods from December 29, 2014 to January 3, 2016 ("year ended January 3, 2016"), December 30, 2013 to December 28, 2014 ("year ended December 28, 2014"), and December 31, 2012 to December 29, 2013 ("year ended December 29, 2013"), January 2, 2012 to December 30, 2012 ("year ended December 30, 2012") and January 3, 2015 to January 1, 2012 ("year ended January 1, 2012").

Selected consolidated financial data has been derived from consolidated financial statements that are prepared in accordance with US GAAP.

Consolidated Statements of Operations Data (in USD millions except weighted average shares, which is in millions):

	Years Ended				
	January 3, 2016	**December 28, 2014**	**December 29, 2013**	**December 30, 2012**	**January 1, 2012**
Revenue	$220.6	$ 228.5	$ 270.7	$ 296.3	$ 220.4
Cost of sales	202.9	209.6	255.5	270.4	199.1
Gross profit	17.7	18.9	15.2	25.9	21.3
Selling, general and administrative expenses	15.9	17.9	19.2	17.3	14.8

Loss (gain) on contingent consideration (a)	—	—	0.3	(0.7)	—
Restructuring charges (b)	—	1.4	2.0	2.2	2.7
Loss on extinguishment of debt	—	—	—	—	0.3
Gain on disposal of capital assets	—	0.0	(0.1)	—	—
Other expenses	—	—	—	—	0.1
Operating earnings (loss)	1.8	(0.4)	(6.2)	7.1	3.4
Interest expense	1.2	1.7	1.7	2.0	1.4
Earnings (loss) before income taxes	0.6	(2.1)	(7.9)	5.1	2.0
Income tax expense (recovery)	0.7	1.8	4.6	(1.8)	0.8
Net earnings (loss), also being comprehensive income (loss)	$(0.1)	$ (3.9)	$ (12.5)	$ 6.9	$ 1.2
Basic earnings (loss) per common share	$(0.00)	$ (0.24)	$ (0.76)	$ 0.42	$ 0.07
Diluted earnings (loss) per common share	$(0.00)	$ (0.24)	(0.76)	$ 0.42	$ 0.07
Weighted average number of shares outstanding					
Basic	16.4	16.4	16.4	16.3	16.1
Diluted	16.4	16.4	16.4	16.4	16.2

(a) Upon the acquisition of ZF Array on August 31, 2011, the Company paid $4 million in cash, less cash acquired of $1.0 million and accrued $2.4 million for contingent consideration. Contingent consideration was 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. Based on the results and anticipated future performance, the fair value of the contingent consideration liability was reduced during 2012 resulting in recognition of a gain of $0.7 million. In 2013, based on results, the contingent consideration was increased by $0.3 million resulting in a loss of $0.3 million. Contingent consideration was settled in 2013.

(b) No restructuring charges were incurred during 2015. During 2014, restructuring charges of $1.4 million were incurred related to severance charges in connection with the Company's 2014 restructuring plan. During 2013, additional restructuring charges of $2.0 million were recorded in connection with the Company's 2012 restructuring plan and lease exit costs. During 2012, the Company recorded restructuring charges of $2.2 million consisting of facility exit costs and severance related to the 2012 Plan. During 2011, the Company recorded net restructuring charges of $2.7 million consisting of severance charges related to the Company's 2011 restructuring Plan.

Consolidated Balance Sheet Data and Other Financial Data:

(in USD millions)

	As at and for the Years Ended				
	January 3, 2016	**December 28, 2014**	**December 29, 2013**	**December 30, 2012**	**January 1, 2012**
Cash	$6.9	$ 5.4	$ 3.3	$ 2.2	$ 2.6
Working capital (1)	14.0	8.9	10.8	19.6	20.3
Total assets	82.0	88.7	92.8	120.9	114.3
Long-term debt and capital lease obligations	4.2	0.9	0.5	1.3	4.9
Shareholders' equity	26.3	25.8	29.4	41.6	34.6
Capital expenditures	2.8	3.6	4.0	7.4	7.1
Cash flows provided by operating activities	10.9	4.9	3.4	9.3	2.0
Cash flows (used in) provided by financing activities	(6.7)	(0.9)	0.3	(4.0)	3.6
Cash flows used in investing activities	(3.5)	(1.9)	(2.6)	(5.7)	(3.9)

(1) Calculated as current assets minus current liabilities.

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

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 U.S. GAAP included within this annual report.

This MD&A contains discussion in thousands of U.S. dollars unless specifically stated otherwise.

Overview

SMTC Corporation is a mid-tier provider of end-to-end electronics manufacturing services ("EMS"), including product design and sustaining engineering services, printed circuit board assembly ("PCBA") production, enclosure fabrication, systems integration and comprehensive testing services. SMTC has facilities in the United States, Mexico, and China, with approximately 1,170 full-time employees. SMTC's services extend over the entire electronic product life cycle from the design, early supplier involvement, new product introduction ("NPI") through to growth, maturity and end-of-life phases. SMTC offers fully integrated contract manufacturing services to global original equipment manufacturers ("OEMs") and technology companies primarily within the industrial, computing and communications, power and energy and medical market sectors.

Developments in the year ended January 3, 2016

For the year ended January 3, 2016 ("2015") revenue decreased $8.0 million, or 3.5%, from $228.6 million for the year ended December 28, 2014 ("2014") to $220.6 million. The majority of the decrease in revenue was due to reduced volumes with two long standing customers of approximately $69.0 million as a result of one customer transferring its business to other contract manufacturers, while the other discontinued its production in one of our China facilities, but remains at our Mexico facility. These revenue reductions were offset by increased revenues from three new customers, which represented $32.9 million of additional revenue in 2015. One of these new customers had initial production builds in late 2014, but commenced full production cycle in 2015. The reduced revenues from the disengaging customers were partially offset by volume increases with three long standing customers of $28.7 million. The change in customer mix resulted in a significant reduction in concentration risk with the largest customer which represented 13.4% in 2015 compared to the largest customer which represented 30.8% in 2014.

In 2015, $0.6 million was earned before income taxes compared to a loss before income taxes of $2.1 million in 2014. This was due primarily to a reduction in selling, general and administrative expenses of $2.0 million, no restructuring charges were incurred in 2015 compared to $1.4 million in 2014 and reduced interest expense of $0.5 million. These reductions were partially offset by a reduced gross margin of $1.2 million and additional professional fees of $0.6 million. The professional fees related to the Company's previously disclosed mergers and acquisitions activities were incurred in the amount of $0.6 million during 2015. No such costs were incurred in 2014.

Continued focus on working capital management improved our inventory turns to eight times in 2015 from seven times in prior year. Another key focus point in 2015 was the reduction of debt. Debt net of cash was $9.6 million as at January 3, 2016, a significant improvement from $17.8 million as at December 28, 2014.

The Company generated cash from operations of $10.9 million in 2015, due in large part to improved working capital management, which included a reduction in inventory of $5.7 million. Cash used from financing activities was $6.7 million due to PNC revolving credit facility draw down of $10.6 million offset by advances made under the new long-term debt facility with PNC of $5.0 million in addition to principal payments of capital leases of $1.1 million. Cash used in investing activities was $3.5 million, which was due to capital expenditures of $2.7 million and restricted cash deposits of $0.8 million which have been guaranteed to a government agency pertaining to estimated value added taxes on imported raw materials inventory in Suzhou, China.

Adjusted EBITDA, which the Company defines as earnings before restructuring charges, interest, taxes, depreciation, stock based compensation and amortization and unrealized foreign exchange gains and losses on forward contracts, is a non-GAAP measure used by our Board of Directors and management to monitor business performance. For 2015, adjusted EBITDA of $5.7 million was earned compared to $7.1 million in 2014. The decrease of adjusted EBITDA in 2015 was primarily the result of additional severance charges of $0.9 million incurred in 2015 that were not incurred in 2014.

EBITDA and Adjusted EBITDA Reconciliation:

Management has presented this EBITDA and adjusted EBITDA figure, as it is utilized to monitor performance against budget as well as compliance with bank covenants.

Below is the reconciliation from the closest U.S. GAAP measure of net loss to EBITDA and adjusted EBITDA, both of which are non-GAAP measures.

	Year ended January 3, 2016	**Year ended December 28, 2014**
Net loss	$ (4)	$ (3,878)
Reconciling items:		
Depreciation and amortization	3,967	3,997
Interest	1,183	1,693
Taxes	673	1,822
EBITDA	$ 5,819	$ 3,634
Additional reconciling items:		
Restructuring charges	—	1,366
Stock based compensation	510	264
Unrealized foreign exchange (gain) loss on unsettled forward foreign exchange contracts	(616)	1,822
Adjusted EBITDA	$ 5,713	$ 7,086

Although EBITDA improved from $3.6 million in 2014 to $5.8 million in 2015, adjusted EBITDA decreased by $1.4 million. The main reason for the decrease was due to severance charges that did not qualify as restructuring charges incurred in 2015 of $1.0 million compared to $0.1 million incurred in 2014 in addition to professional service fees of $0.6 million incurred in 2015 related to our previously disclosed mergers and acquisition activities that were not incurred in 2014.

The Company entered into forward foreign exchange contracts to reduce its exposure to foreign exchange currency rate fluctuations related to the Mexican peso and Canadian dollar expenditures. The Company incurred foreign exchange losses from the settlement of these contracts of $4.4 million in 2015 and $1.1 million in 2014.

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Results of Operations

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

	Year ended January 3, 2016	Year ended December 28, 2014	Year ended December 29, 2013
Revenue	100.0 %	100.0 %	100.0 %
Cost of sales	92.0	91.7	94.4
Gross profit	8.0	8.3	5.6
Selling, general and administrative expenses	7.2	7.8	7.1
Restructuring charges	—	0.6	0.7
Loss on contingent consideration	—	—	0.1
Gain on disposal of capital assets	—	0.1	(0.0)
Operating earnings (loss)	0.8	(0.2)	(2.3)
Interest expense	0.5	0.7	0.6
Earnings (loss) before income taxes	0.3	(0.9)	(2.9)
Income tax expense			
Current	0.3	0.4	0.3
Deferred	0.0	0.4	1.4
	0.3	0.8	1.7
Net loss	(0.0) %	(1.7) %	(4.6) %

Year ended January 3, 2016 compared to the year ended December 28, 2014

Commencing in the fourth quarter of 2015, SMTC redefined its industry sectors (based on revenues from customers) as follows. The networking and enterprise computing sector and the communications sectors are now combined into a single networking and communications sector and a new power and energy sector has been identified based on significant new 2015 customers. The industrial and medical sectors are unchanged. The Company has revised their industry sectors in order to better monitor revenues and customer activity, and to market the Company's footprint in each of these industry sectors, but does not classify any of the associated costs based on these industry sectors. The comparative amounts in the discussion that follows are based on these revised industry sectors.

Revenue

During 2015, revenue from the industrial sector represented 47.0% of total revenue compared to 72.5% of total revenue in 2014. Revenue from the industrial sector decreased by $62.0 million or 37.5% mainly due to two customers. One customer transferred its production to other contract manufacturers, which represented a reduction of $50.8 million over prior year and an additional customer transferred its production to other contract manufacturers from one of our China manufacturing facility which resulted in a reduction of $18.2 million. We operate in a competitive environment, which means contract manufacturer customers are subject to change due to competitive pricing pressures and other factors largely out of our control. These reductions were partially offset by a significant volume increase with one other customer in that sector. Revenue from the networking and communications sector represented 39.3% of total revenue in 2015 compared to 22.9% of total revenue in 2014 representing a year-over-year increase in revenues of $34.3 million. This increased revenue was the result of $17.8 million in volume increases with two long standing customers in addition to a revenue increase of $15.0 million from a new customer on boarded in late 2014. Revenue from the power and energy sector increased by $18.0 million, as a result of two new customers in 2015, representing 8.2% of total revenue in 2015 compared to $0.2 million or 0.1% of total revenue in prior year. Revenue for the medical sector represented $12.3 million or 5.6% of revenue compared to $10.5 million or 4.6% in prior year. The increase of $1.8 million was the result of increased revenue from two customers.

During 2015, the Company recorded approximately $5.5 million of sales of raw materials inventory to customers, which carried limited margin, compared to $3.9 million in 2014. The Company’s contract terms are such that it purchases raw materials based on a customer’s purchase orders. To the extent a customer subsequently requests that an order to be altered or changed, the customer is generally contractually 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 80.4% of revenue during 2015, compared to 90.8% in 2014. Revenue from our two largest customers during 2015 was $29.5 million and $24.1 million, representing 13.4% and 10.9% of revenue, respectively. This compared to revenue from our three largest customers during 2014 of $70.5 million, $28.0 million and $23.1 million, representing 30.8%, 12.3% and 10.1% of revenue, respectively. No other customer represented more than 10% of revenue in either year.

In addition to tracking our revenues based on industry sector, the Company also monitors revenue (as well as associated site contribution margin) based on the location of our operations, which is Mexico, China and the United States. This is consistent with how we report our segmented information, as set out Note 10 to our consolidated financial statements.

During 2015, 64.5% of our revenue was attributable to our operations in Mexico, 20.6% in China, and 14.9% in the US. During 2014, 67.1% of our revenue was attributable to our operations in Mexico, 19.8% in China, and 13.1% in the US.

Gross Profit

Gross profit decreased to $17.7 million in 2015 from $18.9 million in 2014. Gross margin percentage reduced to 8.0% in 2015 compared to 8.3% in the prior year. However, excluding the impact of the unrealized foreign exchange losses (gains) on forward contracts, gross margin percentage decreased to 7.8% in 2015 compared to 9.1% in prior year. This decrease in gross profit was primarily the result of higher material cost, initial investment required to ramp new customer revenue, reduced margins on new customer revenue, increase of raw material inventory sales with limited margin, increase in severance costs of $0.9 million in addition to higher realized foreign exchange losses of $3.3 million due to unfavorable contract rates compared to market rates. These factors were partially offset by improved direct labor and overhead costs, which were lower compared to prior year due to continued alignment of manufacturing expenses.

The Company presents this adjusted gross profit amount as we evaluate gross margins internally (excluding the unrealized foreign exchange on forward contracts). Below is the reconciliation from the financial statement presentation of gross profit to adjusted gross profit:

	Year ended	**Year ended**

	January 3, 2016	December 28, 2014
Gross profit	$17,717	$ 18,954
Add:		
Unrealized foreign exchange (gain) loss on unsettled forward foreign exchange contracts	(616)	1,822
Adjusted gross profit	$17,101	$ 20,776

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 Topic 815 “Derivatives and Hedging”. Accordingly, changes in the fair value of these contracts were recognized in earnings in the consolidated statement of operations and comprehensive loss. Included in cost of sales in 2015 was a realized loss of $4.4 million compared to a realized loss of $1.1 million in 2014. In 2015, as a result of revaluing the outstanding forward contracts to fair value, an unrealized gain of $0.6 million was recorded compared to an unrealized loss of $1.8 million in 2014 included in cost of sales.

	January 3, 2016	December 28, 2014
Average USD:CAD contract rate	1.26	1.11
Average USD:CAD mark-to-market rate	1.38	1.17
Average USD:PESO contract rate	15.88	13.40
Average USD:PESO mark-to-market rate	17.47	14.87

Selling, General & Administrative Expenses

Selling, general and administrative expenses decreased to $15.9 million in 2015 from $17.9 million in 2014, which represented a decrease as a percentage of revenue to 7.2% for 2015 from 7.8% of revenue for 2014. The decrease in selling, general and administrative expenses was due to a reduction in variable compensation in 2015 as compared to 2014 and favorable foreign exchange rates resulting in lower salary and administrative expenses in addition to reduced corporate salaries in 2015 related to executive compensation. Professional services were higher in 2014 due to services rendered related to the 2013 inventory material weakness remediation which was partially offset by additional professional services of $0.6 million incurred in 2015 related to the Company's previously disclosed mergers and acquisition activities. These reductions were partially offset by increased sales and marketing expenses in 2015 due to headcount additions and increased commission expenditures.

Restructuring Charges

No restructuring charges were incurred in 2015. Total restructuring charges of $1.4 million were incurred in 2014 related to severance charges impacting the Mexico, Markham and Asia sites as a result of further rightsizing of staff.

Interest Expense

Interest expense decreased to $1.2 million in 2015 compared to $1.7 million in 2014. The decrease was primarily the result of a lower average revolver balance in 2015 compared to 2014 in addition to a reduced interest rate. The weighted average interest rates with respect to the debt were 4.3% for 2015 and 4.6% for 2014. Deferred financing amortization was also reduced by $0.3 million, as a portion of the deferred financing charges became fully amortized in 2014.

Income Tax Expense

The net tax expense for 2015 of $0.7 million related to $0.6 million of taxes in Mexico and China due to profits in these jurisdictions in addition to minimum and state taxes in the U.S. In 2014, $1.8 million related to minimum and state taxes of $0.1 million in U.S., $0.7 million of taxes in Mexico and China due to profits in these jurisdictions in addition to a $1.0 million additional valuation allowance recorded against the U.S. deferred tax assets

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Year ended December 28, 2014 compared to the year ended December 29, 2013

The revenue variances have been revised to align with the 2015 reclassifications of the industry sectors described above.

Revenue

During 2014, revenue from the industrial sector represented 72.5% of revenue compared to 77.5% of revenue in 2013. Revenue from the industrial sector decreased by $44.4 million or 21.1% mainly due to the reduced volumes with two customers as a result of engaging additional contract manufacturers as well as two customer disengagements related to the Markham production facility closure and one other customer disengagement in 2014. Revenue from the networking and communications sector increased by $6.7 million representing 22.9% of total revenue in 2014 compared to 16.9% of total revenue in 2013. The increase was the primarily the result of significant volume increases with one customer of $13.3 million and new customers representing additional revenue of $1.7 million partially offset by volume reductions with other customers. Revenue from one customer in the power and energy sector represented 0.1% of total revenue in 2014 with no revenue reported in 2013. Revenue for the medical sector represented 4.6% of total revenue in 2014 compared to 5.6% of total revenue in prior year. The decrease of $4.6 million or 30.1%, was the result of reduced revenue from one customer.

During 2014, the Company recorded approximately $3.9 million of sales of raw materials inventory to customers, which carried limited margin, compared to $6.0 million in 2013. 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 90.8% of revenue during 2014, compared to 89.4% in 2013. Revenue from our three largest customers during 2014 was $70.5 million, $28.0 million and $23.1 million, representing 30.8%, 12.3% and 10.1% of revenue, respectively. This compared to revenue from our two largest customers during 2013 of $102.6 million and $31.2 million, representing 37.9% and 11.5% of revenue, respectively. No other customer represented more than 10% of revenue in either year.

During 2014, 67.1% of our revenue was attributable to our operations in Mexico, 19.8% in Asia, and 13.1% in the US. During 2013, 66.9% of our revenue was attributable to our operations in Mexico, 19.2% in Asia, 10.0% in the US and 3.9% in Canada.

Gross Profit

Gross profit increased to $18.9 million in 2014 from $15.2 million in 2013. Gross margin percentage improved to 8.3% in 2014 compared to 5.6% in the prior year. However, excluding the impact of the unrealized foreign exchange losses, gross margin percentage improved to 9.1% in 2014 compared to 6.0% in prior year. While revenue levels decreased, labor charges were reduced in 2014 due to further restructuring efforts resulting in improved margins from lower average direct and indirect labor charges. In addition, lower material adjustments and scrap charges were incurred in 2014 due to continued improvements in manufacturing efficiencies. The 2014 gross margin also does not reflect the operating results from the Markham production facility, which incurred losses of $0.9 million in 2013 and was closed in the second quarter of 2013.

The Company presents this adjusted gross profit amount as we evaluate gross margins internally (excluding the unrealized foreign exchange on forward contracts). Below is the reconciliation from the U.S. GAAP measure of gross profit to adjusted gross profit:

	Year ended December 28, 2014		**Year ended December 29, 2013**	
Gross profit	$	18,954	$	15,181
Add:				
Unrealized foreign exchange loss on unsettled forward foreign exchange contracts		1,822		1,107
Adjusted gross profit	$	20,776	$	16,288

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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 Topic 815 “Derivatives and Hedging”. Accordingly, changes in the fair value of these contracts were recognized in earnings in the consolidated statement of operations and comprehensive loss. Included in cost of sales in 2014 was a realized loss of $1.1 million compared to a realized gain of $0.5 million in 2013. In 2014, as a result of revaluing the outstanding forward contracts to fair value, an unrealized loss of $1.8 million was recorded compared to an unrealized loss of $1.1 million in 2013 included in cost of sales.

	December 28, 2014	**December 29, 2013**
Average USD:CAD contract rate	1.11	1.04
Average USD:CAD mark-to-market rate	1.17	1.08
Average USD:PESO contract rate	13.40	12.93
Average USD:PESO mark-to-market rate	14.87	13.24

Selling, General & Administrative Expenses

Selling, general and administrative expenses decreased from $19.2 million in 2013 to $17.9 million in 2014, but represented an increase as a percentage of revenue from 7.1% for 2013 to 7.8% of revenue for 2014. The decrease in selling, general and administrative expenses was partially the result of reductions in administrative positions in addition to marketing and travel expenditures. In addition, there were charges incurred in 2013 that were not incurred in 2014 related to lease exit costs of $0.4 million and $0.6 million incurred in executive severance and recruitment costs. Although selling, general and administrative expenses were lower in 2014 as compared to 2013, as a percentage of revenue, the expenses were higher in 2014 as there was an increase in variable compensation expenses in 2014 related to the company’s short term incentive plan, and increases in legal and professional services fees in 2014 as a result of the remediation efforts related to the 2013 inventory control weakness.

Restructuring Charges

Total restructuring charges of $1.4 million were incurred in 2014 compared to $2.0 million in 2013. The 2014 charges related to severance charges impacting the Mexico, Markham and Asia sites as a result of further rightsizing of staff. The 2013 charges included $1.4 million of severance charges related to the Markham production facility closure. In addition, $0.3 million of facility exit costs were incurred related to the ZF Array lease facility whereby a settlement was reached during 2013. Additional severance charges of $0.3 million were recorded in 2013 related to the Mexico and San Jose facilities.

Contingent consideration

Upon the acquisition of ZF Array on August 31, 2011, the Company paid $4.0 million in cash, less cash acquired of $1.0 million and accrued $2.4 million for contingent consideration. Contingent consideration was 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. Based on the actual results in 2013, the final year of the contingent consideration period, the fair value of the contingent consideration liability was increased during the year resulting in recognition of a loss of $0.3 million. The final payment was made in the fourth quarter of 2013; therefore no contingent consideration expenses were incurred in 2014.

Interest Expense

Interest expense was consistent with prior year at $1.7 million. Included in interest expense is amortization of deferred financing fees of $0.4 million for 2013 and 2014. The weighted average interest rates with respect to the debt were 4.6% for 2014 and 3.7% for 2013. Although interest rates were higher in 2014, interest expense did not increase as average debt levels were lower in 2014 compared to 2013.

Income Tax Expense

The net tax expense for 2014 of $1.8 million related to minimum and state taxes of $0.1 million in U.S., $0.7 million of taxes in Mexico and China in addition to a $1.0 million additional valuation allowance recorded against the U.S. deferred tax assets. In 2013, $0.9 million of tax related to Mexico and China and a $4.0 million valuation allowance was recorded against the U.S. deferred tax asset partially offset by a $0.3 million deferred tax recovery primarily related to revised tax legislation in Mexico.

Off-Balance Sheet Arrangements

There are currently no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Company’s financial condition.

Liquidity and Capital Resources

Our principal sources of liquidity are cash provided from operations and borrowings under the PNC Facilities, which expires on January 2, 2018. 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.

The following table summarizes cash flow changes for the following periods:

	Year ended January 3, 2016	**Year ended December 28, 2014**	**Year ended December 29, 2013**
Cash provided by (used in):			
Operating activities	$ 10.9	$ 4.9	$ 3.4
Financing activities	(6.7)	(0.9)	0.3
Investing activities	(3.5)	(1.9)	(2.6)
Increase in cash and cash equivalents	0.7	2.1	1.1
Cash, beginning of year	5.4	3.3	2.2
Cash, end of the year	$ 6.1	$ 5.4	$ 3.3

2015

Net cash provided by operating activities for 2015 was $10.9 million. The source of cash mainly resulted from working capital management, which resulted in a net reduction in inventory levels year over year of $5.7 million. Inventory turnover improved to eight times in 2015 as compared to seven times in 2014. Inventory days improved to 47 days compared to 54 days in 2014. The Company had set a goal of increasing the inventory turns to a minimum of 8 times, which was achieved by improved supplier management on purchases and timely collections and reductions in excess inventory levels. Accounts receivable days sales outstanding were stable in 2015 and 2014 at 50 days. Accounts payable days outstanding for 2015 increased to 56 days versus 51 days for 2014 due to negotiated terms with suppliers and timing of payments.

Net cash used from financing activities during 2015 was $6.7 million, consisting of cash paid on the PNC revolver of $10.6 million offset by the new PNC long-term debt facility of $5.0 million, enabled by the cash flow generated from operations and reduced inventory levels. There were also principal payments of capital lease obligations of $1.1 million.

Cash used in investing activities for 2015 of $3.5 million which was due to capital expenditures of $2.7 million and restricted cash deposits of $0.8 million which have been guaranteed to a government agency pertaining to estimated value added taxes on imported raw materials inventory in Suzhou, China.

2014

Net cash provided by operating activities for 2014 was $4.9 million. The source of cash mainly resulted from decreases in inventory partially offset by reductions in accounts payable and accrued liabilities. Accounts receivable days sales outstanding for 2014 increased to 50 days as compared to 41 days for 2013 due to timing of collections. Inventory turnover remained consistent at seven times in 2014 as compared to 2013. Accounts payable days outstanding for 2014 increased to 51 days versus 47 days for 2013 due to timing of payments.

Net cash used from financing activities during 2014 was $0.9 million, mainly due to advances from the PNC revolver of $1.1 million, offset by principal payments of capital lease obligations of $1.8 million and payments of financing fees of $0.2 million.

Capital Resources

The Company borrows money under a Revolving Credit and Security Agreement with PNC which expires on January 2, 2018. Advances made under the PNC revolving credit facility bear interest at the U.S. base rate plus 0.75%. The Company also has a long-term debt facility with PNC which also expires on January 2, 2018 and bears interest at the U.S base rate plus 1.00%.

We believe that cash generated from operations, available cash and amounts available under our PNC 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 for the foreseeable 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 Facilities 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 2015, there were no additions of property, plant and equipment acquired via capital leases.

Accounting changes and recent accounting pronouncements

Recent Accounting Pronouncements

In May 2014, the FASB published ASU 2014-09 Topic 606: Revenue from Contracts with Customers, which supersedes previous pronouncements and amends existing requirements for recognition of a gain/loss on the transfer of nonfinancial assets that are not in a contract with a customer to be consistent with the new requirements. The new pronouncement is effective for years beginning after December 15, 2017 including interim periods with those years. Early adoption is permitted only for those annual reporting periods beginning on or after December 15, 2016. The Company continues to evaluate the impact of this accounting standard. The impact of adoption of the standard has not yet been determined.

In June 2014, the FASB published ASU 2014-12 Topic 718: Compensation – Stock Compensation. The standard is amended to require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The Company does not currently offer this type of stock based compensation with these conditions. The standard is effective for all entities for years, and interim periods within those years, beginning after December 15, 2015. The Company continues to evaluate the impact of this accounting standard. The impact of adoption of the standard has not yet been determined, but it is not anticipated to have a material impact on the consolidated financial statements.

In August 2014, the FASB published ASU 2014-15 Topics 205-40: Presentation of Financial Statements – Going Concern. The standard provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. Effective for years ending after December 15, 2016 and for years and interim periods thereafter. The Company continues to evaluate the impact of this accounting standard. The impact of adoption of the standard has not yet been determined.

In April 2015, the FASB published ASU 2015-03 Topics 835-30: Presentation of Debt Issuance Costs. The standard provides guidance about simplifying the presentation of debt issuance costs. Under this ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. Effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. The Company continues to evaluate the impact of this accounting standard. The impact of adoption of the standard is not expected to have a material impact on the consolidated financial statements.

In April 2015, the FASB published ASU 2015-04: Retirement Benefits (Topic 715). The amendments intend to reduce complexity by providing a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. The Company continues to evaluate the impact of this accounting standard. The impact of adoption of the standard has not yet been determined.

In July 2015, the FASB published ASU 2015-11: Simplifying the Measurement of Inventory (Topic 330). The amendments in this Update more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). The Board has amended some of the other guidance in Topic 330 to more clearly articulate the requirements for the measurement and disclosure of inventory. However, the Board does not intend for those clarifications to result in any changes in practice. Other than the change in the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory within the scope of this Update, there are no other substantive changes to the guidance on measurement of inventory. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this Update. The impact of adoption of the standard has not yet been determined.

In November 2015, the FASB published ASU 2015-17: Income Taxes (Topic 740). The amendment requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Effective for all other entities for years beginning after December 15, 2017 and interim periods within years beginning after December 15, 2018. The Company continues to evaluate the impact of this accounting standard.

In February 2016, the FASB published ASU 2016-02: Leases (Topic 842). The amendment proposes that all lessees should recognize the assets and liabilities that arise from leases. Elections may be available for those leases with terms of 12 months or less. The amendment still retains the distinction between finance leases and operating leases. The impact of this amendment is that the Company would potentially present additional capital lease assets and corresponding capital lease obligations for leases that are currently classified as operating leases. The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The impact of adoption of the standard has not yet been determined.

Critical Accounting Policies and 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 describe 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 the consolidated 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.

Property, plant and equipment

We review property, plant and equipment 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.

Deferred Tax Asset 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, United States and Asia is appropriate. There is no valuation allowance related to deferred tax assets in Mexico.

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. 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. Parts and other inventory items relate to equipment servicing parts that are capitalized to inventory and expensed as utilized to service the equipment.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The PNC Facilities bears interest at a floating rate. The weighted average interest rate incurred on the PNC Facilities for the year ended January 3, 2016 was 4.3%. At January 3, 2016, the interest rate on the PNC Facilities was 4.0% based on the U.S. prime rate plus 0.75%.

The impact of a 10% change in interest rates would not have a significant impact on our reported earnings.

Foreign Currency Exchange Risk

As a result of operating a global business, we are exposed to exchange rate fluctuations on expenditures denominated in foreign currencies. However, most of our sales and component purchases are denominated in U.S. dollars, which limits our foreign currency risk. Our foreign exchange risk relates primarily to our Canadian, Mexican and Asian payroll, Euro based component purchases and other various operating expenses denominated in local currencies in our geographic locations. To mitigate this risk, the Company enters into forward foreign exchange contracts to reduce its exposure to foreign exchange currency rate fluctuations related to forecasted Canadian dollar and Mexican peso. The strengthening of the Canadian dollar and Mexican peso would result in an increase in costs to the organization and may lead to a reduction in reported earnings.

The impact of a 10% change in exchange rates would not have a significant impact on our reported earnings as we enter into foreign currency forward contracts in an attempt to mitigate the risk of foreign exchange based on estimated 12 month spend.

Credit Risk

In the normal course of operations, there is a risk that a counterparty may default on its contractual obligations to us which would result in a financial loss that could impact our reported earnings. In order to mitigate this risk, we complete credit approval procedures for new and existing customers and obtain credit insurance where it is financial viable to do so given anticipated revenue volumes, in addition to monitoring our customers' financial performance. We believe our procedures in place to mitigate customer credit risk and the respective allowance for doubtful accounts are adequate.

There is limited risk of financial loss from defaults on our outstanding forward currency contracts as the counterparty to the transactions had a Standard and Poor's rating of A- or above as at December 31, 2015.

Liquidity Risk

There is a risk that we may not have sufficient cash available to satisfy our financial obligations as they come due. The financial liabilities we have recorded in the form of accounts payable, accrued liabilities and other current liabilities are primarily due within 90 days with the exception of the current portion of capital lease obligations which could exceed 90 days and our revolving debt facility which utilizes a lock-box to pay down the obligation effectively daily. We believe that cash flow from operations, together with cash on hand and our revolving credit facility, which has a credit limit of $35M and PNC long-term debt facility of $5M are sufficient to fund our financial obligations.

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 Chief 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.

The Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act 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 Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer has concluded that the consolidated financial statements included in this Form 10-K present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in rules 13a-15(f) of the Exchange Act.

The Company’s internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Chief 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 United States 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 U.S., 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. Furthermore, an assessment that internal control over financial reporting was effective for any completed period does not mean that internal control over financial reporting will be assessed as effective for any future period as processes and procedures may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate, among other reasons.

Management conducted an assessment of the Company’s internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission in *Internal Control—Integrated Framework (2013)*.

In 2014, management had identified certain adjustments impacting the 2014 and prior year tax balances. Based on these adjustments, management had concluded that there was a material weakness in respect of its controls and procedures relating to its accounting for income taxes. During 2015, management engaged the assistance of an external third party professional to support management’s ongoing preparation, review and analysis of the Company’s detailed tax calculations and processes and provide the additional US GAAP tax accounting expertise to ensure the appropriate accounting documentation and supporting working papers were being generated and reviewed in a timely manner. As a result of these actions, management has determined that the material weakness related to accounting for income taxes has been remediated.

As a result, management has completed its assessment and has concluded the Company's internal control over financial reporting as of January 3, 2016 was effective.

Changes in Internal Control over Financial Reporting

With the exception of the remediation of the material weakness described herein, there were no other changes in the Company's internal control over financial reporting that occurred during the 2015 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

This Annual Report on Form 10K does not include an attestation report from the Company's independent registered public accounting firm on the effectiveness of internal control controls over financial reporting as of January 3, 2016, as permitted under the rules of the SEC for Smaller Reporting Companies.

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” and “Additional Information—Section 16(a) Beneficial Ownership Reporting Compliance,” in the Company’s 2015 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-relations/corporate-governance and in print to any stockholder who requests it. Any such request should be made by mail to: SMTC Corporation, 635 Hood Road, Markham, Ontario, Canada L3R 4N6 and Attention: Investor Relations; or by e-mail to: investorelations@smtc.com. 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” in the 2015 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 Company’s 2015 Proxy Statement and is incorporated herein by reference.

Equity Compensation Plan Information

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 2010. In July 2010, the plan authorized an initial limit of 350,000 shares. In June 2011, the Company voted to increase the amount of shares available under the 2010 Plan by 670,000 and in June 2012 the Company voted to increase the number of shares available under the 2010 Plan by 652,000. There was no vote to increase the number of shares available under the plan in 2013, 2014 and 2015 and as such the authorized increase to the number of shares was calculated as 163,619, 164,173 and 176,197 respectively based on the formula included in the terms of the 2010 Plan.

The following table gives information about awards under the 2010 Plan as of January 3, 2016:

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 (1) (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	1,134,678	$ 1.98	973,530

Notes: (1) The weighted average exercise price only applies to the 655,114 of outstanding stock options as there is no exercise price on the outstanding restricted stock units of 479,564.

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 Company’s 2015 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 Company's 2015 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.**

All schedules have been omitted because they are not required or applicable under the instructions or because the information required is included in consolidated financial statements or notes thereto.

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

See exhibit index beginning at page 44.

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/ Sushil Dhiman
Sushil Dhiman
President and Chief Executive Officer

Date: March 17, 2016

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/ Sushil Dhiman **Sushil Dhiman**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 17, 2016
/s/ Roger Dunfield **Roger Dunfield**	Chief Financial Officer (Principal Officer Financial and Principal Accounting Officer)	March 17, 2016
/s/ Clarke Bailey **Clarke Bailey**	Director	March 17, 2016
/s/ David Sandberg **David Sandberg**	Director	March 17, 2016
/s/ Frederick Wasserman **Frederick Wasserman**	Director	March 17, 2016

/s/ Randy Waterfield

Randy Waterfield	Director	March 17, 2016

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EXHIBIT INDEX

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	Reorganization and Merger Agreement dated as of July 26, 1999. (1)
2.2	Amendment to Reorganization and Merger Agreement, dated as of July 27, 2000. (2)
2.3	Stock Purchase Agreement dated as of May 23, 2000 (Pensar Corporation). (3)
2.4	Stock Purchase Agreement dated as of November 22, 2000 (Qualtron Teoranta and Qualtron, Inc.). (4)
3.1	Amended and Restated Certificate of Incorporation (as amended by Certificate of Amendment on May 21, 2004 and Certificate of Correction on June 18, 2004). (5)
3.2	Amendment to Amended and Restated Certificate of Incorporation dated September 30, 2004. (6)
3.3	Third Amended and Restated Certificate of Incorporation dated August 29, 2008 (7).
3.4	Fourth Amended and Restated Certificate of Incorporation dated July 10, 2009 (8).
3.5	Fifth Amended and Restated Certificate of Incorporation (9).
3.6	Second Amended and Restated By-laws of SMTC Corporation (9)
3.7	Amendment No. 1 to SMTC Corporation's Second Amended and Restated By-laws of SMTC Corporation (10)
4.1	Amended and Restated Stockholders Agreement dated as of November 22, 2000. (2)
4.2	Form of certificate representing shares of common stock. (3)
4.3	Tax Benefits Preservation Plan, dated as of December 29, 2014, by and between SMTC Corporation and Computershare Inc., as Rights Agent, including as Exhibit A the form of Certificate of Designation of the Company's Series A Participating Preferred Stock, Exhibit B the form of Rights Certificates and Exhibit C the Summary of Rights (11)

10.1#	SMTC Corporation 2010 Incentive Plan (12)
10.2	Revolving Credit and Security Agreement dated September 14, 2011 between PNC, National Association, PNC Bank Canada Branch, SMTC Corporation, SMTC Manufacturing Corporation of California, SMTC Manufacturing Corporation of Canada, SMTC Mex Holdings, Inc., ZF Array Technology, Incorporated and HTM Holdings, Inc. (13)
10.3	Third Amended and Restated US Loan Agreement dated September 14, 2011 by and among Export Development Canada and SMTC Mex Holdings, Inc. and SMTC Manufacturing Corporation of Massachusetts (13)
10.4	Stockholder Agreement by and among SMTC Corporation and Red Oak Partners, LLC, dated January 5, 2012 (9)

Exhibit #	Description
10.5#	Employment Agreement with Sushil Dhiman dated December 16, 2013. (14)
10.6	Sixth amendment to PNC Credit and Revolving Facility. (15)
21.1*	Subsidiaries of the Registrant.
10.7#	Indemnification Agreement of Directors or Officers of SMTC Corporation dated September 23, 2014. (14)
10.8	Seventh amendment to PNC Credit and Revolving Facility. (16)
23.1*	Consent of Independent Registered Public Accounting Firm.
23.2*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of Sushil Dhiman pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 17, 2016
31.2*	Certification of Roger Dunfield pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 17, 2016
32.1*	Certification of Sushil Dhiman, 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 17, 2016.
32.2*	Certification of Roger Dunfield, 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 17, 2016.

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

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 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.
(2) 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.
(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 the Company's Current Report on Form 8-K filed on December 7, 2000 (File No. 0-31051) and incorporated by reference herein.
(5) 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.
(6) 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.
(7) 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.
(8) 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.
(9) Filed as an Appendix to the Company's Definitive Notice and Proxy Statement on Form DEF14A filed on June 5, 2012 (File No. 0-31051) and incorporated by reference herein.
(10) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on January 24, 2013 (File No. 0-31051) and incorporated by reference herein.
(11) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on December 30, 2014 (File No. 0-31051) and incorporated by reference herein.
(12) 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.
(13) Filed as an Exhibit to the Company's Current Report on Form 8-K filed on October 3, 2011 (File No. 0-31051) and incorporated by reference herein.
(14) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 29, 2013 filed on April 14, 2014 (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 April 11, 2014 (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 September 30, 2014 (File No. 0-31051) and incorporated by reference herein.

* Filed herewith

\# Indicates exhibits that are management contracts or compensation plans or arrangements

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SMTC CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of SMTC Corporation

We have audited, before the effects of the adjustments as described in note 2 to the consolidated financial statements included in the 2014 Annual Report on Form 10-K of SMTC Corporation (the “Company”), the consolidated statement of operations and comprehensive loss, changes in shareholders’ equity and cash flows of the Company for the period from December 31, 2012 to December 29, 2013 (the 2013 financial statements before the effects of the adjustments as described in Note 2 to the consolidated financial statements included in the 2014 Annual Report on Form 10-K of the Company are not presented herein). The 2013 consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, except for the effects of the adjustments as described in Note 2 to the consolidated financial statements included in the 2014 Annual Report on Form 10-K of the Company, the 2013 consolidated financial statements referred to above present fairly, in all material respects, the results of SMTC Corporation’s operations and its cash flows for the period from December 31, 2012 to December 29, 2013 in conformity with U.S. generally accepted accounting principles.

We were not engaged to audit, review, or apply any procedures to the adjustments as described in Note 2 to the consolidated financial statements included in the Company’s 2014 Annual Report on Form 10-K and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by PricewaterhouseCoopers LLP.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
April 14, 2014

Toronto, Canada

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Report of INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of SMTC Corporation

We have audited the accompanying consolidated balance sheets of SMTC Corporation and its subsidiaries as of January 3, 2016 and December 28, 2014 and the related consolidated statement of operations and comprehensive loss, consolidated statement of changes in shareholders' equity and statement of cash flows for each of the years in the two-year period ended January 3, 2016 and December 28, 2014. Management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements are free of material misstatement. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included performing such other procedures as we considered necessary in the circumstances. 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 its subsidiaries as of January 3, 2016 and December 28, 2014 and the results of their operations and their cash flows for each of the years in the two-year period ended January 3, 2016 and December 28, 2014 in conformity with accounting principles generally accepted in the United States of America.

We have also audited the adjustments to the 2013 comparative period from December 31, 2012 to December 29, 2013 to correct the errors, as described in Note 2 to the consolidated financial statements included in the prior year's 2014 Annual Report on Form 10-K. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2013 comparative period from December 31, 2012 to December 29, 2013 of SMTC Corporation and its subsidiaries other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 comparative period from December 31, 2012 to December 29, 2013, taken as a whole.

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario, Canada

March 17, 2016

SMTC CORPORATION

Consolidated Balance Sheets

(Expressed in thousands of U.S. dollars)

	January 3, 2016	December 28, 2014
Assets		
Current assets:		
Cash	$6,099	$5,447
Restricted cash - guaranteed deposits (note 3)	805	—
Accounts receivable—net (note 3)	29,885	31,024
Inventories (note 3)	25,877	31,590
Prepaid expenses and other assets	1,983	2,135
Income taxes receivable (note 8)	461	359
Deferred income taxes—net (note 8)	352	428
	65,462	70,983
Property, plant and equipment—net (note 3)	16,443	17,590
Deferred financing costs—net	68	90
	$81,973	$88,663
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$31,045	$29,425
Accrued liabilities (note 3)	5,562	7,080
Derivative liabilities (note 7)	2,087	2,703
Income taxes payable	502	449
Revolving credit facility (note 4)	10,721	21,370
Current portion of long-term debt (note 4)	1,000	—
Current portion of capital lease obligations (note 4)	538	980
	51,455	62,007
Long-term debt (note 4)	4,000	—
Capital lease obligations (note 4)	222	866
Shareholders' equity:		
Capital stock (note 5)	391	390
Additional paid-in capital	264,505	263,996
Deficit	(238,600)	(238,596)
	26,296	25,790
	$81,973	$88,663

Commitments and contingencies (note 11)

Subsequent events (note 4)

See accompanying notes to consolidated financial statements.

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SMTC CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

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

	Year ended January 3, 2016	**Year ended December 28, 2014**	**Year ended December 29, 2013**
Revenue	$220,616	$228,577	$270,684
Cost of sales	202,899	209,623	255,503
Gross profit	17,717	18,954	15,181
Expenses:			
Selling, general and administrative expenses (note 13)	15,863	17,900	19,190
Restructuring charges	—	1,366	1,989
Fair value adjustment related to contingent consideration (note 12)	—	—	274
Loss (gain) on disposal of property, plant and equipment	2	51	(101)
Operating earnings (loss)	1,852	(363)	(6,171)
Interest expense (note 3)	1,183	1,693	1,724
Earnings (loss) before income taxes	669	(2,056)	(7,895)
Income tax expense (note 8)			
Current	597	887	887
Deferred	76	935	3,681
	673	1,822	4,568
Net loss and comprehensive loss	$(4)	$(3,878)	$(12,463)
Basic loss per share (note 9)	$(0.00)	$(0.24)	$(0.76)
Diluted loss per share (note 9)	$(0.00)	$(0.24)	$(0.76)
Weighted average number of shares outstanding (note 9)			
Basic	16,421,478	16,417,275	16,361,865
Diluted	16,421,478	16,417,275	16,361,865

See accompanying notes to consolidated financial statements.

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SMTC CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of U.S. dollars)

	Capital stock	Additional paid-in capital	Deficit	Total Shareholders' equity
Balance, December 30, 2012	$ 389	$ 263,424	$ (222,255)	$ 41,558
Exercise of stock options	1	60	—	61
Stock-based compensation	—	248	—	248
Net loss for the year	—	—	(12,463)	(12,463)
Balance, December 29, 2013	$ 390	$ 263,732	$ (234,718)	$ 29,404

	Capital stock	Additional paid-in capital	Deficit	Total Shareholders' equity
Balance, December 29, 2013	$ 390	$ 263,732	$ (234,718)	$ 29,404
Stock-based compensation	—	264	—	264
Net loss for the year	—	—	(3,878)	(3,878)
Balance, December 28, 2014	$ 390	$ 263,996	$ (238,596)	$ 25,790

	Capital stock	Additional paid-in capital	Deficit	Total Shareholders' equity
Balance, December 28, 2014	$ 390	$ 263,996	$ (238,596)	$ 25,790
Issue of restricted stock units into common shares	1	(1)	—	—
Stock-based compensation	—	510	—	510
Net loss for the year	—	—	(4)	(4)
Balance, January 3, 2016	$ 391	$ 264,505	$ (238,600)	26,296

See accompanying notes to consolidated financial statements.

SMTC CORPORATION

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

	Year ended January 3, 2016	**Year ended December 28, 2014**	**Year ended December 29, 2013**
Cash provided by (used in):			
Operations:			
Net loss	$ (4)	$ (3,878)	$ (12,463)
Items not involving cash:			
Depreciation	3,967	3,997	3,883
Unrealized (gain)/loss on derivative instrument (note 7)	(616)	1,822	1,107
Deferred income taxes	76	1,085	3,681
Amortization of deferred financing fees	32	385	389
Stock-based compensation	510	264	248
Fair value adjustment related to contingent consideration	—	—	274
Loss (gain) on sale of property, plant and equipment	2	51	(101)
Change in non-cash operating working capital:			
Accounts receivable	1,139	(203)	5,480
Inventories	5,713	5,186	18,030
Prepaid expenses and other assets	152	(503)	251
Income taxes receivable/payable	(49)	(213)	94
Accounts payable	1,439	(3,732)	(15,124)
Accrued liabilities	(1,483)	734	(2,315)
	10,878	4,995	(3,434)
Financing:			
Advances (repayment) of revolving credit facility	(10,649)	1,148	7,326
Advances (repayment) of long-term debt	5,000	—	(4,631)
Principal payment of capital lease obligations	(1,086)	(1,858)	(2,236)
Proceeds from issuance of common stock	—	—	61
Proceeds from sale and leaseback	—	—	988
Payment of contingent consideration	—	—	(1,059)
Debt issuance and deferred financing costs	(10)	(200)	(100)

	(6,745)	(910)	349
Investing:			
Restricted cash - guaranteed deposit	(805)	—	—
Purchase of property, plant and equipment	(2,682)	(1,971)	(3,097)
Proceeds from sale of property, plant and equipment	6	38	406
	(3,481)	(1,933)	(2,691)
Increase in cash	652	2,152	1,092
Cash, beginning of year	5,447	3,295	2,203
Cash, end of the year	$6,099	$ 5,447	$ 3,295
Supplemental Information:			
Cash interest paid	$1,065	$ 1,192	$ 1,376
Cash taxes paid	$591	$ 1,082	$ 797
Property, plant and equipment acquired through capital lease	$—	$ 1,703	$ 1,430
Property, plant and equipment acquired that was unpaid in cash and included in accounts payable and accrued liabilities	$247	$ 101	$ 143

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, Mexico and China. All facilities provide 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 in Hong Kong.

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 loss, the consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows are reported for the periods from December 29, 2014 to January 3, 2016 ("year ended January 3, 2016"), December 30, 2013 to December 28, 2014 ("year ended December 28, 2014"), and December 31, 2012 to December 29, 2013 ("year ended December 29, 2013").

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 presented in United States ("US") dollars.

2. Significant accounting policies cont'd

(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. The Company has no interests in Variable Interest Entities in any of the years presented as all subsidiaries are wholly-owned. 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, deferred tax asset valuation allowance, restructuring, impairment of long-lived assets and going concern assessment. 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 components that are built to customer specifications. Revenue from the sale of products is recognized when goods are shipped to customers (FoB Shipping Point) once title has passed to the customer, persuasive evidence of an arrangement exists, price is fixed or determinable, performance has occurred, all customer-specified test criteria have been met and collectability is reasonably assured.

In addition, the Company has contractual arrangements with the majority of its customers that provide for customers to purchase any 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 minimal revenue from engineering and design services. Service revenue is recognized as services are performed.

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 such as 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. 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. Parts and other inventory items relate to equipment servicing parts that are capitalized to inventory and expensed as utilized to service the equipment. Parts inventory is valued at lower of cost and net realizable value.

2. Significant accounting policies cont'd

(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 (in years)	5	–	20
Machinery and equipment (in years)	7	–	15
Office furniture and equipment (in years)		7	
Computer hardware and software (in years)		3	
Leasehold improvements	Over shorter of the lease term and estimated useful life		

(viii) 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 Income Taxes ASC 740 with respect to accounting for uncertainty in income taxes recognized in the Company'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.

(ix) Earnings per common share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings 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.

2. Significant accounting policies cont'd

(x) 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 loss.

(xi) Financial instruments

The Company accounts for derivative financial instruments (forward foreign exchange contracts) in accordance with applicable guidance. In accordance with these standards, all derivative instruments are recorded on the balance sheet at their respective fair values. Changes in fair value of derivatives that are not designated as hedges are recorded in the consolidated statement of operations and comprehensive loss as a component of cost of sales.

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 the revolving credit facility and capital lease obligations approximate the carrying values as the obligations bear rates currently available for debt with similar terms, maturities and credit rating.

(xii) Shipping and handling costs

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

(xiii) 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, while the fair value of restricted stock units ("RSU's) is based on the closing stock price at the date of grant. Compensation expense is recognized over the stock option and RSU 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.

(xiv) 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.

2. Significant accounting policies cont'd

(xv) 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.

(xvi) 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.

(xvii) Post-employment benefits

The Company sponsors defined contribution pension plans and other post-employment benefit plans for certain employees. Contributions to the defined contribution pension plans are recognized as an expense as services are rendered by employees. The costs of the other post-employment benefit plans are actuarially determined. The liability recognized in the balance sheet in respect of the post-employment benefit plans for certain employees is the present value of the defined other post-employment benefit obligation at the end of the reporting period as determined by the Company's actuary.

2. Significant accounting policies cont'd

(xviii) Recent Accounting Pronouncements

In May 2014, the FASB published ASU 2014-09 Topic 606: Revenue from Contracts with Customers, which supersedes (i) revenue recognition requirements in Topic 605 and most related industry-specific guidance, and (ii) cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts, and amends existing requirements for recognition of a gain/loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) to be consistent with the new requirements. In August 2015, the FASB published ASU 2015-14 Topic 606 which effectively postponed the effective adoption requirement by one year such that the standard is effective for years beginning after December 15, 2017 including interim periods with those years. Early adoption is permitted only for those annual reporting periods beginning on or after December 15, 2016. The Company continues to evaluate the impact of this accounting standard. The impact of adoption of the standard has not yet been determined.

In June 2014, the FASB published ASU 2014-12 Topic 718: Compensation – Stock Compensation. The standard is amended to require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The standard is effective for all entities for years, and interim periods within those years, beginning after December 15, 2015. The Company continues to evaluate the impact of this accounting standard. The impact of adoption of the standard has not yet been determined.

In August 2014, the FASB published ASU 2014-15 Topics 205-40: Presentation of Financial Statements – Going Concern. The standard provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. Effective for years ending after December 15, 2016 and for years and interim periods thereafter. The Company continues to evaluate the impact of this accounting standard. The impact of adoption of the standard has not yet been determined.

In April 2015, the FASB published ASU 2015-03 Topics 835-30: Presentation of Debt Issuance Costs. The standard provides guidance about simplifying the presentation of debt issuance costs. Under this ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. Effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. The Company continues to evaluate the impact of this accounting standard. The impact of adoption of the standard has not yet been determined.

In April 2015, the FASB published ASU 2015-04: Retirement Benefits (Topic 715). The amendments intend to reduce complexity by providing a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. The Company continues to evaluate the impact of this accounting standard. The impact of adoption of the standard has not yet been determined.

In July 2015, the FASB published ASU 2015-11: Simplifying the Measurement of Inventory (Topic 330). The amendments in this Update more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). The Board has amended some of the other guidance in Topic 330 to more clearly articulate the requirements for the measurement and disclosure of inventory. However, the Board does not intend for those clarifications to result in any changes in practice. Other than the change in the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory within the scope of this Update, there are no other substantive changes to the guidance on measurement of inventory. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this Update. The impact of adoption of the standard has not yet been determined.

2. Significant accounting policies cont'd

In November 2015, the FASB published ASU 2015-17: Income Taxes (Topic 740). The amendment requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company continues to evaluate the impact of this accounting standard.

In February 2016, the FASB published ASU 2016-02: Leases (Topic 842). The amendment proposes that all lessees should recognize the assets and liabilities that arise from leases. Elections may be available for those leases with terms of 12 months or less. The amendment still retains the distinction between finance leases and operating leases. The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The impact of adoption of the standard has not yet been determined.

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 loss.

Consolidated balance sheets

Restricted cash – guaranteed deposits

	January 3, 2016	**December 28, 2014**
Restricted cash – guaranteed deposits	$ 805	$ —

Restricted cash pertains to deposits which have been guaranteed to a government agency pertaining to estimated value added taxes (VAT) on imported raw materials inventory in Suzhou, China. Typically, the cash is restricted for a contractual term of 12 months or less and is released when the finished goods are exported or the expected imported raw materials are cancelled.

Accounts receivable—net:

	January 3, 2016	**December 28, 2014**
Trade accounts receivable	$ 28,797	$ 30,782
Other receivables	1,347	572
Allowance for doubtful accounts	(259)	(330)
Accounts receivable—net	$ 29,885	$ 31,024

Inventories:

	January 3, 2016	December 28, 2014
Raw materials	$ 19,385	$ 25,973
Work in process	1,416	2,099
Finished goods	4,400	2,743
Parts and other	676	775
Inventories	$ 25,877	$ 31,590

Inventories are recorded net of a provision for obsolescence as at January 3, 2016 and December 28, 2014 of $673 and $475 respectively.

3. Consolidated financial statement details cont'd

Property, plant and equipment—net:

	January 3, 2016	December 28, 2014
Cost (a):		
Land	$ 1,648	$ 1,648
Buildings	9,852	9,878
Machinery and equipment (b)	30,707	31,592
Office furniture and equipment	599	1,690
Computer hardware and software (c)	3,447	5,930
Leasehold improvements (d)	3,232	2,456
	49,485	53,194
Less accumulated depreciation (a):		
Land	—	—
Buildings	(7,719)	(7,275)
Machinery and equipment (b)	(20,347)	(20,545)
Office furniture and equipment	(496)	(1,513)
Computer hardware and software (c)	(2,284)	(4,774)
Leasehold improvements (d)	(2,196)	(1,497)
	(33,042)	(35,604)
Property, plant and equipment—net	$ 16,443	$ 17,590

(a) During 2015, the Company wrote off fully depreciated assets that were no longer in use with a cost and accumulated depreciation of $6,522.

(b) At January 3, 2016 and December 28, 2014, included within machinery and equipment were assets under capital leases with costs of $2,528 and $3,495, respectively and associated accumulated depreciation of $865 and $916, respectively. The related depreciation expense for the years ended January 3, 2016, December 28, 2014 and December 29, 2013 was $417, $694 and $769, respectively.

(c) At January 3, 2016 and December 28, 2014, included within computer hardware and software were assets under capital leases with costs of $119 and $498, respectively and associated accumulated depreciation of $86 and $417 respectively. The related depreciation expense for the years ended January 3, 2016, December

28, 2014 and December 29, 2013 was $49, $151 and $144, respectively.

(d) At January 3, 2016 and December 28, 2014, included within leasehold improvements were assets under capital leases with costs of $nil and $73 respectively, and associated accumulated depreciation of $nil and $42, respectively. The related depreciation expense for the years ended January 3, 2016, December 28, 2014 and December 29, 2013 was $2, $15 and $15 respectively.

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3. Consolidated financial statement details cont'd

Accrued liabilities:

	January 3, 2016	December 28, 2014
Customer-related	$ 1,852	$ 2,074
Payroll	2,649	4,014
Professional services	367	395
Vendor related	383	29
Other	311	568
Accrued liabilities	$ 5,562	$ 7,080

Consolidated statements of operations and comprehensive loss

Interest expense:

	Year ended January 3, 2016	Year ended December 28, 2014	Year ended December 29, 2013
Long-term debt	$ —	$ —	$ 76
Revolving credit facility	1,035	1,096	1,071
Amortization of deferred financing costs	32	385	389
Obligations under capital leases	116	212	188
Interest expense	$ 1,183	$ 1,693	$ 1,724

4. Debt and capital leases

(a) Revolving credit and long-term debt facilities

The Company borrows money under a Revolving Credit and Security Agreement with PNC Bank, National Association ("PNC") with a term to January 2, 2018. Advances made under the PNC Revolving Credit Facility bear interest at the U.S. base rate plus 0.75%. The base commercial lending rate should approximate prime rate.

On February 9, 2016, SMTC Corporation and certain of its subsidiaries entered into the Tenth Amendment to its Revolving Credit and Security Agreement, effective as of January 29, 2016 with PNC.

The Tenth Amendment reduces the maximum amount of the PNC Revolving Credit Facility provided under the Loan Agreement by $5,000 to $35,000 and provides for a Long-Term Debt Facility of $5,000 maturing on January 2, 2018 with quarterly principal payments of $250 commencing on April 1, 2016 (collectively the "PNC Facilities"). The Tenth Amendment reduces the applicable interest rate for the PNC Revolving Credit Facility to U.S. base rate plus 0.50% from U.S. base rate plus 0.75%. The applicable interest rate for the PNC Long-Term Debt Facility is U.S. base rate plus 1.00%.

At January 3, 2016, $10,721 (December 28, 2014 - $21,370) was outstanding under the PNC Revolving Credit Facility and is classified as a current liability based on the requirement to hold a "lock-box" under the terms of the PNC Revolving Credit Facility.

The maximum amount of funds available under the PNC Revolving Credit Facility is $35,000 (as per amendment described above). Availability under the PNC Revolving Credit Facility is subject to certain conditions, including borrowing base conditions based on eligible inventory and accounts receivable, and certain conditions as determined by the lender. The Company is required to use a "lock-box" arrangement for the PNC Revolving Credit Facility, whereby remittances from customers are swept daily to reduce the borrowings under this facility.

At January 3, 2016, $5,000 (December 28, 2014 – $Nil) was outstanding under the PNC Long-Term Debt Facility.

The PNC Facilities are a joint and several obligations of the Company and its subsidiaries that are borrowers under the facilities and are jointly and severally guaranteed by other subsidiaries of the Company. Repayment under the PNC Facilities is collateralized by the assets of the Company and each of its subsidiaries.

(b) Covenants

The PNC Facilities agreement contains certain financial and non-financial covenants.

The financial covenants require the Company to maintain minimum consolidated fixed charge coverage ratio and limit unfunded capital expenditures (all as defined in the credit agreement governing the PNC Facilities). The financial covenant relating to a minimum consolidated fixed charge coverage ratio is in effect for the twelve months ended January 3, 2016 and thereafter on a rolling twelve month basis until January 2, 2018.

The Company is in compliance with the financial covenants included in the PNC Facilities as of January 3, 2016.

4. Debt and capital leases cont'd

(c) Obligations under capital leases

Minimum lease payments for capital leases due within each of the next two years and thereafter consist of the following:

2016	$598
2017	230
Thereafter	—
Total minimum lease payments	828
Amount representing interest ranging from 2% to 11%	(68)
Present value of lease payments	760
Current portion of capital lease obligations	538
Long term capital lease obligations	$222

5. Capital stock

Common shares

Authorized share capital:

The authorized share capital of the Company at January 3, 2016 and December 28, 2014 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. As at

January 3, 2016, there was no outstanding special voting stock.

5. Capital stock cont'd

Issued and outstanding:

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

	January 3, 2016		December 28, 2014		December 29, 2013	
	Number of shares	$	Number of shares	$	Number of shares	$
Common Stock						
Exchangeable shares:						
Balance at beginning of the period	—	$—	—	$—	—	$—
Shares issued pursuant to:						
Issued for conversion to common stock	—	—	20	—	—	—
Conversion to common stock	—	—	(20)	—	—	—
Balance at end of the year	—	$—	—	$—	—	$—
Common Stock						
Balance at beginning of the period	16,417,276	$390	16,417,256	$390	16,344,193	$389
Shares issued pursuant to:						
Exercise of stock options	—	—	—	—	73,063	1
Conversion of restricted stock units	67,779	1	20	—	—	—
Balance at end of the year	16,485,055	$391	16,417,276	$390	16,417,256	$390
Total Common Stock		$391		$390		$390

Exchangeable shares:

During the year ended January 3, 2016, there were no issued or outstanding exchangeable shares. During the year ended December 28, 2014, 20 exchangeable shares were issued and converted to common shares. During the year ended December 29, 2013 there were no issued or outstanding exchangeable shares.

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6. Stock-based compensation

Stock options

2010 Incentive Plan:

The Company settles its stock options in equity. In July 2010, the Company approved a stock option plan, the 2010 SMTC Incentive Plan (the “2010 Incentive Plan”). The 2010 Incentive 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 vest over a one to three-year period and expire five to 10 years from their respective date of grant.

In June 2011, the Company voted to increase the amount of shares available under the 2010 Plan by 670,000 and in June 2012 the Company voted to increase the number of shares available under the 2010 Plan by 652,000. There was no vote to increase the number of shares available under the plan in 2013, 2014 and 2015 and as such the authorized increase to the number of shares was calculated as 163,619, 164,173 and 176,197 respectively based on 1% of the fully diluted common shares as at December 29, 2013, December 28, 2014 and January 3, 2016 respectively. In 2015, 67,779 restricted stock units were converted into common shares and therefore, there are 2,108,210 shares authorized to issue under the 2010 Incentive Plan.

A summary of stock option activity under the Incentive Plans for the years ended December 29, 2013, December 28, 2014 and January 3, 2016 is as follows:

	Total Outstanding options	**Weighted average exercise price**	**Aggregate intrinsic value**	**Weighted average remaining contractual term (years)**
Outstanding balance at December 30, 2012	1,400,807	$ 2.82		
Options granted	235,000	$ 2.06		
Options expired	(1,127,744)	$ 2.90		
Options exercised	(73,063)	$ 0.93		
Outstanding balance at December 29, 2013	435,000	$ 2.50		
Options granted	498,879	$ 1.80		

Options forfeited	(116,667)	$ 2.48			
Options exercised	—	$ —			
Outstanding balance at December 28, 2014	817,212	$ 2.07			
Options granted	—	$ —			
Options expired	(66,667)	$ 3.11			
Options forfeited	(95,431)	$ 2.03			
Options exercised	—	—			
Outstanding balance at January 3, 2016	655,114	$ 1.98	$	—	6.5
Exercisable balance at January 3, 2016	394,098	$ 2.07	$	—	5.6

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6. Stock-based compensation cont'd

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 estimates the expected term of the options based on evaluating historical exercise data. The Company considers exercise data based on employee behavior when developing the expected term assumptions. 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:

Black-Scholes weighted-average assumptions	**Year ended January 3, 2016 (1)**	**Year ended December 28, 2014**	**Year ended December 29, 2013**
Expected dividend yield	N/A	0.0 %	0.0 %
Expected volatility	N/A	57.0 %	69.1 %
Expected forfeiture	N/A	18.0 %	16.0 %
Risk-free interest rate	N/A	1.22 %	0.4 %
Expected option life in years	N/A	4.2	3.7
Weighted-average stock option fair value per option granted	$ N/A	$ 0.82	$ 1.03

(1) No stock options were granted in 2015

During the years ended January 3, 2016, December 28, 2014 and December 29, 2013, the Company recorded stock-based compensation expense and a corresponding increase in additional paid in capital of $175, $133 and $248, respectively.

During the years ended January 3, 2016, December 28, 2014 and December 29, 2013, 257,430, 95,002 and 158,334 options vested, respectively. As at January 3, 2016, compensation expense of $217 related to non-vested stock options has not been recognized.

The following table presents information about stock options outstanding as of January 3, 2016:

Outstanding options	**Weighted average exercise price**	**Exercisable options**	**Weighted average exercise price**
420,114	$ 1.80	195,763	$ 1.80
25,000	$ 1.96	25,000	$ 1.96
100,000	$ 2.02	66,668	$ 2.02
10,000	$ 2.17	6,667	$ 2.17
50,000	$ 2.19	50,000	$ 2.19
50,000	$ 3.11	50,000	$ 3.11
655,114	$ 1.98	394,098	$ 2.07

6. Stock-based compensation (cont'd)

Restricted Stock Units

Restricted Stock Units ("RSU") are settled in equity. RSUs are issued under the 2010 Incentive Plan and have same terms and conditions as other equity compensation awards issued under the 2010 Incentive Plan. The RSUs are valued at the closing stock price on the date the units are granted. RSUs have vesting terms of one to three years. The compensation expense is recorded on a straight line basis over the vesting period.

	Outstanding options	**Weighted average stock price**	**Weighted average remaining contractual term (years)**
Outstanding balance at December 29, 2013	—	$ —	
RSU granted under the 2010 Incentive Plan	520,433	$ 1.94	
RSU forfeited	—	$ —	
RSU converted into common shares	—	$ —	
Outstanding balance at December 28, 2014	520,433	$ 1.94	2.5
RSU granted under the 2010 Incentive Plan	91,818	$ 1.47	
RSU forfeited	(64,908)	$ 1.89	
RSU converted into common shares	(67,779)	$ 1.80	
Outstanding balance at January 3, 2016	479,564	$ 1.88	1.51

During the periods ended January 3, 2016, December 28, 2014 and December 29, 2013, the Company recorded stock-based compensation expense and a corresponding increase in additional paid in capital of $335, $131, and $ nil, respectively, with respect to RSUs.

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7. Financial Instruments and Risks

Interest Rate Risk

The PNC Facilities bears interest at a floating rate. The weighted average interest rate incurred on the PNC Facilities for the year ended January 3, 2016 was 4.3% (year ended December 28, 2014 – 4.6%). At January 3, 2016, the interest rate on the PNC Facilities was 4.0% (year ended December 28, 2014 – 4.5%) based on the U.S. prime rate plus 0.75%.

The impact of a 10% change in interest rates would not have a significant impact on our reported earnings.

Derivative Forward Contracts and Foreign Currency Exchange Risk

As a result of operating a global business, we are exposed to exchange rate fluctuations on expenditures denominated in foreign currencies. However, most of our sales and component purchases are denominated in U.S. dollars, which limits our foreign currency risk. Our foreign exchange risk relates primarily to our Canadian, Mexican and Asian payroll, Euro based component purchases and other various operating expenses denominated in local currencies in our geographic locations. To mitigate this risk, the Company enters into forward foreign exchange contracts to reduce its exposure to foreign exchange currency rate fluctuations related to forecasted Canadian dollar and Mexican peso. The strengthening of the Canadian dollar and Mexican peso would result in an increase in costs to the organization and may lead to a reduction in reported earnings.

The impact of a 10% change in exchange rates would not have a significant impact on our reported earnings as we hedge foreign currency risk by entering into forward foreign currency contracts based on estimated 12 month spend.

The Company enters 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 for the 12 months of 2016, and Mexican peso denominated payroll, rent and utility cash flows for the 12 months of 2016. These contracts were effective economic hedges but did not qualify for hedge accounting under ASC 815 “Derivatives and Hedging”. Accordingly, changes in the fair value of these derivative contracts were recognized into net loss in the consolidated statement of operations and comprehensive loss. The Company does not enter into forward foreign exchange contracts for trading or speculative purposes.

The following table (expressed in thousands of Canadian dollars and Mexican pesos) presents a summary of the outstanding foreign currency forward contracts as at January 3, 2016:

Currency	Buy/Sell	Foreign Currency Amount	Notional Contract Value in USD
Canadian dollar	Buy	CAD 7,400	$ 5,840
Mexican peso	Buy	MXN 271,631	$ 17,150

The unrealized gain recognized in earnings as a result of revaluing the outstanding instruments to fair value on January 3, 2016 was $616 (2014 – unrealized loss of $1,822) (2013 – unrealized loss of $1,107) which was recorded in cost of sales in the consolidated statement of operations and comprehensive loss. The realized loss on settled contracts during 2015 was $4,446 (2014 – realized loss $1,082) (2013 – gain $541), which was recorded in cost of sales in the consolidated statement of operations and comprehensive loss. 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 “Fair Value Measurements”).

	January 3, 2016	**December 28, 2014**
Average USD:CAD contract rate	1.26	1.11
Average USD:CAD mark-to-market rate	1.38	1.17
Average USD:PESO contract rate	15.88	13.40
Average USD:PESO mark-to-market rate	17.47	14.87

The derivative liability as at January 3, 2016 was $2,087 (December 28, 2014 - $2,703) which reflected the fair market value of the unsettled forward foreign exchange contracts.

7. Financial Instruments and Risks cont'd

Credit Risk

In the normal course of operations, there is a risk that a counterparty may default on its contractual obligations to us which would result in a financial loss that could impact our reported earnings. In order to mitigate this risk, we complete credit approval procedures for new and existing customers and obtain credit insurance where it is financial viable to do so given anticipated revenue volumes, in addition to monitoring our customers' financial performance. We believe our procedures in place to mitigate customer credit risk and the respective allowance for doubtful accounts are adequate.

There is limited risk of financial loss from defaults on our outstanding forward currency contracts as the counterparty to the transactions had a Standard and Poor's rating of A- or above as at December 31, 2015.

Liquidity Risk

There is a risk that we may not have sufficient cash available to satisfy our financial obligations as they come due. The financial liabilities we have recorded in the form of accounts payable, accrued liabilities and other current liabilities are primarily due within 90 days with the exception of the current portion of capital lease obligations which could exceed 90 days and our Revolving Credit Facility which utilizes a lock-box to pay down the obligation effectively daily. We believe that cash flow from operations, together with cash on hand and our PNC Revolving Credit Facility, which has a credit limit of $35M and the PNC Long-Term Debt Facility of $5M are sufficient to fund our financial obligations.

8. Income taxes

The Company recorded the following income tax expense for the periods noted:

	Year ended January 3, 2016	**Year ended December 28, 2014**	**Year ended December 29, 2013**
Current:			
Federal/State	$ 28	$ 113	$ (233)
Foreign	569	774	1,120
	597	887	887
Deferred:			
Federal	—	1,000	4,000
Foreign	76	(65)	(319)
	76	935	3,681
Income tax expense	$ 673	$ 1,822	$ 4,568

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

	Year ended January 3, 2016	**Year ended December 28, 2014**	**Year ended December 29, 2013**
Federal income tax expense (recovery)	$ 234	$ (720)	$ (2,763)
State income tax expense (recovery), net of federal tax benefit	29	58	(62)
Change in enacted income tax rates	—	—	(469)
Loss of foreign subsidiaries taxed at different rates	113	—	185
Change in valuation allowance	(2,205)	(2,524)	7,114
Additional (release of) income tax exposures and alternative minimum taxes	—	55	—

Deemed income inclusion of foreign subsidiary	574	749	1,469
Expiry of operating loss carry forwards	843	3,142	—
Permanent and other differences	1,085	1,062	(906)
Income tax expense	$ 673	$ 1,822	$ 4,568

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8. Income taxes cont'd

Income (loss) before income taxes consisted of the following for the periods noted:

	Year ended January 3, 2016	Year ended December 28, 2014	Year ended December 29, 2013
Domestic (U.S.)	$ 3,205	$ (1,267)	$ (6,467)
Foreign (Non U.S.)	(2,536)	(789)	(1,428)
	$ 669	$ (2,056)	$ (7,895)

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 3, 2016	December 28, 2014
Deferred income tax assets:		
Net operating loss carryforwards	$ 24,595	$ 22,829
Capital loss carryforwards	2,232	2,232
Tax credit carryforwards	4,307	4,290
Property, plant and equipment and other assets	1,812	3,593
Reserves, allowances and accruals	546	2,829
	33,492	35,773
Valuation allowance	(33,140)	(35,345)
Net deferred income tax assets	$ 352	$ 428

At January 3, 2016, the Company had total net operating loss carry forwards of $80.2 million, of which $50.9 million, $24.5 million and $4.8 million pertains to federal loss carry forwards from U.S., Canadian and Asian jurisdictions respectively. $1.3 million will expire in 2017, $2.3 million will expire between 2018 and 2022, $17.9 million will expire in 2023, $10.1 million will expire between 2025 and 2029, $19.7 million will expire in 2030 and the remainder will expire beyond 2030.

At January 3, 2016 and December 28, 2014, the Company had gross unrecognized tax benefits of $275 and $290, respectively, which if recognized, would favorably impact the Company’s effective tax rate in future periods. The Company does not expect any of these unrecognized tax benefits to reverse in the next twelve months.

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 $58 and $55 accrued for interest and penalties as of January 3, 2016 and December 28, 2014, respectively. The decrease is due to the foreign exchange movement between the financial reporting currency and the functional currency for tax purposes, net of interest and penalty charges recorded.

8. Income taxes cont'd

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.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its U.S. 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 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. In 2013, it was determined by management that a partial valuation allowance was required to be recorded against certain deferred tax assets associated with the U.S. jurisdiction as it was not more likely than not to be realized. In 2014, it was determined by management that a full valuation allowance was required to be recorded against the remaining deferred tax assets associated with the U.S. jurisdiction as it was not likely to be realized. The Canadian jurisdiction continues to have a full valuation allowance recorded against the deferred tax assets. In 2015, management has concluded that a full valuation allowance is still required to be recorded against the Canadian, Asian and U.S jurisdiction deferred tax assets.

9. Earnings (loss) per share

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

(Number of common shares)	Year ended January 3, 2016	Year ended December 28, 2014	Year ended December 29, 2013
Basic weighted average shares outstanding	16,421,478	16,417,275	16,361,865
Dilutive stock options (a)	—	—	—
Diluted weighted average shares outstanding	16,421,478	16,417,275	16,361,865

(a) For the periods ended January 3, 2016, December 28, 2014 and December 29, 2013, as a result of a net loss for the period, dilutive earnings per share was calculated using the basic weighted average shares outstanding as the effect of potential common shares would have been anti-dilutive.

10. Segmented information

General description

The Company is operated and managed geographically and has production facilities in the United States, Mexico and China. The Company utilizes reportable segment's site contribution (site revenues minus operating expenses, excluding unrealized foreign exchange on unsettled forward foreign exchange contracts, corporate allocations and restructuring expenses) to monitor reportable segment performance. Site contribution is utilized by the chief operating decision-maker as the indicator of reportable segment performance, as it reflects costs which our operating site management is directly responsible for. In assessing the performance of the reportable segments, management attributes site revenue to the reportable segment that ships the product to the customer, irrespective of the product's destination. Information about the reportable segments is as follows:

	Year ended January 3, 2016	**Year ended December 28, 2014**	**Year ended December 29, 2013**
Revenues			
Mexico	$ 142,738	$ 154,064	$ 189,825
Canada	—	—	13,098
US	33,088	46,652	47,303
China	55,155	57,909	58,543
Total	$ 230,981	$ 258,625	$ 308,769
Intersegment revenue			
Mexico	$ (488)	$ (730)	$ (5,283)
Canada	—	—	(2,539)
US	(286)	(16,775)	(20,344)
China	(9,591)	(12,543)	(9,919)
Total	$ (10,365)	$ (30,048)	$ (38,085)
Net external revenue			
Mexico	$ 142,250	$ 153,334	$ 184,542
Canada	—	—	10,559
US	32,802	29,877	26,959
China	45,564	45,366	48,624
Total segment revenue (which also equals consolidated revenue)	$ 220,616	$ 228,577	$ 270,684

Site Contribution

Mexico	$9,784	$8,860	$3,908
Canada	—	—	(779)
US	913	2,583	1,954
China	3,099	4,613	5,014
Total	$13,796	$16,056	$10,097
Corporate allocations	12,560	13,231	13,172
Unrealized foreign exchange (gain) loss on forward contracts	(616)	1,822	1,107
Restructuring charges	—	1,366	1,989
Interest expense	1,183	1,693	1,724
Earnings (loss) before income taxes	$669	$(2,056)	$(7,895)

10. Segmented information cont'd

Capital expenditures:

The following table contains additions including those acquired through capital leases, to property, plant and equipment for 2015, 2014 and 2013:

	Year ended January 3, 2016	**Year ended December 28, 2014**	**Year ended December 29, 2013**
Mexico	$ 735	$ 2,962	$ 2,038
China	1,048	140	450
US	857	361	204
Segment total	2,640	3,463	2,692
Corporate and other	188	169	203
Total	$ 2,828	$ 3,632	$ 2,895

Segment assets:

	January 3, 2016	**December 28, 2014**
Property, plant and equipment (a)		
Mexico	$ 10,674	$ 12,556
US	2,217	1,776
China	3,255	3,001
Corporate and other	297	257
Segment assets	$ 16,443	$ 17,590
Total segment assets		
Mexico	$ 45,637	$ 56,350
US	11,069	10,367
China	23,523	19,905

Corporate and other	1,744	2,041
Total	$ 81,973	$ 88,663

(a) Property, plant and equipment information is based on the principal location of the asset.

10. Segmented information cont'd

Geographic revenues:

The following table contains geographic revenues based on our customer invoicing location:

	Year ended January 3, 2016	**Year ended December 28, 2014**	**Year ended December 29, 2013**
US	$ 167,229	$ 195,465	$ 225,462
Canada	31,275	25,066	34,558
Europe	4,481	2,067	719
Asia	3,336	5,922	9,945
Africa	14,295	57	—
Total	$ 220,616	$ 228,577	$ 270,684

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 3, 2016, two customers individually comprised 13% and 11% of revenue from across all geographic segments. At January 3, 2016, these customers represented 8% and 4% of the Company’s trade accounts receivable.

During the period ended December 28, 2014 three customers individually comprised 31%, 12% and 10% of revenue from across all geographic segments. At December 28, 2014, these customers represented 21%, 12% and 3% of the Company’s trade accounts receivable.

During the period ended December 29, 2013 two customers individually comprised 36%, and 12% of revenue from across all geographic segments. At December 29, 2013, these customers represented 22%, and 18% of the Company’s trade accounts receivable.

11. 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:

2016	$2,294
2017	1,199
2018	760
2019 and thereafter	—
Total	$4,253

11. Commitments and contingencies cont'd

The Delaware General Corporation Law allows a corporation to eliminate the personal liability of directors to the corporation or to any of its stockholders for monetary damages for a breach of his fiduciary duty as a director, except in the case where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit. The Company has entered into indemnification agreements with each director which provide that the Company shall, subject to certain exceptions, indemnify and pay, advance or reimburse the costs of defense of such person who is made party to a proceeding by reason of their indemnified capacities. Each indemnified party agrees to repay any payment, advance or reimbursement of expenses made by the Company to such person if it is determined, following the final disposition of the claim, that the person is not entitled to indemnification by the Company with respect to a claim for which indemnification was obtained.

The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the consolidated balance sheet as at January 3, 2016 with respect to this indemnity.

Operating lease expense for the periods ended January 3, 2016, December 28, 2014 and December 29, 2013 was $2,358, $2,175 and $2,330, 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 3, 2016 consist of insurance installments of $218 to be paid during 2016. Purchase obligations not recorded on the balance sheet as at December 28, 2014 consist of insurance installments of $231 paid during 2015. As at December 29, 2013, purchase obligations not recorded on the balance sheet consist of insurance installments of $254 that were paid during 2014.

Purchase obligations not recorded on the balance sheet as at January 3, 2016 consist of open non-cancellable purchase orders for raw materials for $13,215 to be paid during calendar year 2016. Purchase obligations not recorded on the balance sheet as at December 28, 2014 consist of open purchase orders for raw materials for $12,043 to be paid during calendar year 2015. Purchase obligations not recorded on the balance sheet as at December 29, 2013 consist of open purchase orders for raw materials for $37,540 to be paid during calendar year 2014.

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.

12. Defined contribution pension plan and post-employment benefit plan

The Company has a 401K Plan which is accounted for as a defined contribution plan for certain U.S. employees, whereby the Company matches a portion of employee contributions. Company contributions to the plan were $157, $104 and $408 for the years ended January 3, 2016, December 28, 2014 and December 29, 2013, respectively.

The Company has certain post-employment benefits related to employees in its Mexico facility. These benefit plans are only available to local employees and are generally government mandated. The liability related to the unfunded benefit obligations was $268 and $298 as at January 3, 2016 and December 28, 2014 respectively, which was classified within accrued liabilities in the consolidated balance sheet.

13. Related Party Transactions

The Company incurred Director fees of $246, $307 and $187 for the years ended January 3, 2016, December 28, 2014 and December 29, 2013, respectively. The Company incurred stock based compensation expenses related to stock based awards for Directors of $52, $3 and $35 for the years ended January 3, 2016, December 28, 2014 and December 29, 2013, respectively. These charges were included in selling, general and administrative expenses.