



Coretec Inc.
2005 Second Quarter Results
Conference Call
August 4, 2005

Good morning. I'm Paul Langston, Coretec's Chairman, President and Chief Executive Officer. With me today is Mark Thornley, Coretec's Chief Financial Officer.

I'd like to thank you for joining us to discuss Coretec's second quarter 2005 results.

But first, I must caution you that this call may include statements about future expectations, plans and prospects that may constitute forward-looking statements. Please be cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties. Actual results or developments may vary materially from those projected or implied in the forward-looking statements as a result of any number of factors, including the effects of the slow-down in the general economy and the electronics and printed circuit board industries; customer order levels, product mix and inventory build-up; lower than expected or delayed sales; pricing and other competitive pressures in the industry; our ability to reduce costs; our ability to integrate past and any future acquisitions; and other risks listed in Coretec's filings with Canadian Securities regulators available at www.sedar.com.

Mark will begin our presentation by reviewing the second quarter financial results. Then I'll provide a snapshot of our business highlights in the quarter and describe the current conditions and outlook for our industry and Coretec specifically.

Thanks Paul:

Our continuing operations in the second quarter of 2005 recorded a loss of \$0.07 per share. Included in the net loss for the quarter is a charge of \$0.5 million or \$0.03 per share representing the costs associated with the abandoned merger transaction with Unicircuit, Inc. Earnings before interest, taxes, depreciation and amortization ("EBITDA") was \$0.9 million and free cash essentially nil, an improvement of \$0.1 million and \$0.5 million respectively from the prior quarter.

In the second quarter of 2005 sales decreased 6% to \$19.7 million compared to \$21.0 million in Q2 of 2004, although it was up sequentially 2% from the from Q1 of 2005. The decrease in total sales for the 2005 period compared to the 2004 period is principally a result of a \$0.6 million decline in offshore brokerage sales plus reduced sales in the Company's Cleveland and Toronto operations compared to the prior year period. Revenue from the Company's US customers was reduced by a lower foreign exchange conversion rate for the Company's US denominated sales compared to the prior year period.

Sales by region were 58% to the US, 35% to Canada and 7% to Europe.

Revenue by end market in Q2 was:

		2005
EMS		42%
Military/aerospace	20%	
Instrumentation	20%	Telecommunications 9%
Computer		9%
Total		100%

Ten largest customers accounted for 32% of sales in the second quarter of 2005.

Gross profit in the quarter was \$4.3 million or 22% of sales, a 31% decrease from gross profit of \$5.3 million, or 30% of sales, in the second quarter of 2004. The decrease in gross profit is principally a result of lower contribution from the Company's Toronto, Denver and Cleveland operations. Lower sales combined with increased operating costs, principally at the Company's Toronto operations, resulted in reduced gross margins. Subsequent to the quarter end, the Company made adjustments to its work force to lower operating costs. This will result in restructuring costs of approximately \$0.5 million for the third quarter of 2005.

SG&A expense in the quarter was \$3.1 million, a decrease of \$0.2 million compared to \$3.3 million in the prior year period. Selling, General and Administrative expense ("SG&A") decreased \$0.2 million principally due to reduced expenditures across all of the Company's operating divisions. As a percentage of sales, SG&A expense is essentially unchanged from the prior year period at 15.9% of sales.

Depreciation and amortization was \$1.5 million in the quarter compared to \$1.7 million in the prior year period. The reduction in depreciation and amortization expense for the 2005 period was principally due to the assets that became fully depreciated in the period being greater than the additional depreciation from assets acquired in past 12-month period.

Interest and other expenses in the 2005 were approximately unchanged at \$0.3 million as average net debt balances were similar compared to the prior period.

There was a charge of \$0.5 million recorded in the quarter associated with the abandoned merger transaction with Unicircuit, Inc. These costs are comprised of expenditures on due diligence, travel, legal, accounting, tax and other professional services associated with the proposed merger with Unicircuit Inc., a manufacturer of printed circuit boards based in the United States. The proposed merger was mutually terminated on June 20, 2005 prior to completion.

Foreign exchange translation loss was \$0.2 million and is principally a result of the reported translation of the Company's US dollar denominated net monetary assets, including working capital, to a Canadian dollar value during the reporting period, the difference in the value of the actual conversion of foreign currencies compared to recorded conversion and the change in the market valuation of the Company's outstanding US dollar foreign exchange forward contracts.

There was no income tax recovery recorded in the second quarter of 2005 due to the “more likely than not” test with respect to the valuation of deferred tax assets not being met.

Turning to capital additions:

Capital additions for continuing operations for the 2005 second quarter amounted to \$0.7 million, compared to \$0.6 million in the 2004 comparable period. Capital additions in the second quarter of 2005 consisted principally of investments in advance technology optical inspection equipment and investments in information technology software and hardware. The 2004 period expenditures includes the installation of advanced plating equipment and information technology. At the end of the quarter, the Company had approximately \$2.5 million of unused, fully paid for, advanced imaging and plating equipment not yet installed. To date, no depreciation has been taken on the equipment currently not in use, however, it is the Company’s intention to install this equipment in future periods.

In the second quarter of 2005, the Company agreed to a \$2.1 million conditional offer to sell the land the Lawrence facility is located on. Accordingly, the Company has segregated the carrying value of the Lawrence facility’s land and building on the balance sheet as an asset held for sale. The offer to purchase is subject to due diligence by the purchasing party. If completed, the purchase price will be paid with approximately 50% by closing, anticipated to be in the fourth quarter of this year, and 50% twelve months following the vacancy of the building by the Company. The Company will be granted an 18 months subsequent to closing in which to vacate the building. The building is subject to a mortgage held by the Business Development Bank of Canada (“BDC”). If the transaction closes, a principal repayment of \$0.3 million is to be paid to the BDC to release its mortgage on the building. No assurance can be given as to whether the proposed transaction will occur or not.

Turning to liquidity and capital resources:

At June 30, 2005, the Company’s principal source of liquidity included cash of \$0.8 million, trade accounts receivable of \$12.5 million, and an unused portion of its operating line of credit of \$7.1 million. Working capital was \$5.6 million at June 30, 2005 compared to \$6.5 million at December 31, 2004. Approximately \$4.1 million of the Company’s loans under its asset-based bank facility become due November 15, 2005 and as such are recorded in current liabilities on the Company’s balance sheet. We are currently finalizing the renewal of the facility with our bank and anticipate closing the agreement in the third quarter this year. When completed, approximately \$2.9 million of the term loans will be reclassified on the balance sheet to long-term debt.

Operating activities for the second quarter of 2005 provided cash of \$2.0 million compared to cash provided of \$1.5 million in the prior year period. In the 2005 period, income from continuing operations adjusted for non-cash items provided cash of \$0.5 million, a \$2.1 million decrease compared to \$2.7 million in the prior year period. Cash provided by working capital changes in the 2005 period was \$1.5 million compared to cash used by working capital changes of \$1.2 million in the prior year period. Cash provided by changes in non-cash working capital in the second quarter of 2005 is principally a result of a decrease in accounts receivable of \$0.8 million, a decrease in inventory of \$0.4 and a decrease in income taxes receivable of \$0.7 million offset by a

decrease in accounts payable and accrued liabilities of \$0.3 million. In the 2004 comparable period, changes in non-cash working capital balances are principally a result of an increase in accounts receivable of \$0.5 million, an increase in inventory of \$0.9 million offset by an increase in accounts payable and accrued liabilities of \$0.2 million.

Cash used in investing activities in the second quarter of 2005 amounted to \$0.7 million, compared to cash used in investing activities of \$0.8 million in the 2004 prior period. Cash used in the 2005 period principally represents investments in advanced technology production equipment and information technology hardware and software. The 2004 prior period amount includes the purchase of capital assets of \$0.6 million, and deferred financing costs of \$0.2 million related to new financing in the period.

Cash used by financing activities amounted to \$2.4 million in the second quarter of 2005 compared to cash used of \$0.9 million in 2004 prior period. The 2005 period includes the repayment of advances from the Company's bank line of \$2.1 million and the repayment of long term debt of \$0.3 million. Cash used in the 2004 prior period includes the repayment of advances from the Company's bank line of \$0.5 million and the repayment of long term debt of \$0.4 million.

Shares outstanding at the end of the quarter were 18.6 million. And with that I'll hand it back to Paul.

Thanks Mark.

Major achievements in Q2 2005 are as follows;

- In Q2 we received notice that our Denver facility has been approved by the Defense Department to MIL-PRF-31032/3/4. All of Coretec's facilities have the 31032 military certification which is an elevated site specific approval. The commonality will allow us to readily move work between sites. Only a handful of companies in North America are accredited as such. The 31032 approval replaces the much older MIL-PRF-55110 approval. Many competitors have this latter approval which is expiring, meaning that companies cannot re-qualify themselves to 55110 but instead must go through the arduous and time consuming 31032 qualification process. As such, we believe business opportunities in this sector will accrue to companies with the relevant approvals and scale.
- In Q2 we received confirmation that our Denver site has been approved for military rigid flex construction. The approval is known as MIL-PRF-50884. Both our Cleveland and Denver plants have this unique accreditation. Again only a handful of fabricators have this cert.
- In Q2 2005 we entered into a conditional sale agreement for the real estate that houses our Lawrence facility in Toronto. The transaction contemplates a mid October closing and further allows Coretec up to 18 months from closing to relocate. The sale price is C\$2.1 million.
- In Q2 2005 we continued the implementation of 5S and Lean manufacturing at our Toronto operations as well as intensified our adoption of Integrated Process

Management (IPM) through our program coined Project Worldclass. In addition 5S was initiated at our Denver and Cleveland sites;

- In Q2 2005 our Toronto operations were recertified to ISO14000, the environmental approval of the International Standards Organization. Coretec is one of a handful of companies in the industry with this environmental governance system.
- In Q2 we made significant strides with several key accounts. We received notice that we were accorded approved vendor status with Plexus; BAE Systems returned our Cleveland facility to unconditional approved vendor status; we received qualification on several significant rigid flex programs for Teradyne at our Cleveland plant; and we were awarded key supplier status with UK based MBDA Missile Systems.
- In Q2 we embarked on a corporate-wide materials and supplies consolidation and vendor reduction exercise which will yield over C\$1 million in savings annually.
- At the beginning of Q3 we rationalized several administrative and support functions corporately, effectively realizing a yearly savings of C\$1 million. In Q3 we will be taking a restructuring charge associated with these changes approximating \$500,000;
- And finally at the end of Q2 we finalized our RoHS compliance program. We are now in a position to fully support this industry changing initiative. California has recently implemented a compliance program and timeline consistent with the European RoHS. It is our belief that most of the PCB industry will be unable to or unprepared to comply with this legislation which comes into full force and effect in July 2006;

With respect to the PCB marketplace in North America, Q2 2005 has seen the industry continue to experience a book to bill of slightly over 1.0 (April- June). However we are looking at the industry B2B less and less as a relevant indicator due to the cycle time between bookings and shipments. More meaningful is the aggregate bookings and shipments data that is reported monthly by IPC (www.ipc.org). Year to date (January-June) rigid PCB bookings are off 3.8% as compared to the first 6 months of 2004. Shipments are off 6.4% for the same period.

The industry contraction in 2005 has been reported by several major companies as being related to price pressure more so than unit volumes. However we have seen softness in both pricing and activity levels especially as relates to quick turn requirements and the defense and aerospace sector specifically. Having said this the beginning of Q3 has started stronger than Q2 in terms of commercial bookings and quick turn activity levels however.

A series of restructuring announcements have hit the industry. Namely Tyco has closed their Austin facility which employed in excess of 200 people and had revenues of approximately US\$30 million; Pro-Tech in Fountain Valley, California, formerly a US\$25 million operation, has succumbed to Chapter 7; Viasystems in Montreal, once a \$200 million producer, officially closed their operations in July; Century Circuits in Toronto, once having annual revenues of \$20 million has filed for protection under the Bankruptcy and Insolvency Act; Noble Industries of Hibbing Minnesota has shut down after 25 years in operation – at one time Noble had two facilities and boasted sales of US\$15 million; and finally Matsushita announced the closure of their laminate manufacturing facility in Forest Grove, Oregon.

It has been projected by a number of industry analysts, that a significant thinning out will occur in the industry as many small operations succumb to technology irrelevance, financial exhaustion or business departures as a result of the ongoing outsourcing dynamic and offshore competition.

The industry's capacity has now been reduced by >50% versus 2000 when the consolidated rigid PCB output was approximately US\$10 Billion. Worthy to note is the fact that most of the capacity that has been removed since 2001 has been technically capable, professional and advanced certifications/major OEM approval oriented. In other words, the industry has not only compressed but its very structure has changed. The industry today is far more fragmented than ever before and is now a plethora of small regional operations. According to Dr. H. Nakahara, of NT Information Ltd., in 2000 the top 30 facilities in North America accounted for approximately 2/3 of all domestic PCB production. By 2004 this had declined to less than 50%.

We continue to believe that a vacuum is beginning to take shape for those sectors or customers that require relevant North American PCB supply. Many of the global, more capable PCB fabricators are investing their dollars and efforts into the Fareast and downsizing or exiting their North American manufacturing footprints. Customers, existing and prospective, are communicating concern over the health of the PCB supply chain and their need to consolidate purchasing with a reduced selection of partners. We are regularly hearing talk of risk mitigation amongst the larger OEMs and CEMs. Hence it is our belief that significant chunks of business will be made available to the remaining major PCB suppliers with scale, technology capability and balance sheet horsepower. This is one of the key emerging and significant opportunities in our industry in North America. We believe that Coretec is ideally situated to benefit from this dynamic. Combined with our focus on quick turn and prototype work which, in and of itself is a US\$2.5 Billion market in North America, there is meaningful market share that we can AND will capitalize upon.

It is becoming increasingly clear that TIME is the only real differentiator for domestic producers. Fareast operators are able to build a myriad of technologies including leading edge interconnects and are of course able to produce at significantly lower cost than North American or European facilities. Domestic fabricators will be favoured by customers with IP concerns but for the most part new product launches (i.e. prototypes and quick turn production) as well as high mix low volume work will be the only defensible niches other than government regulated markets (defense/aero). Coretec addresses all of these key areas of viability and growth in the North American marketplace.

During the past two quarters our revenues associated with buying and reselling PCBs made by strategic offshore partners has softened due to the general retrenchment being felt across the industry. It is however our expectation that this revenue stream will resume a growth trajectory for us for the balance of the year particularly as we refine our mix of offshore partners and bring additional focus to our value added service offering.

Our capital expansion plans for the remainder of 2005 include the implementation of approximately \$2.0 million worth of new equipment presently in storage and fully paid for. Furthermore we will spend collectively approximately \$1 million in engineering

systems, IT equipment and chemical processing machines across our facility network. As a result of our policy of ongoing investments in advanced machinery and IT we believe that we have enabled ourselves the opportunity to take further market share from competitors who have been unable, due to scale or for financial reasons, to similarly invest for the future.

At present, we are in the planning phase of our facility consolidation in Toronto. We intend to fulfill this mandate in a series of stages, the first of which involves the installation of all of our innerlayer, multilayer and drilling operations. This will allow us to exit our Lawrence facility within the next 12 months. Total expenditures for this initial phase are estimated to be \$2-3 million through to the end of 2006.

Finally, I would like to briefly discuss our thoughts and activities for Q2 2005 and the balance of the year.

The US dollar's volatility over the past 12 months has made it very difficult for us to project with confidence our forward revenues. Coupled with the fact that we are just-in-time product builders, we have been and continue to be challenged to offer revenue or eps guidance. The fact that end market demand has stabilized in Q2 has us feeling optimistic about the remainder of the year, especially given our historical propensity to outpace the industry growth rate. We are also aggressively focussed on productivity and continuous yield improvement in order to drive contribution margin expansion. As such we believe that our financial results will demonstrate ongoing appreciation throughout the balance of this year and into 2006.

The Restriction on Hazardous Substances legislation and in particular the drive to Lead Free PCBs and assembly will, we believe create a significant amount of new product development across all end markets. In order to comply with these restrictions customers will need to redesign their interconnection products to accommodate a new wave of compliant components as well as reduce their reliance on leaded components which will become increasingly difficult to procure. Coretec is playing a very proactive educational and partnership role with OEMs and CEMs, such that we will be able to gain meaningful market share by embedding ourselves with customers at the product development stage.

We believe that demand for Coretec's products and services will interestingly stem from the departure of PCB manufacturing capacity to Asia. Companies such as Viasystems, Photocircuits, Flextronics, Sanmina, Innovex, and Parlex have all made significant investments in Asia versus expanding their North American platforms. We are hearing from many customers that they are unable or unwilling to rely solely on Asian supply and as such have strategies that involve maintaining a certain degree of domestic supply. Given our scale and product offering we believe that Coretec will be a sought after PCB supply partner for displaced customers or those who are looking for security in their supply chain.

At Coretec, we believe that our core operating pillars; technology, value added services and especially TIME, are becoming increasingly more relevant and will ultimately drive us to be one of the dominant players in the printed circuit board industry.

That wraps up our presentation. We thank you for your interest and attention. I would therefore like to open the discussion up for questions.

Paul Langston (after the Q&A period is finished)

As a reminder, the instant replay of this Conference Call will be available from today at 10:30 a.m. until Monday, August 15, 2005 at 11:59 p.m. The phone number for the instant replay is 416-640-1917 or toll free 877-289-8525, the passcode is 21132759#.

As well, the text of our remarks will be posted on our website; www.coretec-inc.com.