CELESTICA INC
Form 20-F
March 13, 2017

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
# Washington, D.C. 20549

# FORM 20-F

**o Registration statement pursuant to Section 12(b) or (g)**
**of the Securities Exchange Act of 1934**
**or**
**ý Annual report pursuant to Section 13 or 15(d)**
**of the Securities Exchange Act of 1934**
**For the fiscal year ended December 31, 2016**
**or**
**o Transition report pursuant to Section 13 or 15(d)**
**of the Securities Exchange Act of 1934**

**For the transition period from __________ to __________**

**or**
**o Shell company report pursuant to Section 13 or 15(d)**
**of the Securities Exchange Act of 1934**

**Date of event requiring this shell company report: __________**

**Commission file number: 1-14832**

# CELESTICA INC.

*(Exact name of registrant as specified in its charter)*

**Ontario, Canada**

*(Jurisdiction of incorporation or organization)*

**844 Don Mills Road**
**Toronto, Ontario, Canada M3C 1V7**

*(Address of principal executive offices)*

**Lisa Headrick**
**416-448-2211**
**clsir@celestica.com**
**844 Don Mills Road**
**Toronto, Ontario, Canada M3C 1V7**

*(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)*

**SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

| *Title of each class:* | *Name of each exchange on which registered:* |
|---|---|
| Subordinate Voting Shares | The Toronto Stock Exchange<br>New York Stock Exchange |

**SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**
**N/A**

**SECURITIES FOR WHICH THERE IS A REPORTING OBLIGATION PURSUANT TO SECTION 15(d) OF THE ACT:**
**N/A**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

121,946,990 Subordinate Voting Shares          0 Preference Shares
18,946,368 Multiple Voting Shares

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No ý

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 ý No o

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 o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

ý Large accelerated filer          o Accelerated filer          o Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the statements included in this filing:

U.S. GAAP o          International Financial Reporting Standards as issued by the International Accounting Standards Board ý          Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

**TABLE OF CONTENTS**

## Part I.

*In this Annual Report on Form 20-F for the year ended December 31, 2016 (referred to herein as "this Annual Report"), "Celestica", the "Corporation", the "Company", "we", "us" and "our" refer to Celestica Inc. and its subsidiaries.*

*In this Annual Report, all dollar amounts are expressed in United States dollars, except where we state otherwise. All references to "U.S.$" or "$" are to U.S. dollars and all references to "C$" are to Canadian dollars. Unless we indicate otherwise, any reference in this Annual Report to a conversion between U.S.$ and C$ is a conversion at the average of the exchange rates in effect for the year ended December 31, 2016. During that period, based on the relevant noon buying rates in New York City for cable transfers in Canadian dollars, as certified for customs purposes by the Board of Governors of the Federal Reserve Bank, the average daily exchange rate was U.S.$1.00 = C$1.3243.*

*Unless we indicate otherwise, all information in this Annual Report is stated as of February 15, 2017.*

**Forward-Looking Statements**

Item 4, "Information on the Company", Item 5, "Operating and Financial Review and Prospects" and other sections of this Annual Report contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, or the U.S. Securities Act, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the U.S. Exchange Act, and forward-looking information within the meaning of applicable Canadian securities laws (collectively, "forward-looking statements"), including, without limitation, statements related to: our future growth; trends in the electronics manufacturing services ("EMS") industry; our anticipated financial and/or operational results; the impact of acquisitions and program wins or losses on our financial results and working capital requirements; anticipated expenses, restructuring actions and charges, and capital expenditures, including the anticipated timing thereof, and our ability to fund and the method of funding these costs, capital expenditures and other anticipated working capital requirements; the anticipated repatriation of undistributed earnings from foreign subsidiaries; the impact of tax and litigation outcomes; our cash flows, financial targets and priorities; changes in our mix of revenue by end market; our ability to diversify and grow our customer base and develop new capabilities; the effect of the pace of technological changes, customer outsourcing and program transfers, and the global economic environment on customer demand; the possibility of future impairments of property, plant and equipment, goodwill or intangible assets; the timing and extent of the expected recovery of cash advances made to a former solar cell supplier; the anticipated termination and settlement of our solar equipment leases; changes in the composition of our end markets commencing with the period ending March 31, 2017; the impact of the Term Loan (defined herein) on our liquidity, future operations and financial condition; the timing and terms of the sale of our real property in Toronto and related transactions, including the expected lease of our corporate head office (collectively, the "Toronto Real Property Transactions"); if the Toronto Real Property Transactions are completed, our ability to secure on commercially acceptable terms an alternate site for our existing Toronto manufacturing operations, and the transition costs for such expected relocation; the impact of the June 2016 referendum by British voters advising for the exit of the United Kingdom from the European Union ("Brexit") and the results of the recent U.S. presidential election on the economy, financial markets, currency exchange rates and potentially our business; the expected impact of the loss of a consumer end-market customer; the timing of an anticipated program transfer to us; expected prolonged adverse market conditions in the solar industry; and the impact of the acquisition of the assets of Karel (defined herein). Such forward-looking statements may, without limitation, be preceded by, followed by, or include words such as "believes", "expects", "anticipates", "estimates", "intends", "plans", "continues", "project", "potential", "possible", "contemplate", "seek", or similar expressions, or may employ such future or conditional verbs as "may", "might", "will", "could", "should" or "would", or may otherwise be indicated as forward-looking statements by grammatical construction, phrasing or context. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the U.S. Private Securities Litigation Reform Act of 1995, and applicable Canadian securities laws.

Forward-looking statements are provided for the purpose of assisting readers in understanding management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. Forward-looking statements are not guarantees of future performance and are subject to risks that could cause actual results to differ materially from conclusions, forecasts or projections expressed in such forward-looking statements, including, as is described in more detail in Item 3(D), "Key Information Risk Factors" and elsewhere in this Annual Report, risks related to:

- our customers' ability to compete and succeed in the marketplace with the services we provide and the products we manufacture;
- changes in our mix of customers and/or the types of products or services we provide;
- price and other competitive factors generally affecting, and the highly competitive nature of, the EMS industry;
- managing our operations and our working capital performance during uncertain market and economic conditions;
- responding to changes in demand, rapidly evolving and changing technologies, and changes in our customers' business and outsourcing strategies, including the insourcing of programs;
- customer concentration and the challenges of diversifying our customer base and replacing revenue from completed or lost programs or customer disengagements;
- customer, competitor and/or supplier consolidation;
- changing commodity, material and component costs as well as labor costs and conditions;
- disruptions to our operations, or those of our customers, component suppliers and/or logistics partners, including as a result of global or local events outside our control (including as a result of Brexit and/or significant developments stemming from the recent U.S. presidential election);
- retaining or expanding our business due to execution issues relating to the ramping of new and existing programs or new offerings;
- the incurrence of future impairment charges;
- recruiting or retaining skilled talent;
- transitions associated with our Global Business Services ("GBS") initiative, our Organizational Design ("OD") initiative, and/or other changes to our company's operating model;
- current or future litigation, governmental actions, and/or changes in legislation;
- the operating performance and financial results of our semiconductor business;
- the timing and extent of recoveries from the sale of inventory and manufacturing equipment relating to our exit from the solar panel manufacturing business;

delays in the delivery and availability of components, services and materials, including from suppliers upon which we are dependent for certain components;

non-performance by counterparties (including our ability to recover amounts outstanding from a former solar supplier);

our financial exposure to foreign currency volatility, including fluctuations that may result from Brexit and/or the recent U.S. presidential election;

our dependence on industries affected by rapid technological change;

the variability of revenue and operating results;

managing our global operations and supply chain;

increasing income taxes, tax audits, and challenges of defending our tax positions, and obtaining, renewing or meeting the conditions of tax incentives and credits;

completing restructuring actions, including achieving the anticipated benefits therefrom, and integrating any acquisitions;

- defects or deficiencies in our products, services or designs;
- computer viruses, malware, hacking attempts or outages that may disrupt our operations;
- any failure to adequately protect our intellectual property or the intellectual property of others;
- compliance with applicable laws, regulations and social responsibility initiatives;
- our having sufficient financial resources and working capital to fund currently anticipated financial obligations and to pursue desirable business opportunities;
- the potential that conditions to closing the Toronto Real Property Transactions may not be satisfied on a timely basis or at all; and
- if the Toronto Real Property Transactions are completed, our ability to secure on commercially acceptable terms an alternate site for our existing Toronto manufacturing operations, and the costs, timing and/or execution of such relocation proving to be other than anticipated.

These and other material risks and uncertainties are discussed in our public filings, which can be found at www.sedar.com and www.sec.gov, including in this Annual Report, and subsequent reports on Form 6-K furnished to the U.S. Securities and Exchange Commission, and as applicable, the Canadian Securities Administrators.

Our forward-looking statements are based on various assumptions, many of which involve factors that are beyond our control. Our material assumptions include those related to:

- production schedules from our customers, which generally range from 30 days to 90 days and can fluctuate significantly in terms of volume and mix of products or services;
- the timing and execution of, and investments associated with, ramping new business;
- the success in the marketplace of our customers' products;
- the pace of change in our traditional end markets and our ability to retain programs and customers;
- the stability of general economic and market conditions, currency exchange rates and interest rates;
- our pricing, the competitive environment and contract terms and conditions;
- supplier performance, pricing and terms;
- compliance by third parties with their contractual obligations, the accuracy of their representations and warranties, and the performance of their covenants;

- the costs and availability of components, materials, services, plant and capital equipment, labor, energy and transportation;

- operational and financial matters, including the extent, timing and costs of replacing revenue from completed or lost programs, or customer disengagements;

- technological developments;

- the timing and extent of recoveries from the sale of inventory and manufacturing equipment related to our exit from the solar panel manufacturing business, and our ability to recover amounts outstanding from a former solar supplier;

- the timing, execution and effect of restructuring actions;

- our having sufficient financial resources and working capital to fund currently anticipated financial obligations and to pursue desirable business opportunities; and

- our ability to diversify our customer base, and develop new capabilities.

Our assumptions and estimates are based on management's current views with respect to current plans and events, and are and will be subject to the risks and uncertainties discussed above and elsewhere in this Annual

Report. While management believes these assumptions to be reasonable under current circumstances, they may prove to be inaccurate.

Forward-looking statements speak only as of the date on which they are made, and we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. You should read this Annual Report, and the documents, if any, that we incorporate herein by reference, with the understanding that our actual future results may be materially different from what we expect. All forward-looking statements attributable to us are expressly qualified by the cautionary statements contained in this Annual Report.

## Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

## Item 2. Offer Statistics and Expected Timetable

Not applicable.

## Item 3. Key Information

### A. Selected Financial Data

You should read the following selected financial data together with Item 5, "Operating and Financial Review and Prospects", the Consolidated Financial Statements in Item 18 and the other information in this Annual Report. The selected financial data presented below is derived from our Consolidated Financial Statements, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). See Item 18. No dividends have been declared by the Corporation.

| | Year ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2016** |
| | (in millions, except per share amounts) | | | | |
| **Consolidated Statements of Operations Data[(1)]:** | | | | | |
| Revenue | $ 6,507.2 | $ 5,796.1 | $ 5,631.3 | $ 5,639.2 | $ 6,016.5 |
| Cost of Sales[(1)] | 6,068.8 | 5,406.6 | 5,225.9 | 5,248.1 | 5,588.9 |
| Gross profit[(1)] | 438.4 | 389.5 | 405.4 | 391.1 | 427.6 |
| Selling, general and administrative expenses (SG&A), including research and development[(2)] | 252.2 | 239.7 | 230.0 | 230.7 | 236.0 |
| Amortization of intangible assets | 11.3 | 12.2 | 10.6 | 9.2 | 9.4 |
| Other charges[(3)] | 59.5 | 4.0 | 37.1 | 35.8 | 25.5 |
| Earnings from operations[(1)] | 115.4 | 133.6 | 127.7 | 115.4 | 156.7 |
| Refund Interest Income[(4)] | | | | | (14.3) |
| Finance costs[(5)] | 3.5 | 2.9 | 3.1 | 6.3 | 10.0 |
| Earnings before income taxes[(1)] | 111.9 | 130.7 | 124.6 | 109.1 | 161.0 |
| Income tax expense (recovery) | (5.8) | 12.7 | 16.4 | 42.2 | 24.7 |
| Net earnings[(1)] | $ 117.7 | $ 118.0 | $ 108.2 | $ 66.9 | $ 136.3 |

| | | | | | |
|---|---|---|---|---|---|
| **Other Financial Data:** | | | | | |
| Basic earnings per share | $ 0.56 | $ 0.64 | $ 0.61 | $ 0.43 | $ 0.96 |
| Diluted earnings per share | $ 0.56 | $ 0.64 | $ 0.60 | $ 0.42 | $ 0.95 |
| Property, plant and equipment and computer software cash expenditures | $ 105.9 | $ 52.8 | $ 61.3 | $ 62.8 | $ 64.1 |
| Shares used in computing per share amounts (in millions): | | | | | |
| Basic | 208.6 | 183.4 | 178.4 | 155.8 | 141.8 |

| | | | | | |
|---|---|---|---|---|---|
| Diluted | 210.5 | 185.4 | 180.4 | 157.9 | 143.9 |

| | As of December 31 | | | | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| | (in millions) | | | | |
| **Consolidated Balance Sheet Data** | | | | | |
| Cash and cash equivalents | $ 550.5 | $ 544.3 | $ 565.0 | $ 545.3 | $ 557.2 |
| Working capital(6) | 911.8 | 1,011.3 | 1,049.9 | 990.6 | 1,100.8 |
| Property, plant and equipment | 337.0 | 313.6 | 312.4 | 314.6 | 302.7 |
| Total assets | 2,658.8 | 2,638.9 | 2,583.6 | 2,612.0 | 2,822.3 |
| Borrowings under credit facility(7) | 55.0 | | | 262.5 | 227.5 |
| Capital stock | 2,774.7 | 2,712.0 | 2,609.5 | 2,093.9 | 2,048.2 |
| Total equity(1) | 1,322.7 | 1,402.0 | 1,394.9 | 1,091.0 | 1,238.8 |

(1) Changes in accounting policies:

Effective January 1, 2014, we adopted IFRIC Interpretation 21, Levies, which clarified when the liability for certain levies should be recognized and required retroactive adoption, and IAS 32, Financial Instruments Presentation (revised), which clarified the requirements for offsetting financial assets and liabilities. The adoption of these standards did not have a material impact on our Consolidated Financial Statements.

Effective January 1, 2013, we adopted the amendment issued by the IASB to IAS 19, Employee Benefits, which required a retroactive restatement of prior periods related to unrecognized past service credits that we had been amortizing to operations on a straight-line basis over the vesting period. Upon retroactive adoption of this amendment, we recognized these past service credits on our balance sheet and decreased our post-employment benefit obligations and our deficit. As at December 31, 2012, we decreased our post-employment benefit obligations and our deficit by $6.0 million. The impact on our net earnings for 2012 was not significant. Under this amendment, we continue to recognize actuarial gains or losses on plan assets or obligations in other comprehensive income and to reclassify the amounts to deficit. Our actuarial losses on pension and non-pension post-employment benefit plans for 2012 increased by $0.7 million.

(2) SG&A expenses include research and development costs of $24.9 million in 2016, $23.2 million in 2015, $19.7 million in 2014, $17.4 million in 2013, and $15.2 million in 2012.

(3) Other charges in 2012 totaled $59.5 million, comprised primarily of: (a) a $44.0 million restructuring charge and (b) a non-cash impairment of $17.7 million relating to our annual impairment assessment, primarily against goodwill.

Other charges in 2013 totaled $4.0 million, comprised primarily of: (a) $28.0 million in restructuring charges offset, in part, by (b) a $24.0 million recovery of damages from the settlement of class action lawsuits in which we were a plaintiff.

Other charges in 2014 totaled $37.1 million, comprised primarily of: (a) a non-cash impairment of $40.8 million against the goodwill of our semiconductor business resulting from our annual impairment assessment; and (b) a non-cash settlement loss of $6.4 million relating to a certain pension plan, offset, in part, by: (i) an $8.0 million recovery of damages resulting from the settlement of class action lawsuits in which we were a plaintiff; and (ii) a $2.1 million net reversal of restructuring charges. See note 16 to the Consolidated Financial Statements in Item 18.

Other charges in 2015 totaled $35.8 million, comprised primarily of: (a) $23.9 million in restructuring charges, and (b) an aggregate non-cash impairment of $12.2 million against the property, plant and equipment of our CGUs in Japan and Spain (recorded in the fourth quarter of 2015). See note 16 to the Consolidated Financial Statements in Item 18.

Other charges in 2016 totaled $25.5 million, comprised of: (a) $31.9 million in restructuring charges, offset in part by (b) $6.4 million, consisting primarily of net legal recoveries we received. See note 16 to the Consolidated Financial Statements in Item 18.

(4) Refund interest income represents the refund of interest on cash then-held on account with tax authorities in connection with the resolution of certain previously-disputed tax matters in the second half of 2016. See notes 17, 20 and 24 to the Consolidated Financial Statements in Item 18.

(5) Finance costs are comprised primarily of interest expenses and fees related to our credit facility (including our Term Loan commencing in 2015), our accounts receivable sales program, and a customer supplier financing program. See notes 5 and 12 to the Consolidated Financial Statements in Item 18.

(6) Calculated as current assets less current liabilities.

(7)

Borrowings under our credit facility do not include our finance lease obligations.

**Exchange Rate Information**

The rate of exchange as of February 15, 2017 for the conversion of one Canadian dollar into United States dollars was U.S.$0.7644 and for the conversion of one United States dollar into Canadian dollars was C$1.3082. The following table sets forth the exchange rates for the conversion of U.S.$1.00 into Canadian dollars for the identified periods. The rates of exchange set forth herein are shown as, or are derived from, the reciprocals of the noon buying rates in New York City for cable transfers payable in Canadian dollars, as certified for customs purposes by the Federal Reserve Bank of New York. The source of this data is the Board of Governors of the Federal Reserve's website (http://www.federalreserve.gov).

| | **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|---|
| Average | 0.9995 | 1.0300 | 1.1043 | 1.2791 | 1.3243 |

| | **February 2017 (through February 15)** | **January 2017** | **December 2016** | **November 2016** | **October 2016** | **September 2016** |
|---|---|---|---|---|---|---|
| High | 1.3166 | 1.3437 | 1.3555 | 1.3581 | 1.3403 | 1.3247 |
| Low | 1.3003 | 1.3030 | 1.3119 | 1.3335 | 1.3105 | 1.2843 |

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

Any of the following risk factors, or any combination of them, could have a material adverse effect on our business, financial condition, and operating results. Our shareholders and prospective investors should carefully consider each of the following risks and all of the other information set forth in this Annual Report.

***We are dependent on a limited number of customers and end markets. We are also dependent on our customers' ability to compete and succeed in the marketplace with the services we provide and the products we manufacture. A decline in revenue from, or the loss of, any significant customer, or a change in the mix of customers and/or the types of products or services we provide, could have a material adverse effect on our financial condition and operating results.***

Our customers include original equipment manufacturers ("OEMs") and service providers. We depend upon a small number of customers for a significant portion of our revenue. During 2016, two customers (each of 2015 and 2014 three customers) individually represented more than 10% of our total revenue, and our top 10 customers represented 68% (2015 67%; 2014 65%) of our total revenue. We also remain dependent upon revenue from our traditional end markets (Communications, Servers and Storage), which represented 68% of our consolidated revenue in 2016 (2015 68%; 2014 67%). We continue to focus on expanding beyond these traditional end markets by growing our Diversified businesses (which represented 30% of our consolidated revenue in 2016) and adding new capabilities.

Demand can be volatile across our end markets. Rapid shifts in technology, model obsolescence, commoditization of certain products, the emergence of new business models, shifting patterns of demand, such as the shift from traditional network infrastructures to highly virtualized and cloud-based environments, as well as the proliferation of software-defined networks and storage, increased competition, the oversupply of products, pricing pressures, and the volatility of the economy, are all contributing factors.

A decline in revenue from, or the loss of, any significant customer could have a material adverse effect on our financial condition and operating results. We cannot assure the replacement of completed, delayed, cancelled or reduced orders with new business. In addition, the ramping of new programs may take from several months to more than a year before production starts and significant up-front investments and increased working capital requirements may be required. During this start-up period, these programs may generate losses or may not achieve the expected financial performance due to production ramp inefficiencies, lower than expected volume, or delays in ramping to volume. Our customers may significantly change these programs, or even cancel them altogether, due to changes in end-market demand or changes in the actual or anticipated success of their products in the marketplace. See ***"Our revenue and operating results may vary significantly from period to period"*** below.

The mix of our customers and the types of products or services we provide to these customers may have an impact on our operating results from period-to-period. For example, a change in the mix of products we manufactured for a particular customer in 2016 impacted our operating results for the year, as new programs for such customer were more competitively priced then past programs. In addition, certain of our customer agreements require us to provide specific price reductions over the contract term, which may negatively impact our operating results to the extent we cannot offset such price reductions by lowering our costs, through operational efficiencies, or otherwise.

To reduce our reliance on any one customer or end market, we continue to target new customers and services, including a continued focus on the expansion of business in our Diversified end market (which in 2016 was comprised of aerospace and defense, industrial, healthcare, smart energy, and semiconductor equipment), and exploring acquisition opportunities. We also remain focused on expanding revenue in our higher value-added services, such as design and development, engineering, supply chain management and after-market services, and have de-emphasized our lower margin business, including our consumer portfolio.

Although revenue from our Diversified end market has increased in recent years, our operating results in this end market have been negatively impacted by the costs associated with ramping new business, and most recently, solar panel manufacturing overcapacity, leading to our decision in the fourth quarter of 2016 to exit from the solar panel manufacturing business. See ***"We may encounter difficulties expanding or consolidating our operations or introducing new competencies or new offerings, which could adversely affect our operating results"*** below.

Notwithstanding our expansion efforts, we remain dependent on our traditional end markets for a significant portion of our revenue, which are subject to the various factors described above and continue to experience slower growth rates and increased pricing pressures. Failure to secure business from existing or new customers in our traditional or other end markets would adversely impact our operating results.

There can be no assurance that our efforts to secure new customers and programs in our traditional or new markets, including the impact of acquisitions, will succeed in reducing our customer concentration. Acquisitions are also subject to integration risk, and revenues and margins could be lower than we anticipate.

Our operating results are also highly dependent upon our customers' ability to compete and succeed in the marketplace with the products we manufacture. Certain of our customers have experienced, and may in the future experience, severe revenue erosion, pricing and margin pressures, and excess inventories that, in turn, have adversely affected (and in the future may adversely affect) our operating results. See ***"Our customers may be negatively affected by rapid technological changes, shifts in business strategy and/or the emergence of new business models."***

All of the foregoing may adversely affect our margins, cash flow, and our ability to grow our revenue, and may increase the variability of our operating results from period to period.

***We operate in an industry comprised of numerous competitors and aggressive pricing dynamics.***

We operate in a highly competitive industry. Our competitors include Benchmark Electronics, Inc., Flex Ltd., Hon Hai Precision Industry Co., Ltd., Jabil Circuit, Inc., Plexus Corp., and Sanmina Corporation, as well as smaller EMS companies that often have a regional, product, service or industry-specific focus, and original design manufacturers ("ODMs"). In recent years, we have expanded our joint design and manufacturing ("JDM") offering, which encompasses advanced technology design solutions that customers can tailor to their specific platform applications. We may face increased competition from ODMs, who also specialize in providing internally designed products and manufacturing services, as well as component and sub-system suppliers, distributors and/or systems integrators. As part of our JDM offering, we also provide complete hardware platform solutions, which may compete with those of our customers. Offering products or services to customers that compete with the offerings of other customers may negatively impact our relationship with, or result in a loss of business from, such other customers. We face indirect competition from the manufacturing operations of our current and prospective customers, as these companies may choose to manufacture products internally rather than outsource to EMS providers, or they may choose to insource previously outsourced business, particularly where internal excess capacity exists. In addition to the foregoing, we may face increasing competition from distribution and logistics providers expanding their services across the supply chain.

The competitive environment in our industry is very intense and aggressive pricing is a common business dynamic. Some of our competitors have greater scale and provide a broader range of services than we offer. While we continue to increase our capacity in lower-cost regions to reduce our costs, these regions may not provide the same operational benefits that they have in the past due to rising costs and a continued aggressive pricing environment. Additionally, our current or potential competitors may: increase or shift their presence in new lower-cost regions to try to offset continuous competitive pressure and increasing labor costs or to secure new business; develop or acquire services comparable or superior to those we develop; combine or merge to form larger competitors; or adapt more quickly than we may to new technologies, evolving industry trends and changing customer requirements. In addition, our competitors may be more effective than we are in investing in IT solutions to differentiate their offerings to capture a larger share of the market. Some of our competitors have increased their vertical capabilities by manufacturing modules or components used in the products they assemble, such as metal or plastic parts and enclosures, backplanes, circuit boards, cabling and related products. This expanded capability may provide them with a competitive advantage and greater cost savings and may lead to more aggressive pricing for electronics manufacturing services. Competition may cause pricing pressures, reduced profits or a loss of market share (for example, from program losses or customer disengagements). We may not be able to compete successfully against our current and future competitors.

***Our customers may be negatively affected by rapid technological changes, shifts in business strategy and/or the emergence of new business models.***

Many of our customers compete in markets that are characterized by rapidly changing technology, evolving industry standards, continuous improvements in products and services, commoditization of certain products, changes in preferences by end customers or other changes in demand, and the emergence of competitors with new business models that deemphasize the traditional OEM distribution channels. These conditions frequently result in shorter product lifecycles and may lead to shifts in our customers' business strategy. Our success will depend on the success achieved by our customers in developing, marketing and selling their products. If technologies or standards supported by our customers' products and services or their business models become obsolete, fail to gain widespread acceptance or are cancelled, our business could be adversely affected.

For example, declines in end-market demand for customer-specific proprietary systems in favor of open systems with standardized technologies could have an adverse impact on our business. Other examples include the shift from traditional network infrastructures to highly virtualized and cloud-based environments, the prevalence of solid state or flash memory technology as a replacement for hard disk drives, as well as the proliferation of software-defined networks and software-defined storage, any or all of which could adversely impact our business. The highly competitive nature of our customers' products and services could also drive further consolidation among OEMs, and result in product line consolidation that could adversely impact our customer relationships and our revenue. Including as a result of the foregoing, certain of our customers have experienced, and may in the future experience, severe revenue erosion, pricing and margin pressures, and excess inventories that, in turn, have adversely affected (and in the future may adversely affect) our operating results.

***Consolidation may adversely affect our business relationships or the volume of business we conduct with our customers.***

Our customers, competitors and suppliers may be subject to consolidation. Increasing consolidation in industries that utilize our services may occur as companies combine to achieve economies of scale and other synergies, which could result in an increase in excess manufacturing capacity as companies seek to divest manufacturing operations or eliminate product lines. Excess manufacturing capacity may increase pricing and competitive pressures in our industry as a whole and for us in particular. Consolidation could also result in an increasing number of very large companies offering products in multiple industries. The significant purchasing power and market power of these large companies could increase pricing and competitive pressures for us. If one of our customers is acquired by another company that does not rely on us to provide services, has its own production services, or relies on another provider of similar services, we may lose that customer's business. Such consolidation may reduce the number of customers from which we generate a significant percentage of our revenue, and further expose us to increased risks relating to our dependence on a small number of customers. Any of the foregoing results of industry consolidation could adversely affect our business. Consolidation among our competitors may create a competitive advantage over us, which may also result in a loss of business and revenue if customers shift their production. Such consolidation may also result in pricing pressures, which could negatively impact our profit margins. Changes in OEM strategies, including the divestiture or exit from certain of their businesses, may also result in a loss of business for us.

***We may encounter challenges with respect to our acquisitions and strategic transactions which could adversely affect our operating results.***

We intend to expand our presence in new end markets and expand our capabilities in existing markets and technologies, some of which may occur through acquisitions. These transactions may involve acquisitions of entire companies or acquisitions of selected assets. We have also completed numerous strategic transactions with our customers, under which we have acquired inventory, equipment and/or other assets from certain customers; hired employees of such customers; leased or acquired a manufacturing site of such customers; and simultaneously entered into multi-year manufacturing and supply agreements for the production of their products. Potential challenges related to these acquisitions and transactions include: integrating acquired operations, systems and businesses; meeting customers' expectations as to volume, product quality and timeliness; retaining customer, supplier, employee or other business relationships of acquired operations; addressing unforeseen liabilities of acquired businesses; limited experience with new technologies and markets; failure to realize anticipated benefits, such as cost savings and revenue enhancements; failure to achieve anticipated business volumes or operating margins; valuation methodologies not accurately capturing the value of the acquired business; the effects of diverting management's attention from day-to-day operations to matters involving the integration of acquired businesses; incurring potentially substantial transaction costs associated with these transactions; increased burdens on our staff and on our administrative, internal control and operating systems, which may hinder our legal and regulatory compliance activities; overpayment for an acquisition; and potential impairments resulting from post-acquisition deterioration in, or reduced benefit from, an acquired business. While we often obtain indemnification rights from the sellers of acquired businesses, such rights may be difficult to enforce, the losses may exceed any dedicated escrow funds, and the indemnitors may not have the ability to financially support the indemnity. Any of these factors may prevent us from realizing the anticipated benefits of an acquisition, including additional revenue, operational synergies and economies of scale. Any delay or failure to realize the anticipated benefits of acquisitions may adversely affect our business and operating results and may require us to write-down the carrying value of any related goodwill and intangible assets in periods subsequent to the acquisitions. For example, in 2014, we recorded a $40.8 million impairment to the goodwill of our semiconductor business. In addition, there is no assurance that we will find suitable acquisition targets, that we will be able to consummate any such transactions on terms and conditions acceptable to us, or that we will be able to fund any such acquisitions with existing cash resources. Acquisitions may also involve businesses we are not familiar with, and expose us to additional business risks that are different than those we have traditionally experienced or anticipated at the time of acquisition. In addition, increased costs associated with new hires we intend to retain to support our pursuit of acquisitions and/or other strategic opportunities may not result in the consummation of any such transactions, and such costs are expected to adversely impact our operating results.

***We continue to operate in an uncertain global economic environment.***

Concerns over global economic conditions, energy costs, geopolitical issues, inflation, the availability and cost of credit, and the European, Asian and the U.S. financial markets have contributed to increased economic uncertainty. Brexit and the recent U.S. presidential election have contributed to such uncertainty. See ***"Our operations could be adversely affected by global or local events outside our control"*** and ***"Significant developments stemming from the recent U.S. presidential election could have a material adverse effect on our business, results of operations and financial condition"*** below. Changes in policies by the U.S. or other governments could negatively affect our operating results due to changes in duties, tariffs or taxes, or limitations on currency or fund transfers, as well as government-imposed restrictions on producing certain products in, or shipping them to, specific countries. Uncertain global economies have adversely impacted, and may continue to unpredictably impact, currency exchange rates. See ***"We are exposed to translation and transaction risks associated with foreign currency exchange rate fluctuations; hedging instruments may not be effective in mitigating such risks."*** Financial market instability may result in lower returns on our financial investments, and lower values on some of our assets. Alternately, inflation may lead to higher costs for labor and materials and/or increase our costs of borrowing and raising capital. Uncertainty surrounding the global economic environment and geo-political outlook may impact current and future demand for some of the products we manufacture or services we provide, the financial condition of our customers or suppliers, as well as the number and pace of customer consolidations. If the foregoing impacts the financial condition of our customers, they may delay payments to us or request extended payment terms, which could have an adverse effect on our financial condition and working capital. If the foregoing impacts the financial condition of our suppliers, this may have an adverse effect on our operations, financial condition and/or customer relationships.

We cannot predict the precise nature, extent, or duration of these economic conditions, or whether economic and financial trends will worsen or improve. A deterioration in the economic environment may accelerate the effect of the various risk factors described in this Annual Report and could result in other unforeseen events that may adversely impact our business and financial condition.

***Our operations could be adversely affected by global or local events outside our control.***

Our operations and those of our customers, component suppliers and/or our logistics partners may be disrupted by global or local events outside our control, including: natural disasters and related disruptions; political instability; terrorism; armed conflict; labor or social unrest; criminal activity; disease or illness that affects local, national or international economies; unusually adverse weather conditions; and other risks present in the jurisdictions in which we, our customers, our suppliers and/or our logistics partners operate. These types of events could disrupt operations at one or more of our sites or those of our customers, component suppliers and/or our logistics partners. Any such disruption could lead to higher costs, supplier shortages, delays in the delivery of components to us, and/or our inability to provide finished products or services to our customers, any of which could adversely affect our operating results materially. We carry insurance to cover damage to our sites and interruptions to our operations, including those that may occur as a result of natural disasters, such as flooding, earthquakes or other events. Our insurance policies, however, are subject to deductibles, coverage limitations and exclusions, and may not provide adequate (or any) coverage should such events occur.

Increased international political instability, including unsettled political conditions currently existing in the United States and Europe, instability in parts of the Middle East, as well as the ongoing refugee crisis, anti-immigrant activities, social unrest and fears of terrorism, enhanced national security measures, armed conflicts, security issues at the U.S./Mexico border related to illegal immigration or criminal activities associated with illegal drug activities, labor or social unrest, strained international relations and the related decline in consumer confidence arising from these and other factors may materially hinder our ability to conduct business, or may reduce demand for our products or services. Any escalation in these events or similar future events may disrupt our operations or those of our customers and suppliers and could adversely affect the availability of materials needed to manufacture our products or the means to transport those materials to manufacturing sites and finished products to customers.

The June 2016 Brexit referendum led to, among other things, volatility in currency exchange rates that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. Given the lack of comparable precedent, it is unclear what financial, trade and legal implications the withdrawal of the United Kingdom from the European Union would have (if it occurs) and how such withdrawal would affect us, our customers and their demand for our services. We cannot predict changes in currency exchange rates, the impact of exchange rate changes on our operating results, nor the degree to which we will be able to manage the impact of currency exchange rate changes, and any of these effects of Brexit, among others, could materially adversely affect our business, results of operations and financial condition. Also see ***"Significant developments stemming from the recent U.S. presidential election could have a material adverse effect on our business, results of operations and financial condition"*** for a discussion of uncertainties with respect to, among other things, existing and proposed trade agreements, free trade generally, and potential significant increases on tariffs on goods imported into the United States, particularly from Mexico, Canada and China, as a result of the recent

U.S. presidential election, and how changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, clean energy, the healthcare industry, development and investment in the jurisdictions in which we and/or our customers or suppliers operate, could materially adversely affect, among other things, the supply chain strategies of our customers, the pace of outsourcing in our industry, the economy (including inflationary trends) and our business, results of operations and financial condition.

We rely on a variety of common carriers for the transportation of materials and products and for their ability to route these materials and products through various international ports and other transportation hubs. A work stoppage, strike or shutdown of any important supplier's site or operations, or at any major port or airport, or the inability to access any such site for any reason, could result in manufacturing and shipping delays or expediting charges, which could have a material adverse effect on our operating results.

Such events have had and may in the future have an adverse impact on the U.S. and global economy in general, and on consumer confidence and spending, which may adversely affect our revenue and financial results. Such events could increase the volatility of the market price of our securities and may limit the capital resources available to us and our customers and suppliers.

***Significant developments stemming from the recent U.S. presidential election could have a material adverse effect on our business, results of operations and financial condition.***

The outcome of the recent U.S. presidential election, as well as the Republican Party maintaining control of both the House of Representatives and Senate of the United States, has created uncertainty with respect to, among other things, existing and proposed trade agreements, free trade generally, and potential significant increases on tariffs on goods imported into the United States, particularly from Mexico, Canada and China. We currently ship a significant portion of our worldwide production into the U.S. from other countries. Changes to U.S. laws or policies (as described above or otherwise) may impact the supply chain strategies of, as well as the pace of outsourcing by, U.S. customers in the future, including the possibility of such customers insourcing programs that were previously outsourced (including to companies like ours). It is unknown at this time to what extent new laws will be passed or pending or new regulatory proposals will be adopted, if any, or the effect that such passage or adoption may have on the economy and/or our business. However, changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, clean energy, the healthcare industry, development and investment in the jurisdictions in which we and/or our customers or suppliers operate, could materially adversely affect our business, results of operations and financial condition.

***We may encounter difficulties expanding or consolidating our operations or introducing new competencies or new offerings, which could adversely affect our operating results.***

As we expand our business, open new sites, enter into new markets, products and technologies, invest in research, design and development, acquire new businesses or capabilities, transfer business from one location to another location within our network, consolidate certain operations, and/or introduce new business models or programs, we may encounter difficulties that result in higher than expected costs associated with such activities. Potential difficulties related to such activities include our ability: to manage growth effectively; to maintain existing business relationships during periods of transition; to anticipate disruptions in our operations that may impact our ability to deliver to customers on time, produce quality products and ensure overall customer satisfaction; and to respond rapidly to changes in customer demand or volumes.

We may also encounter difficulties in ramping and executing new programs. We may require significant investments to support these new programs, including increased working capital requirements, and may generate lower margins or losses during and/or following the ramp period. There can be no assurance that our increased investments will benefit us or result in business growth. As we pursue opportunities in new markets or technologies, we may encounter challenges due to our limited knowledge or experience in these areas. In addition, the success of new business models or programs depends on a number of factors including: understanding the new business or markets; timely and successful product development; market acceptance; the effective management of purchase commitments and inventory levels in line with anticipated demand; the development or acquisition of appropriate intellectual property and capital investments, to the extent required; the availability of materials in adequate quantities and at appropriate costs to meet anticipated demand; and the risk that new offerings may have quality or other defects in the early stages of introduction. Any of these factors could prevent us from realizing the anticipated benefits of growth in new markets or technologies, which could materially adversely affect our business and operating results.

For example, we expanded our Diversified end market offerings (through acquisitions) to include semiconductor capital equipment commencing in 2011. Our semiconductor business has previously been negatively impacted by volatility in customer demand, the cost of our investments, operational inefficiencies, commercial challenges associated with a particular customer, and the costs, terms, timing and challenges of ramping new sites and programs, resulting in operating losses, impairment losses and restructuring charges. Although our revenue and operating results in our semiconductor business improved in 2016 as compared to 2015, demand volatility in this market, as well as the costs, terms, timing and challenges of ramping new programs may in future periods adversely impact the revenue and profitability of this business, as well as our financial position and cash flows. Any failure to realize future revenues at an appropriate profit margin could result in additional restructuring actions and/or impairment losses in future periods for this business.

In addition, we incurred higher than expected costs in our solar panel manufacturing operations during 2015, primarily due to ramping delays and operational inefficiencies at our new solar site in Asia. Furthermore, recent negative market factors, including a global oversupply of solar panels and the related slowing of demand in 2016, resulted in, among other things, unprecedented declines in the market pricing for solar panels. As a result of this pricing pressure and lower demand, our operating results for this business were negatively impacted in the second half of 2016, and included significant provisions we recorded primarily to write down our solar panel inventory to the lower market prices. As we expected that the downturn in the solar panel market would be prolonged, and would continue to impact the future profitability of our solar panel manufacturing business, we made a decision in the fourth quarter of 2016 to exit this business. In connection therewith, we recorded approximately $21.0 million in restructuring charges in the fourth quarter of 2016 to close our solar panel manufacturing operations at our two locations, including $19.0 million in impairment charges to write down the carrying value of our solar panel manufacturing equipment to recoverable amounts. See Item 5, "Operating and Financial Review and Prospects Management's Discussion and Analysis of Financial Condition and Results of Operations Recent developments."

As part of our strategy to enhance our end-to-end service offerings, we intend to continue to expand our design (including our JDM offering) and engineering capabilities. Providing these services may expose us to different or greater potential risks than those we face when providing our manufacturing services. Our design services offerings require significant investments in research and development, technology licensing, testing and tooling equipment, patent applications and talent recruitment. Our margins may be adversely impacted if we incur higher than expected investment costs, or if our customers are not satisfied with our progress, or do not approve our completed designs. In addition, our design activities often require the purchase of inventory for initial production runs before we have a firm purchase commitment from a customer. The costs required to support our design and engineering capabilities have historically adversely affected our profitability, and are expected to continue to do so as we continue to make investments in these capabilities. In addition, some of the products we design and develop must satisfy safety and regulatory standards and some must receive government certifications. If we fail to obtain these approvals or certifications on a timely basis, we would be unable to sell these products, which would harm our revenues, profitability and reputation.

Revenue from our Diversified end market represented 30% of total revenue in 2016, up from 28% of total revenue in 2014. Notwithstanding the issues described above, continued growth in our Diversified end market remains a key focus area for us. As with any new business expansion, however (and as discussed above), our operating results will be negatively impacted by the costs of ramping activities. If we encounter ramping delays or other operational inefficiencies, we may incur higher than expected costs associated therewith. In addition, in recent years, although we have expanded our JDM offering, we may face increased competition with respect to this offering in the future from ODMs and other companies providing similar services, including our own customers. There can be no assurance that our expansion into new markets or new business will be successful, or that we will achieve the anticipated benefits.

***If we are unable to recruit or retain highly skilled talent, our business could be adversely affected.***

The recruitment of personnel in the EMS industry is highly competitive. We believe that our future success depends, in part, on our ability to attract and retain highly skilled executive, technical and management talent. The loss of the services of certain executive, management and technical employees, individually or in the aggregate, could have a material adverse effect on our operations, and there can be no assurance that we will be able to retain their services. In addition, leadership transitions can be inherently difficult to manage and may cause uncertainty or a disruption to our business or may increase the likelihood of turnover in key officers and employees. Our leadership team may make organizational changes, which may impact our relationships with customers, vendors, and employees, potentially resulting in loss of business, loss of vendor relationships, and the loss of key employees or declines in the productivity of existing employees. The uncertainties associated with senior management transitions could lead to concerns from current and potential third parties with whom we do business, any of which could hurt our business prospects. Turnover in key leadership positions within the Company, or any failure to successfully integrate key new hires or promoted employees, may adversely impact our ability to manage the Company efficiently and effectively, could be disruptive and distracting to management and may lead to additional departures of existing personnel, any of which could have a material adverse effect on our business, operating results, financial results and internal controls over financial reporting.

***Changes to our organizational model may adversely affect our business.***

We continuously work to improve our productivity, quality, delivery performance and flexibility. In connection therewith, we have commenced our GBS initiative, which focuses on integrating, standardizing and optimizing end-to-end business processes, and our OD initiative, to redesign our organizational structure with the goal of increasing our overall effectiveness. Charges related to these initiatives may adversely impact our financial condition and results of operations in the periods incurred. See Item 5, "Operating and Financial Review and Prospects Management's Discussion and Analysis of Financial Condition and Results of Operations Operating Results Other Charges." Implementation of these initiatives presents a number of risks, including: (i) actual or perceived disruption of service or reduction in service levels to customers; (ii) potential adverse effects on our internal control environment with respect to general and administrative functions during transitions resulting from such initiatives; (iii) actual or perceived disruption to suppliers, distribution networks and other important operational relationships and the inability to resolve potential conflicts in a timely manner; (iv) diversion of management attention from ongoing business activities and strategic objectives; and (v) failure to retain key employees. Because of these and other factors, we cannot predict whether we will fully realize the purpose and anticipated benefits or cost savings of these initiatives and, if we do not, our business and results of operations may be adversely affected. Furthermore, if we experience adverse changes to our business, additional restructuring or reorganization activities may be required in the future.

***We are dependent on third parties to supply equipment and materials, and our results can be negatively affected by the availability and cost of components.***

The purchase of equipment, materials and electronic components represents a significant portion of our costs. We rely on third parties to provide such items. If we are unable to engage qualified equipment manufacturers or suppliers, our ability to successfully complete a program could be impaired. A delay or interruption in supply from a component supplier, especially for single-sourced components, could have a significant impact on our operations and on our customers, if we are unable to deliver finished products in a timely manner. If the amount we are required to pay for equipment and supplies exceeds what we have estimated, especially in a fixed price contract, we may suffer losses on these contracts. If a supplier or manufacturer fails to provide supplies or equipment as required under a contract for any reason, we may be required to source these items from other third parties on a delayed basis or on less favorable terms, which could impact our profitability. Additionally, quality or reliability issues at any of our component providers, or financial difficulties that affect their production and ability to supply us with components, could halt or delay production of a customer's product, or result in claims against us for failure to meet required customer specifications, which could materially adversely impact our operating results.

Supply shortages for a particular component can delay production of, and revenue from, products using that component. Shortages also may result in our carrying higher levels of inventory and extended lead-times, or result in increased component prices, which may require price increases in the products and services that we provide. Any increase in our costs that we are unable to recover in our pricing to our customers would negatively impact our margins and operating results.

At various times in our industry's history, there have been industry-wide shortages of electronic components. Shortages, or fluctuations in the cost of components, may have a material adverse effect on our business or cause our operating results to fluctuate from period-to-period. Changes in forecasted volumes or in our customers' requirements can negatively affect our ability to obtain components and adversely impact our operating results.

In addition, a failure by a supplier or manufacturer to comply with applicable laws, regulations or customer requirements could negatively impact our business, and for government customers, could result in fines, penalties, suspension or even debarment being imposed on us, which could have a material adverse impact on our business, financial condition, and results of operations.

***Our results may be negatively affected by rising labor costs.***

There is some uncertainty with respect to the pace of rising labor costs in various regions in which we operate. Any increase in labor costs that we are unable to recover in our pricing to our customers would negatively impact our margins and operating results.

***Inherent challenges in managing unanticipated changes in customer demand may impact our planning, supply chain execution and manufacturing, and may adversely affect our operating performance and results.***

Our customers use EMS providers for new product introductions and expect rapid response times to meet changes in volume requirements. Although we generally enter into master supply agreements with our customers, the level of business to be transacted under those agreements is not guaranteed. Instead, we bid on a program-by-program basis and typically receive customer purchase orders for specific quantities and timing of products. Most of our customers typically do not commit to production schedules for more than 30 days to 90 days in advance and we often experience volatility in customer orders. There can be no assurance that present or future customers will not terminate their manufacturing or service arrangements with us, or that they will not significantly change, reduce or delay the volume of manufacturing or other services they order from us, any of which would adversely affect our operating results. Customers may also shift business to our competitors, in-source programs, or adjust the concentration of their supplier base. Additionally, a significant portion of our revenue can occur in the last month of the quarter, and purchase orders may be subject to change or cancellation, all of which affect our operating results when they occur. Accordingly, our forecasts of customer orders may be inaccurate, and may make it difficult to order appropriate levels of materials, schedule production, and maximize utilization of our manufacturing capacity and resources.

Our customers may change their forecasts, production quantities or product type requirements, or may accelerate, delay or cancel production quantities for various reasons. When customers change production volumes or request different products to be manufactured from those in their original forecast, the unavailability of components and materials for such changes could also adversely impact our revenue and working capital performance. Further, to guarantee continuity of supply for many of our customers, we are required to manufacture and warehouse specified quantities of finished goods. The uncertainty of demand in our customers' end markets, intense competition in our customers' industries and general order volume volatility may result in customers delaying or canceling the delivery of products we manufacture for them or placing purchase orders for lower volumes of products than previously anticipated.

Order cancellations, or changes or delays in production, may result in higher than expected levels of inventory, which could in turn have a material adverse impact on our operating results and working capital performance. We may not be able to return or re-sell this inventory, or we may be required to hold the inventory for a period of time, any of which may result in our having to record additional reserves for the inventory if it becomes excess or obsolete. For example, recent global overcapacity in the solar panel market resulted in, among other things, unprecedented declines in the pricing of solar panels, a slowing of demand, and related deferred and cancelled orders from customers. As a result, we recorded net inventory provisions of $12.0 million in 2016 primarily to write down our solar panel inventory to applicable market prices. Order cancellations and delays could also lower our asset utilization, resulting in higher levels of unproductive assets, lower inventory turns, and lower margins.

***Volatility in commodity prices may negatively impact our operating results.***

We rely on various energy sources in our production and transportation activities. The price of commodities can be volatile. Increases in prices for energy and other commodities could result in higher raw material and component costs and transportation costs. Any increase in our costs that we are unable to recover in our pricing to our customers would negatively impact our margins and operating results.

***There may be problems with the products we design or manufacture that could result in liability/warranty claims against us, which may reduce demand for our services, damage our reputation, and/or cause us to incur significant costs.***

In most of our sales contracts, we provide warranties against defects or deficiencies in our products, services, or designs. The extent of the warranties varies by customer, and warranties generally range from one to three years. However, the warranty period for our JDM designs, and our solar panel products (which remain in force notwithstanding our decision in the fourth quarter of 2016 to exit this business), are generally longer. We generally design and manufacture products to our customers' specifications, many of which are highly complex, and include products for industries, such as healthcare, aerospace and defense, that tend to have higher risk profiles. The customized design solutions that form a part of our JDM offering also subject us to the risk of liability claims if defects are discovered or alleged. Despite our quality control and quality assurance efforts, problems may occur, or may be alleged, in or resulting from the design and/or manufacturing of these products. Whether or not we are responsible, problems in the products we design and/or manufacture, or in products which include components we manufacture, whether real or alleged, whether caused by faulty customer specifications, the design or manufacturing processes or a component defect, may result in increased costs to us, as well as delayed shipments to our customers, and/or reduced or canceled customer orders. These potential claims may include damages for the recall of a product and/or injury to person or property, including consequential and/or punitive damages.

Even if customers or third parties, such as component suppliers, are responsible for defects, they may not, or may not be able to, assume responsibility for any such costs or required payments to us. While we seek to insure against many of these risks, insurance coverage may be inadequate, not cost effective or unavailable, either in general or for particular types of products or issues.

As we expand our service offerings (for example, our JDM offerings) and pursue business in new end markets, our warranty obligations are likely to increase and we may not be successful in pricing our products to appropriately cover our warranty costs. A successful claim for damages arising from defects or deficiencies for which we are not adequately insured, and for which indemnification from a third party is not timely (or otherwise) available, could have a material adverse effect on our reputation and/or our operating results and financial condition.

***We may experience increased financial and reputational risk due to non-performance by counterparties.***

A failure by a counterparty, which includes customers, suppliers, financial institutions and other third parties with which we conduct business, to fulfill its contractual obligations may result in a financial loss to us, and may adversely affect our reputation.

We have significant suppliers that are important to our sourcing activities. In addition, during 2015, we entered into an agreement with the Solar Supplier, which included a commitment by us to provide it with specified cash advances. We advanced an aggregate of $29.5 million to the Solar Supplier, $12.5 million of which remained outstanding as of December 31, 2016, and is anticipated to continue to be repaid through quarterly installments during 2017 (notwithstanding the early termination of this agreement in the fourth quarter of 2016). If a key supplier (or any company within our supply chain) experiences financial difficulties, this may affect its ability to supply us with materials, components or services, which could halt or delay the production of a customer's products, and have a material adverse impact on our operations, financial results and customer relationships (and in the case of the Solar Supplier, its ability to repay our cash advances and other amounts owing to us).

Our ability to collect our accounts receivable and future sales depends, in part, on the financial strength of our customers. We provide payment terms to most of our customers generally ranging from 30 days to 90 days. From time to time, we extend the payment terms applicable to certain customers. If this becomes our practice, it could adversely impact our working capital requirements, and increase our financial exposure and credit risk. Our accounts receivable balance at December 31, 2016 was $790.5 million, with three customers individually representing more than 10% of our total accounts receivable. If any of our customers have insufficient liquidity, we could encounter significant delays or defaults in payments owed to us by such customers, or such customers may request that we extend our payment terms, which could adversely impact our financial condition and operating results. Any extensions or delays in payments owed to us could adversely impact our short-term cash flows, financial condition and/or operating results. In addition, customer financial difficulties may result in order cancellations or reductions and higher than expected levels of inventory, which could in turn have a material adverse impact on our operating results and working capital performance. We may not be able to return or re-sell this inventory, or we may be required to hold the inventory for a period of time, any of which may result in our having to record additional reserves for the inventory if it becomes aged. We also may be unable to recover all of the amounts owed to us by a customer, including amounts to cover unused inventory or capital investments we incurred to support that customer's business. Furthermore, if a customer bankruptcy occurs (which has recently occurred in the solar industry), our profitability may be adversely impacted by our failure to collect our accounts receivable in excess of our estimated allowance for uncollectible accounts. Additionally, our future revenues could be reduced by the loss of a customer due to bankruptcy. Our failure to collect accounts receivable and/or the loss of one or more major customers could have an adverse effect on our operating results, financial position and cash flows. We cannot reliably determine if and to what extent customers or suppliers may have financial difficulties, whether we will be required to adjust our prices or the amount we pay for materials and components, or face collection issues with customers, or if customer or supplier bankruptcies will occur.

***We are exposed to translation and transaction risks associated with foreign currency exchange rate fluctuations; hedging instruments may not be effective in mitigating such risks.***

Global currency markets can be volatile. Although we conduct the majority of our business in U.S. dollars (our functional currency), our global operations subject us to translation and transaction risks associated with fluctuations in currency exchange rates that could have a material adverse impact on our operating results and/or financial condition. A significant portion of our operational costs (including payroll, pensions, site costs, costs of locally sourced supplies and inventory, and income taxes) are denominated in various currencies other than the U.S. dollar. Fluctuations in currency exchange rates may significantly increase the amount of translated U.S. dollars required for costs incurred in other currencies or significantly decrease the U.S. dollars received from non-U.S. dollar revenues. Our significant non-U.S. currency exposures include the Canadian dollar, Thai baht, Malaysian ringgit, Mexican peso, British pound sterling, Chinese renminbi, Euro, Romanian leu and Singapore dollar.

Although our functional currency is the U.S. dollar, currency risk on our income tax expense arises as we are generally required to file our tax returns in the local currency for each country in which we have operations. A weakening of the local currency against the U.S. dollar could have a negative impact on our income taxes payable (related to increased local-currency taxable profits) and on our deferred tax costs (primarily related to the revaluation of non-monetary foreign assets from historical average exchange rates to the period-end exchange rates). See note 21 to the Consolidated Financial Statements in Item 18. While our hedging programs are designed to mitigate currency risk vis-à-vis the U.S. dollar, we remain subject to taxable foreign exchange impacts in our translated local currency financial results relevant for tax reporting purposes.

As part of our risk management program, we enter into foreign exchange forward contracts to lock in the exchange rates for future foreign currency transactions, which is intended to reduce the variability of our operating costs and future cash flows denominated in local currencies. While these contracts are intended to reduce the effects of fluctuations in foreign currency exchange rates, our hedging strategy does not mitigate the longer-term impacts of changes to foreign exchange rates. We do not enter into these contracts for trading purposes or speculation, and our management believes all such contracts are entered into as hedges of underlying transactions. Nonetheless, these instruments involve costs and risks of their own in the form of transaction costs, credit requirements and counterparty risk. If our hedging program is not successful, or if we change our hedging activities in the future, we may experience significant unexpected expenses from fluctuations in exchange rates.

Our financial results have been adversely impacted by negative foreign currency translation effects in recent periods, and such adverse effects, some of which may be substantial, are likely to recur in the future.

***Our ability to successfully manage unexpected changes or risks inherent in our global operations and supply chain may adversely impact our financial performance.***

We have sites in the following countries: Canada, the United States, China, Ireland, Japan, Laos, Malaysia, Mexico, Romania, Singapore, Spain and Thailand. During 2016, approximately 80% of our revenue was produced at locations outside of North America. We also purchase the majority of our components and materials from international suppliers.

Global operations are subject to inherent risks which may adversely affect us, including:

- changes in local tax rates and tax incentives and the adverse tax consequences of repatriating earnings;
- labor unrest and differences in regulations and statutes governing employee relations, including increased scrutiny of labor practices within our industry;
- cultural differences and/or differences in local business customs;
- changes in regulatory requirements;
- inflationary trends and rising costs;
- changes in international political relations;
- difficulty in staffing (including skilled labor availability and cost) and managing foreign operations;
- challenges in building and maintaining infrastructure to support operations;
- compliance with a variety of foreign laws, including import and export tariffs and regulations;
- adverse changes in trade policies between countries in which we maintain operations;
- changes in logistics costs;
- changes in the availability, lead time, and cost of components and materials;
- weaker laws protecting intellectual property rights and/or greater difficulty enforcing such rights;

- global economic, political and social instability;
- potential restrictions on the transfer of funds and/or other restrictive actions by foreign governments;
- the effects of terrorist activity, armed conflict, natural disasters and epidemics; and
- global currency fluctuations.

Any of these risks could disrupt the supply of our components or materials, slow or stop our production, and/or increase our costs. Compliance with trade and foreign tax laws may increase our costs and actual or alleged violations of such laws could result in enforcement actions or financial penalties that could result in substantial costs. In addition, the introduction or expansion of certain social programs in foreign jurisdictions may increase our costs, and certain supplier's costs, of doing business.

We currently ship a significant portion of our worldwide production into the U.S. from other countries. Potential changes to, among other things, laws or policies in the U.S. regarding foreign trade, import/export duties, tariffs or taxes, manufacturing and/or investments, could materially adversely affect our U.S. and foreign operations. See ***"Significant developments stemming from the recent U.S. presidential election could have a material adverse effect on our business, results of operations and financial condition."***

***We may not keep pace with rapidly evolving technology.***

Many of the markets for our manufacturing and engineering services are characterized by rapidly changing technology and evolving process development. We believe our future success will depend, in part, upon our ability to: continually develop and deliver electronic and complex mechanical manufacturing services that meet our customers' evolving needs; hire, retain and expand our qualified engineering and technical personnel; maintain and continually improve our technological expertise; and successfully anticipate or respond to technological changes in manufacturing processes on a cost-effective and timely basis.

Although we believe that our operations use the assembly and testing technologies, equipment and processes that are currently required by our customers, we cannot be certain that we will maintain or develop the capabilities required by our customers in the future. The emergence of new technology, industry standards or customer requirements may render our equipment, inventory or processes obsolete or noncompetitive. In addition, we may have to invest in new processes, capabilities or equipment to support new technologies used in our customers' current or future products, and to support their supply chain processes. Additionally, as we expand our service offerings, such as our JDM offering, or pursue business in new markets, where our experience may be limited, we may be less effective in adapting to technological change. Our manufacturing and supply chain processes, test development efforts and design capabilities may not be successful due to rapid technological shifts in any of these areas. The acquisition and implementation of new technologies and equipment and the offering of new or additional services to our customers may require significant expense or capital investment, which could reduce our operating margins and our operating results. Our failure to anticipate and adapt to our customers' changing technological needs and requirements or to hire and retain a sufficient number of engineers and maintain our engineering, technological and manufacturing expertise could have a material adverse effect on our operations.

Various industry-specific standards, qualifications and certifications are required to produce certain types of products for our customers. Failure to obtain or maintain those certifications may adversely affect our ability to maintain existing levels of business or win new business.

***We may not adequately protect our intellectual property or the intellectual property of others.***

We believe that certain of our proprietary intellectual property rights and information provide us with a competitive advantage. Accordingly, we take steps to protect this proprietary information, including entering into non-disclosure agreements with customers, suppliers, employees and other parties, and by implementing security measures. However, our protection measures may not be sufficient to prevent or detect the misappropriation or unauthorized use or disclosure of our property or information.

There is also a risk that claims of intellectual property infringement could be brought against us, our customers and/or our suppliers. If such claims are