



Coretec Inc.
2007 Second Quarter Results
Conference Call

July 25, 2007

Paul Langston

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

I'd like to thank you for joining us to discuss Coretec's 2007 second quarter 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; government regulations or trade restrictions that adversely affect revenues; 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.

Andre will begin our presentation by reviewing the second quarter and year to date financial results. Then I'll provide a snapshot of our business highlights in the quarter and describe the outlook for Q3 for our industry and Coretec specifically.

Andre Kern

Thanks Paul,

Good morning Ladies and Gentlemen,

I will begin by reviewing the **Statements of Operations** for the second quarter and first half of 2007 with comparisons to the prior year.

Sales in the second quarter were \$21.8 million, a 4.5% or \$1.0 million decrease as compared to the prior year period sales of \$22.8 million. The primary reason for the lower sales relates to the Company's Toronto operations and offshore program. The Toronto operations lower revenues result from lower North American-wide demand which has been ongoing all year as well as the impact of the strengthening Canadian dollar on the Toronto operation's sales to customers in U.S. dollars.

The gross profit was \$4.2 million, a reduction of \$1.0 million or 19.2% as compared to \$5.2 million in the prior year. The decrease in gross profit is attributable to the lower revenues, weakness in demand for time premium products and operational difficulties at the Toronto operations, especially related to newer technology products. Gross margin in the current quarter was 19.3% of sales as compared to the prior year's gross margin of 22.7%.

Selling, general and administrative expenses for the second quarter of 2007, at \$3.0 million are \$0.5 million lower, as compared to \$3.5 million in the similar period in 2006. The 2007 costs were lower primarily related to lower compensation expense in the current year as compared to the 2006 period.

Depreciation and amortization expense for Q2 2007 at \$1.3 million is slightly higher than the 2006 expense resulting from significant additions to plant and equipment in the current year.

Interest and other expenses in the first quarter of 2007 were \$0.2 million; somewhat higher than the 2006 expense due to higher levels of borrowing during 2007.

The Company incurred a foreign exchange loss of \$0.4 million year to date as compared to a gain of \$0.1 million during 2006 directly related to the strengthening and weakening of the Canadian dollar respectively.

In the second quarter the company sold some no longer needed equipment for a gain of \$0.1 million. The equipment was at the Company's Lawrence facility and had no future value to the Company resulting from the consolidation of the Lawrence facility into the Sheppard facility which was completed at the end of May 2007.

The net loss for the second quarter of 2007 was \$0.6 million, or \$0.03 per share as compared to net income of \$0.4 million, or \$0.02 per share recorded during the similar period in 2006

Looking to the Year to date numbers

Sales in the first half of 2007 were \$44.6 million, a 6.0% or \$2.8 million decrease as compared to the prior year period sales of \$47.4 million. The primary reason for the lower sales relates to the Company's offshore program in the first quarter in addition to lower North American-wide demand which started in the final quarter of 2006.

Year to date gross profit was \$8.8 million, a reduction of \$2.6 million or 22.8% as compared to \$11.4 million in the prior year. The decrease in gross profit is attributable to the lower sales by the Company, weakness in demand for time premium products and operational difficulties at the Toronto operations, especially related to newer technology products. Gross margin for the year to date was 19.7% of sales as compared to the prior year's gross margin of 24.1%.

Selling, general and administrative expenses for the first half of 2007, at \$6.8 million were \$0.2 million lower as compared to \$7.0 million in the similar period in 2006. The 2007 costs were lower primarily related to lower compensation costs.

Depreciation and amortization expense for the first six months of 2007 at \$2.5 million is slightly lower than the 2006 expense of \$2.6 million, principally due to assets having become fully depreciated during the year.

Interest and other expenses in the first half of 2007 were \$0.4 million; slightly higher than the 2006 expense relating to higher debt levels during 2007.

The Company incurred a foreign exchange loss of \$0.5 million year to date as compared to \$0.1 million during 2006 directly related to the strengthening of the Canadian dollar.

Year to date the company sold some no longer needed equipment for a gain of \$0.2 million. During the similar period in 2006, the Company wrote off \$0.2 million of machinery and equipment that was deemed to be redundant with respect to the Company's market strategy.

The net loss for the first six months of 2007 was \$1.2 million, or \$0.06 per share as compared to net income of \$1.1 million, or \$0.06 per share recorded during the similar period in 2006

Moving to the Balance Sheet...here are the highlights

Cash is at \$0.9 million at June 30, 2007 as compared to \$1.7 million at December 2006. Bank indebtedness at the quarter end was \$2.1 million as compared to nil at the prior year end. The reduced cash and increased indebtedness at the end of the second quarter as compared to year end relates primarily to the outfitting and construction at the Company's Sheppard site to accommodate the consolidation of the Company's Lawrence facility.

Working capital is \$8.8 million as at June 30, 2007 as compared to \$8.9 million at December 2006.

Accounts receivable days sales outstanding are 60 days at the end of June 2007, a decline, as compared to 56 days at the end of December 2006. The higher days sales outstanding relate to the lower level of sales, but with a similar level of accounts receivable.

Inventory turns were 13 times at June 2007 as compared to 15 times at the end of December 2006. The decline in turns primarily relates to some supplier managed inventory programs that the Company has with some customers.

Accounts payable days were 50 at June 2007, as compared to 56 days at December 2006. The lower days relate to lower professional fee accruals as well as the timing of the Company's supplier payments at the end of June.

During the first half of 2007, capital expenditures totaled \$5.6 million. The 2007 expenditures are primarily related to the readying of the Sheppard facility for the move of the Company's Lawrence operations in addition to investments in registration and wet process equipment.

Coretec's long-term debt to equity ratio rose to 28% at the end of June 2007 as compared to 19% at December 2006. The Company has fully drawn down its \$3.5 million Sheppard outfitting loan facility in the first half of the year.

Now let's turn to the Statements of Cash Flows...

Cash provided in **operating activities** was \$0.2 million for the quarter ended June 2007 as compared to cash provided of \$2.0 million during the similar period in 2006. The primary reason for the change from the prior year is due to the net loss incurred during Q2 2007 as compared to a profit in Q2 2006. On a year to date basis \$0.9 of cash has been used in operating activities as compared to \$2.2 million of cash provided in 2006. Again the primary difference relates to the profitability of the Company.

Cash provided by **financing activities** was \$2.0 million for the current year quarter as compared to a use of \$2.3 million for the similar period in 2006. The provision of cash related to the increased bank indebtedness and the loan related to the outfitting of the Sheppard facility, where in the prior year long-term debt and bank indebtedness were repaid during the second quarter.

On a year to date basis \$5.1 million of cash has been provided by financing activities as compared to a use of \$2.3 million in the prior year. The difference relates to borrowing in 2007 to fund the outfitting of the Sheppard facility. Expenditures were significantly less in 2006 and therefore loans and bank indebtedness were repaid.

Cash used in **investing activities** was \$2.1 million for the quarter ended June 30 2007 and \$5.0 million for the six months ended June 30 2007. In the prior year quarter cash of \$0.5 million was provided and in the first six months of the prior year cash of \$0.8 million was used. In 2007 significant expenditures have been made on the Sheppard building outfitting in addition to the purchase of equipment. In 2006 only expenditures on capital equipment were made and were offset by the redeeming of a short-term deposit.

Paul Langston will now continue the conference call.

Paul Langston

Q2 2007 highlights

Thanks Andre.....

The important points associated with our 2007 Q2 are as follows;

- We experienced revenue contraction of 4% despite the challenges associated with the appreciation of the Canadian dollar versus the US dollar and other major currencies. Approximately 74% of our Toronto revenues are

denominated in US Dollars and 7% in are British pounds or Euros;

- Our revenues of \$21.8 million were achieved against a backdrop of significant contraction in the North American industry. According to IPC (the PCB industry association), North American industry shipments declined by a cumulative 12% in the January – May timeframe versus the same period in the prior year;
- Geographic breakdown of our revenue was 64% to the US, 31% to Canada and 5% to Europe and Asia. This is identical to the breakdown in Q2 2006;
- Q2 revenue by end market was once again well diversified with 54% EMS and 46% OEM as compared with 55% EMS and 45% OEM in the prior year period;
- In Q2 our top 10 customers accounted for 33% of sales. This compares to 37% in Q2 2006;
- In Q2 we submitted our application for Scientific Research and Experimental Development investment tax credits as relates to the 2005 taxation year. The application totalled \$3.3 million. Our total investment tax credits approved to date are \$2.6 million. Following the quarter end we received notification that our 2003 and 2004 submissions were approved with only minor adjustments. Combined these will provide approximately a further \$1 million in tax credits;
- Our investments in equipment across all sites during Q2 2007 amounted to \$2.3;

- As of May 31, 2007 we finalized the decommissioning of our Lawrence facility. By the end of July we will have all manufacturing processes that were once installed at our Lawrence plant, fully operational at our Sheppard facility;
- During the quarter, both of our US operations were profitable and continued to show strong performance across all metrics as compared to the prior year;
- As of June 30, 2007 our working capital stood at \$8.8 million and our long term debt to equity ratio was 0.28:1.0;

Turning to the industry

2007 year to date has proved to be a disappointment. The typical pattern of a seasonally strong first half did not occur in 2007 and softness in demand has continued into Q3. According to IPC the cumulative bookings growth for rigid PCBs from January to May 2007 versus the same period in 2006 were down 18%. Looking at the activity levels from a monthly perspective the year over year growth rates in Q1 were Jan. -19.2%, Feb. -19.1%, Mar. -23.7% and in Q2 were Apr. -11.8, May -12.2%. Industry analysts have pointed to an inventory bubble in North America in the first half of 2006 as the likely explanation for the weakness over the past three quarters.

The combined production of rigid and flex PCBs in North America now stands at an estimated US\$4 billion. The split is roughly 80/20 rigid versus flex.

The North American PCB manufacturer landscape is dominated by small fabricators. From a combined rigid and flex industry perspective, there are only 9 companies that have revenues greater

than US\$75million, 6 companies that have revenues of US\$50-\$75million and approximately 16 companies that have revenues of greater than US\$25 million. By far the majority of PCB facilities (approx. 370 of the roughly 460) have revenues of less than US\$10 million and over 60% of PCB manufacturers have revenues of under US\$5 million. This fact, leads us to believe that the industry is ripe for consolidation, for no other reason than to create a more relevant, viable supply chain for PCB consumers.

With respect to smaller PCB fabricators, the absence of critical mass affects their ability to invest in the capital equipment, engineering and administrative talent, systems and regulatory governance (ie. health and safety and the environment). Specific to the latter, the advent of legislation such as ROHS will impact those companies that lack the resources to comply. We believe that an increasingly environmentally friendly world will cause many PCB fabricators to be forced from the industry.

Turning to the supply side

The industry is experiencing meaningful inflation across direct and indirect materials, supplies, logistics and facilities costs. Base laminate prices have risen on multiple occasions over the past year and the expectation is that further price pressures are in play. Suppliers are suggesting that we should expect additional rounds of increases that will likely take prices up a further 10% in the next 12 months.

Capital equipment manufacturers are feeling the softness in the PCB industry also. Leadtimes have shortened for major equipment and prices have become more aggressive in general. This bodes well for those companies, such as Coretec, that are adding to their equipment platforms.

Turning to our strategy.

During Q2 and into early Q3 we continued our importation of talent at the engineering, manufacturing management and quality management positions organization-wide. Our focus in Toronto is upon optimizing our operations in three key areas: small hole metallization and integrity; layer-to-layer and drill to image registration; and hole filling technology. In Denver our focus is upon finer lines and spaces and Cleveland is committed to ramping up capacity and increasing HDI capability.

Our investment plans for the balance of 2007 involve ongoing advanced equipment and systems installations at all plants. The focus is upon technology furtherance and yield enhancement. Our Denver plant will receive advanced etching and imaging equipment in Q3 and our Cleveland operation will take possession of late model routing, imaging and phototooling equipment transferred from our Toronto location. The latter will see new investments in several key areas including deburring, x-ray tooling, film lamination, QA lab and electroplating.

In regards to our Sheppard site we have now completed Phase 1 of the project, inclusive of the installation of all processes that were in operation at our Lawrence plant, our complete drill department from our Ellesmere site as well as all the major pieces of equipment that we had in storage. We have also begun the second phase of the project, i.e. the installation of a new innerlayer and multilayer department. We expect to be transferring these departments from our Ellesmere plant by mid 2008 along with all outerlayer imaging, plating and etching processes. In terms of costing, we are in the midst of receiving final construction and electro-mechanical bids from a series of contractors. We will release the pertinent information once the contracts have been awarded.

The next phase of our Sheppard build-out will not be as disruptive as the Lawrence relocation due to the fact that we will be establishing a new platform that will operate in parallel with our existing installations. In other words, we will have redundancy in the key process areas. In contrast, when the Lawrence equipment platform was relocated we moved large equipment platforms that were in operation and as a result reduced our capacity and technical capability for several months.

Finally, I would like to briefly discuss our thoughts for Q3 2007.

The fact that we are just-in-time product builders makes it difficult for us to offer revenue guidance. We expect that the second half of 2007 will provide the typical cyclically upward momentum that our industry has enjoyed in recent years particularly towards the end of the year. Given that the major movements of our equipment has now been completed we will be in a much improved position to take advantage of any market uptick.

We alluded to the fact that our offshore business was unusually soft in the first half of 2007. We expect this to improve marginally in the second half of the year.

That wraps up our presentation. We thank you for your interest and attention. I will now 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 10, 2007 at 11:59 p.m. EST. The phone number for the instant replay is 1-866-439-4729, the pass code is 33303#.

The text of this presentation will be posted on our website; www.coretec-inc.com.