CELESTICA INC
Form 20-F
March 20, 2007

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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, 2006
or
o Transition report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
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)

12 Concorde Place, 5th Floor
Toronto, Ontario, Canada M3C 3R8

(Address of principal executive offices)

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

Subordinate Voting Shares	The Toronto Stock Exchange New York Stock Exchange
(Title of Class)	*(Name of each Exchange on which Registered)*

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.

198,215,551 Subordinate Voting Shares

0 Preference Shares

29,637,316 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 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 financial statement item the registrant has elected to follow. Item 17 o Item 18 ý

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

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PART I

In this Annual Report, "Celestica," 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, 2006. 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 Federal Reserve Bank of New York, the average daily exchange rate was U.S.$1.00 = C$1.1340.

Unless we indicate otherwise, all information in this Annual Report is stated as of February 19, 2007, the date as of which we prepared information for our annual report to shareholders and management information circular and proxy statement.

Forward-Looking Statements

Item 4, "Information on the Company," "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 5 and other sections of this Annual Report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the U.S. Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the U.S. Exchange Act, including (without limitation) statements concerning possible or assumed future results of operations of Celestica preceded by, followed by or that include the words "believes," "expects," "anticipates," "estimates," "intends," "plans," or similar expressions. 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.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. You should understand that the following important factors, in addition to those discussed in Item 3, "Key Information Risk Factors," and elsewhere in this Annual Report, could affect our future results and could cause those results to differ materially from those expressed in such forward-looking statements: inability to retain or grow our business due to execution problems resulting from significant headcount reductions, plant closures and product transfers associated with major restructuring activities; the effects of price competition and other business and competitive factors generally affecting the electronics manufacturing services (EMS) industry; the challenges of effectively managing our operations during uncertain economic conditions; our dependence on a limited number of customers; variability of operating results among periods; our dependence on industries affected by rapid technological change; the challenge of responding to lower-than-expected customer demand; our ability to successfully manage our international operations; and delays in the delivery and/or general availability of various components used in the manufacturing process.

Except as required by applicable law, 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. You should read this Annual Report and the documents, if any, that we incorporate by reference with the understanding that the actual future results may be materially different from what we expect. We may not update these forward-looking statements, even if our situation changes in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

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 is derived from the consolidated financial statements for the years we present.

The Consolidated Financial Statements have been prepared in accordance with Canadian GAAP. These principles conform in all material respects with U.S. GAAP except as described in note 20 to the Consolidated Financial Statements in Item 18. For all the years presented, the selected financial data is prepared in accordance with Canadian GAAP unless otherwise indicated.

	Year ended December 31				
	2002(1)	**2003(1)**	**2004(1)**	**2005(1)**	**2006(1)**
	(in millions, except per share amounts)				
Consolidated Statements of Operations Data (Canadian GAAP):					
Revenue	$ 8,271.6	$ 6,735.3	$ 8,839.8	$ 8,471.0	$ 8,811.7
Cost of sales	7,716.5	6,475.2	8,431.9	7,989.9	8,359.9
Gross profit	555.1	260.1	407.9	481.1	451.8
Selling, general and administrative expenses(2)	298.5	273.8	331.6	296.9	285.6
Amortization of intangible assets(3)	95.9	48.5	34.6	28.4	27.0
Integration costs related to acquisitions(4)	21.1		3.1	0.6	0.9
Other charges(5)	665.7	151.6	603.2	130.9	211.8
Accretion of convertible debt	28.7	23.4	17.6	7.6	
Interest expense (income), net(6)	(1.1)	(4.0)	19.7	42.2	62.6
Loss before income taxes	(553.7)	(233.2)	(601.9)	(25.5)	(136.1)
Income tax expense (recovery)(7)	(98.3)	33.5	252.2	21.3	14.5
Net loss	$ (455.4)	$ (266.7)	$ (854.1)	$ (46.8)	$ (150.6)
Other Financial Data:					
Basic loss per share	$ (1.98)	$ (1.23)	$ (3.85)	$ (0.21)	$ (0.66)
Diluted loss per share	$ (1.98)	$ (1.23)	$ (3.85)	$ (0.21)	$ (0.66)
Capital expenditures	$ 151.4	$ 175.9	$ 142.2	$ 158.5	$ 189.1
Consolidated Statements of Operations Data (U.S. GAAP)(8):					
Net loss	$ (494.9)	$ (269.2)	$ (867.5)	$ (42.8)	$ (149.3)
Shares used in computing per share amounts (in millions):					
Basic	229.8	216.5	222.1	226.2	227.2
Diluted	229.8	216.5	222.1	226.2	227.2

	As at December 31									
	2002[1]		2003[1]		2004[1]		2005[1]		2006[1]	
	(in millions)									
Consolidated Balance Sheet Data (Canadian GAAP):										
Cash and short-term investments	$	1,851.0	$	1,028.8	$	968.8	$	969.0	$	803.7
Working capital[9]	$	2,093.2	$	1,513.6	$	1,458.3	$	1,488.1	$	1,394.9
Capital assets	$	730.2	$	681.4	$	569.3	$	544.8	$	567.1
Total assets	$	5,811.4	$	5,137.4	$	4,939.8	$	4,857.8	$	4,686.3
Total long-term debt, including current portion[10]	$	269.0	$	213.9	$	627.5	$	751.4	$	750.8
Shareholders' equity	$	3,941.7	$	3,255.9	$	2,488.8	$	2,214.4	$	2,094.6
Consolidated Balance Sheet Data (U.S. GAAP)[8]:										
Total assets	$	5,805.6	$	5,182.2	$	4,988.7	$	4,876.2	$	4,708.1
Total long-term debt, including current portion	$	831.7	$	626.4	$	846.1	$	751.4	$	750.8
Shareholders' equity	$	3,344.4	$	2,844.4	$	2,257.6	$	2,176.9	$	1,960.4

(1) Changes in accounting policies:

(i) Effective January 1, 2003, we adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3063, "Impairment or disposal of long-lived assets," and the revised Section 3475, "Disposal of long-lived assets and discontinued operations," which are consistent with U.S. GAAP. These sections establish standards for recognizing, measuring and disclosing impairment for long-lived assets held-for-use, and for measuring and separately classifying assets available-for-sale. Previously, long-lived assets were written down to net recoverable value if the undiscounted future cash flows were less than net book value. Under the new standards, assets must be classified as either held-for-use or available-for-sale. Impairment losses for assets held-for-use are measured based on fair value, which is measured by discounted cash flows when quoted market prices are not available. Available-for-sale assets are measured based on fair value less costs to sell.

(ii) Effective January 1, 2003, we adopted the CICA Emerging Issues Committee (EIC) Abstracts EIC-134, "Accounting for severance and termination benefits," and EIC-135, "Accounting for costs associated with exit and disposal activities," which establish standards for recognizing, measuring and disclosing costs relating to an exit or disposal activity. These standards are similar to U.S. GAAP. These EICs allow recognition of a liability for an exit or disposal activity only when the costs are incurred and can be measured at fair value. Previously, a commitment to an exit or disposal plan was sufficient to record the majority of costs.

(iii) Effective January 1, 2003, we adopted the revised CICA Handbook Section 3870, "Stock-based compensation," which requires that a fair-value method of accounting be applied to all stock-based compensation to employees. In accordance with the transitional provisions, we have prospectively applied the fair-value method of accounting for stock option awards granted after January 1, 2003 and, accordingly, have recorded compensation expense of $5.1 million in 2006 ($9.0 million 2005; $7.6 million 2004; and $0.3 million 2003). Prior to January 1, 2003, we accounted for our stock options using the settlement method and no compensation expense was recognized.

(iv) Effective January 1, 2004, we retroactively adopted the CICA Handbook Section 3110, which requires the recognition of liabilities for asset retirement obligations and the associated retirement costs, and have retroactively restated our results of operations for prior periods. The impact to our cost of sales and net loss for Canadian GAAP for 2004 was $0.9 million (2003 $0.9 million; and 2002 $0.7 million).

(v) Effective December 31, 2004, we adopted the amendment to CICA Handbook Section 3860, "Financial instruments presentation and disclosure." The revised standard requires obligations of a fixed amount that may be settled, at the issuer's option, by a variable number of the issuer's own equity instruments to be presented as liabilities. The standard was effective on a retroactive basis with restatement of prior periods. As a result of adopting this standard, we reclassified the principal component of our Liquid Yield Option Notes due 2020 (LYONs) in 2004 as a debt instrument and recorded all accretion charges, amortization of deferred financing costs, gains and losses on repurchases relating to the principal component and related tax effects as charges to operations. The option component of the LYONs continued to be accounted for as an equity instrument. The remaining LYONs were redeemed in the third quarter of 2005.

	As at December 31		
	2002	2003	2004
		(in millions)	
(a) Reclassified from equity to debt	$ 262.1	$ 210.5	$ 124.1
(b) Reclassified deferred financing costs from equity to other assets	$ 4.1	$ 2.8	$ 1.3
(c) Reduced deferred income tax assets and equity	$ 1.9	$ 1.9	$ 1.9

	Year ended December 31		
	2002	2003	2004
		(in millions)	
(d) Recorded accretion charges and amortization of deferred financing costs, net of tax	$ 17.8	$ 16.1	$ 12.0
(e) Reclassified gain on repurchases of LYONs and related tax from equity to other charges and tax expenses, net of tax	$ (8.3)	$ (16.1)	$ (22.0)

The consolidated statements of operations data for:

2002, 2003, 2004, 2005 and 2006 include the results of operations of certain assets of NEC Corporation in Japan acquired in March 2002 and certain assets of Corvis Corporation in the United States acquired in August 2002;

2004, 2005 and 2006 include the results of operations of Manufacturers' Services Limited (MSL) acquired in March 2004 and certain assets of NEC Corporation in the Philippines acquired in April 2004;

2005 and 2006 includes the results of operations of Ramnish Electronics Private Limited acquired in July 2005, CoreSim Inc. acquired in August 2005 and Displaytronix Inc. acquired in November 2005; and

2006 includes the results of operations of certain assets of Powerwave Technologies, Inc. acquired in March 2006.

(2)

Selling, general and administrative expenses include research and development costs.

(3)

We adopted the CICA Handbook Sections 1581, "Business Combinations," and 3062, "Goodwill and Other Intangible Assets" which were substantially consistent with U.S. GAAP.

As required, we discontinued the amortization of goodwill effective January 1, 2002. At that time, we evaluated our existing intangible assets and reclassified $9.1 million from intellectual property to goodwill to conform with the standards. We also completed a transitional goodwill impairment evaluation and determined that no impairment existed as of the date of adoption.

(4)

These costs include costs to implement new information systems and business processes, including salary and other costs, directly related to the integration activities in newly acquired facilities.

(5)

In 2002, Other charges totaled $665.7 million, comprised primarily of: (a) a $385.4 million restructuring charge; (b) a non-cash write-down of $203.7 million relating to the annual goodwill impairment assessment; and (c) a non-cash write-down of $81.7 million relating to the annual impairment assessment of long-lived assets, primarily intangible and capital assets; offset, in part, by (d) a $12.1 million gain on repurchase of LYONs.

In 2003, Other charges totaled $151.6 million, comprised primarily of: (a) a $94.9 million restructuring charge; and (b) a non-cash write-down of $82.8 million relating to the annual impairment assessment of long-lived assets, primarily intangible and capital assets; offset, in part, by (c) a $23.8 million gain on repurchase of LYONs.

In 2004, Other charges totaled $603.2 million, comprised primarily of: (a) a $153.7 million restructuring charge; (b) a non-cash write-down of $288.0 million relating to the annual goodwill impairment assessment; (c) a non-cash write-down of $99.3 million relating to the annual impairment assessment of long-lived assets, primarily intangible and capital assets; and (d) a $116.8 million non-cash write-down of receivables for a specific customer risk (see note 11(e) to the Consolidated Financial Statements in Item 18); offset, in part, by (e) a $32.9 million gain on repurchase of LYONs.

In 2005, Other charges totaled $130.9 million, comprised primarily of: (a) a $160.1 million restructuring charge; offset, in part, by (b) a $13.9 million gain on repurchase of LYONs; and (c) a $13.8 million recovery of additional amounts realized relating to a specific customer risk.

In 2006, Other charges totaled $211.8 million, comprised primarily of: (a) a $178.1 million restructuring charge; and (b) a $33.2 million non-cash loss resulting from the sale of our plastics business.

(6) Interest expense (income), net is comprised of interest expense incurred on indebtedness and debt facilities, less interest income earned on cash and short-term investments.

(7) The income tax expense for 2004 included a charge of $248.2 million relating to a valuation allowance for deferred income tax assets. The reduced future expected profits and the cost of restructuring actions and planned program transfers negatively impacted our previous estimates of taxable income, particularly in the United States and Europe. We determined the more likely than not criteria was no longer met and accordingly increased the valuation allowance.

(8) The significant differences between the line items under Canadian GAAP and those as determined under U.S. GAAP arise primarily from:

For 2002: non-cash charges for compensation expense, interest on convertible debt classified as a long-term liability rather than as a bifurcated instrument, impairment charges to write-down certain assets and gain on repurchase of convertible debt;

For 2003 and 2004: interest and deferred taxes on convertible debt classified as a long-term liability rather than as a bifurcated instrument, impairment on certain long-lived assets, gain (loss) on repurchase of convertible debt, and the adoption of fair-value accounting for stock-based compensation for Canadian GAAP only;

For 2003: net loss in accordance with U.S. GAAP is after the cumulative effect of a change in accounting policy;

For 2005: interest on convertible debt classified as a long-term liability rather than as a bifurcated instrument, reversal of deferred taxes on convertible debt, loss on repurchase of convertible debt, and the adoption of fair-value accounting for stock-based compensation for Canadian GAAP only; and

For 2006: the transition adjustment resulting from adopting the fair-value accounting for stock-based compensation for U.S. GAAP in 2006.

Refer to note 20 to the Consolidated Financial Statements in Item 18.

(9) Calculated as current assets less current liabilities.

(10) Long-term debt includes capital lease obligations and the principal component of convertible debt instruments. For convertible debt amounts see footnote (1)(v)(a). All remaining LYONs were redeemed in the third quarter of 2005.

Exchange Rate Information

The rate of exchange as of February 16, 2007 for the conversion of Canadian dollars into United States dollars was U.S.$1.1638 and for the conversion of United States dollars into Canadian dollars was C$0.8592. The following table sets forth the exchange rates for the conversion of U.S.$1.00 into Canadian dollars for the following 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 Federal Reserve Bank of New York's website (http://www.ny.frb.org).

	2002	2003	2004	2005	2006
Average[1]	1.5704	1.3916	1.2984	1.2083	1.1307

	February 2007	January 2007	December 2006	November 2006	October 2006	September 2006
High	1.1852	1.1824	1.1652	1.1474	1.1384	1.1272
Low	1.1586	1.1647	1.1415	1.1275	1.1154	1.1052

(1) Calculated by using the averages of the exchange rates as of the last day of each month during the period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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 have had significant restructuring charges and losses for several years and may experience restructuring charges and losses in future periods.

We recorded losses in each of the last six years resulting primarily from restructuring charges and the write-down of goodwill, capital and intangible assets. These amounts have varied from period to period. In 2004, we also recorded a write-down of accounts receivable for one specific customer. We have undertaken numerous initiatives to restructure and reduce our capacity and cost structures in response to changes in the EMS industry and end-market demand, with the intention of improving utilization and realizing cost savings in the future. We will continue to evaluate our operations and may propose additional restructuring actions in the future. Any failure to successfully execute these initiatives, including any delay in effecting these initiatives, can have a material adverse impact on our results. Furthermore, we may not be profitable in future periods.

We are in a highly competitive industry which has resulted in lower prices, reduced gross margins, and loss of revenue or customers.

We are in a highly competitive industry. We compete on a global basis to provide electronics manufacturing services and solutions to original equipment manufacturers (OEMs) in the communications, computing, industrial and consumer markets. Our competitors include major domestic and foreign companies such as Flextronics International Ltd., Hon Hai Precision Industry Co., Ltd., Jabil Circuit, Inc., Sanmina-SCI Corporation and Solectron Corporation, as well as smaller EMS companies that often have a regional, product, service or industry specific focus. In addition, original design manufacturers (ODMs), companies that provide internally designed products and manufacturing services to OEMs, continue to increase their share of outsourced manufacturing services across several markets and product groups, including notebook and desktop computers, personal computer motherboards, and consumer electronics such as cell phones. While we have not, to date, encountered significant direct competition from ODMs in the end-markets in which we participate, such competition may increase if our business in these markets grows, or if ODMs expand further into, or beyond, these markets. We also face indirect competition from the manufacturing operations of our current and prospective customers, as these companies could choose to manufacture products internally rather than to outsource to EMS providers.

Some of our competitors have a greater production presence in lower-cost geographies, as well as greater manufacturing, financial, procurement, research and development and marketing resources than we have. Accordingly, our current or potential competitors may develop or acquire services comparable or superior to those we develop, combine or merge to form larger competitors, or adapt more quickly than we will to new technologies, evolving industry trends and changing customer requirements. Competition has caused and may continue to cause excessive pricing pressures, increased working capital requirements, reduced profits or loss of market share (from both program and customer disengagements), any of which could materially and adversely affect us. In addition, the EMS industry has excess manufacturing capacity and has seen increased competition from Asian competitors. This has exerted and will continue to exert additional pressures on pricing for components and services, thereby increasing the competitive pressures in the EMS industry. We may not be able to compete successfully against our current and future competitors, and the competitive pressures we face may have a material adverse effect on us.

We are dependent on selected industries which are exposed to changes in conditions that can continue to adversely impact our business, operating results and financial condition.

During the past few years, we have been negatively impacted by the reduced demand for technology capital goods and proprietary computing products. Our financial performance depends on our customers' viability and financial stability, and the end-market demand for our customers' products. A majority of our customer base, in turn, depends substantially on the recovery and growth in these industries.

The communications and computing industries are characterized by rapid changes in technologies, increased standardization of technologies and shortening of product lifecycles. These industries have experienced severe revenue erosion, pricing and margin pressures, and excess inventories during the past few years. More recently, some of our customers in the communications sector merged or were acquired by third parties that are not our customers. Future mergers and acquisitions could result in a decrease in demand from our customers or a loss of business to our competitors as customers rationalize their business and consolidate their suppliers.

During the fourth quarter of 2006, we experienced unexpected volatility in demand from the telecommunications segment, driven primarily by the challenging end-market demand in North America, and from recent consolidations in the marketplace. We expect this volatility in demand to continue into 2007.

We are dependent on a limited number of customers, primarily within the communications and computing markets, for a substantial portion of our revenue. A decline in revenue from these customers or a loss of a large customer could have a material adverse affect on our financial condition and results of operations.

Our two largest customers in 2006 were Cisco Systems and IBM, each of which represented 10% of total 2006 revenue and in aggregate represented 20% of total 2006 revenue. Our top 10 customers in 2006 represented 59% of our total 2006 revenue. Our two largest customers in 2005 were Cisco Systems and IBM, each of which represented more than 10% of our total 2005 revenue and in aggregate represented 27% of our total 2005 revenue. Our top 10 customers represented 63% of our total 2005 revenue. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenue. To reduce this reliance, we have been targeting new customers in the industrial and consumer markets.

Mergers among our customers or our customers' customers could increase concentration and/or reduce total demand as the combined entities rationalize their business and consolidate their suppliers. In addition, some of our customers in the computing and communications markets have, during the past several years, significantly reduced or delayed the volume of manufacturing services ordered from us. There is no assurance that present or future large customers will not terminate their manufacturing arrangements with us or significantly change, reduce, or delay the amount of manufacturing services ordered from us, any of which would adversely affect our operating results. Significant reductions in, or the loss of, revenue to any of our large customers would have a material adverse effect on us.

Although we 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 project basis and typically have supply contracts or purchase orders in place for the project. We are dependent on customers to fulfill the terms associated with these orders and/or contracts.

Inherent difficulties in managing capacity utilization and unanticipated changes in customer orders place strains on our planning and supply chain execution and may affect our results of operations.

Our customers are increasingly dependent on EMS providers for new product introductions and rapid response times to meet changes in volume requirements. Most of our customers typically do not commit to firm production schedules for more than 30 to 90 days in advance and we often experience reduced lead-times in customers' orders. Additionally, a significant portion of our revenue can occur in the last month of the quarter and could be subject to change or cancellation that will affect our quarter-to-quarter results. Accordingly, we cannot always forecast the level of customer orders with certainty. This can make it difficult to order appropriate levels of materials and to schedule production and maximize utilization of our manufacturing capacity.

In addition, customers may cancel their orders, change production quantities, or delay production for a number of reasons. Furthermore, in order to guarantee continuity of supply for many of our customers, we are required to manufacture and hold a specified amount of finished goods in our warehouses for our customers. The uncertain economic condition of our customers' end-markets, intense competition with respect to some of our customers' products and general order volume volatility have resulted, and may continue to result, in some of our customers delaying or canceling the delivery of some of the products we manufacture for them, and placing purchase orders for lower volumes of products than previously anticipated.

Cancellations, reductions or delays by a significant customer, by a group of customers, or by a single customer whose production is significant to an individual facility would seriously harm results of that operation in that period. Such order changes could also cause a delay in the repayment to us for inventory expenditures we incurred in preparation for the customer's orders or, in certain circumstances, require us to return the inventory to our suppliers, re-sell the inventory to another customer or continue to hold the inventory, any of which may result in our taking additional provisions for the inventory should it become excess or obsolete. Order cancellations and delays could also lower our asset utilization, resulting in higher levels of unproductive assets and lower margins. In some cases, changes in circumstances for a customer could also negatively impact the collectability of receivables or carrying value of our inventory for that customer. On other occasions, customers have required rapid and sudden increases in production, which have placed an excessive burden on our manufacturing capacity. Rapid changes in product ramps and/or the weakening financial condition or deterioration of any single customer's financial condition could prevent us from collecting receivables or realizing the value of inventory on hand. Any of these factors or a combination of these factors could have a material adverse effect on our results of operations.

We may encounter difficulties expanding and/or restructuring our operations which could adversely affect our results of operations.

As we expand our business, enter into new market segments and products, or transfer our business from one region to another, we may encounter difficulties that result in higher than expected costs associated with our growth and customer dissatisfaction with performance. Potential difficulties related to our growth and/or operational restructuring could include:

- lack of trained personnel to manage the operations and customer contracts appropriately;
- maintaining customer, supplier and other favorable business relationships during a period of transition;
- effective training of staff to manage new customers and products;
- unanticipated disruptions in our operations which may impact our ability to deliver to the customer on time, to produce quality products and to ensure overall customer satisfaction; and
- losing programs and customers who reduce their business risk by resourcing or dual sourcing their business with us due to unforeseen disruptions in our operations.

Any of these factors could prevent us from realizing the anticipated benefits of growth in new markets or the benefits we expected to realize from our restructurings and could adversely affect our business and operating results.

The complexity of moving our manufacturing base to lower-cost regions could have a material adverse effect on our financial condition and results of operations.

Due to significant and severe weakness in technology end-markets over the past few years and the highly competitive nature of their businesses, our customers required more lower-cost solutions from their EMS providers in order for them to maintain sales and improve their financial performance. This environment resulted in an accelerated movement of our production from higher-cost regions such as North America and Western Europe to lower-cost regions such as Asia, Latin America and Eastern Europe. This accelerated move has had and could continue to have a negative impact on current and future results by increasing the risks associated with, among other things, transferring production to new regions where skills or experience may be more limited than in higher-cost regions, incurring higher operating expenses during the transition, incurring additional restructuring costs associated with, among other things, the decrease in production levels in higher-cost geographies and the risks of operating in new foreign jurisdictions. In certain situations, product transfers have, and may in the future, result in our inability to retain our existing business or grow future revenue due to potential execution problems resulting from significant headcount reductions, plant closures and product transfers associated with major restructuring activities.

Restrictions on our ability to restructure quickly enough can delay the timing and affect the benefits we expect from our restructuring efforts.

We have operations in multiple regions around the world. As a result, we are subject to different regulatory requirements and labor laws governing how quickly we are able to reduce manufacturing capacity and terminate related employees. These requirements are particularly stringent in Europe. Restrictions on our ability to close under-performing facilities have resulted in higher expenses associated with carrying excess capacity and

infrastructure while we were conducting our restructuring activities. The speed of our restructuring can also be impeded by delays in customers' agreement to the product transfers and volatility in our customers' demand which can prevent us from transferring products to our other facilities in a timely and cost-effective manner. Since the restructuring of our plants requires some of our customers to move their production from one of our facilities to another, customers have, and may in the future, use this opportunity to shift their production to competitors' facilities.

Our results can be affected by limited availability of components.

A significant portion of our costs is for the purchase of electronic components. All of the products we manufacture or assemble require one or more components that we order from component suppliers. In many cases, there may be only one supplier of a particular component. Supply shortages for a particular component can delay production and thus delay the revenue of all products that use that component or can cause price increases in the products and services we provide. In the past, we have secured sufficient allocations of constrained components so that revenue was not materially impacted. In addition, at various times there have been industry-wide shortages of electronic components. Such shortages, or future fluctuations in the cost of components, may have a material adverse effect on our business or cause our results of operations to fluctuate from period to period.

Any failure to successfully manage our international operations would have a material adverse effect on our financial condition and results of operations.

During 2006, approximately two-thirds of our revenue was produced from locations outside of North America. We also purchase material from international suppliers for much of our business, including our North American business. We believe that our future growth depends largely on our ability to increase our business and penetration with global OEMs and, as we describe above, to continue to shift production to lower-cost geographies.

This international expansion has had and will continue to require significant management attention and financial resources. International operations are subject to inherent risks which may adversely affect us, including:

- labor unrest and differences in regulations and statutes governing employee relations;
- changes in regulatory requirements;
- difficulties in staffing and managing foreign sales and support operations;
- changes in local tax rates and other potentially adverse tax consequences, including the cost of repatriation of earnings;
- burdens of complying with a wide variety of foreign laws, including changing import and export regulations, which could erode our profit margins or restrict exports;
- adverse changes in trade policies between countries in which we maintain operations;
- political instability;
- potential restrictions on the transfer of funds;
- inflexible employee contracts that restrict our flexibility in responding to business downturns; and
- foreign exchange risks.

We have either purchased or built manufacturing facilities in numerous countries, including Thailand, Malaysia, China, Singapore, India, the Philippines, Brazil, Mexico, the Czech Republic and Romania, and could be subject to the political, economic and legal risks associated with doing business in these countries. Each of these regions has a history of promoting foreign investment but has experienced economic and political turmoil and fluctuations in the value of its currencies in the recent past. There is a potential risk that economic and political turmoil may result in the reversal of current policies encouraging foreign investment and trade, restrictions on the transfer of funds overseas, employee turnover, labor unrest or other domestic problems that could adversely affect us.

We face financial risks due to foreign currency fluctuations.

The principal currency in which we conduct our operations is the U.S. dollar. However, some of our subsidiaries transact business in foreign currencies, such as Canadian dollars, Thai baht, Euros, Mexican pesos, Czech koruna, Singapore dollars, Japanese yen, Malaysian ringgits, Chinese renminbi, Brazilian reai, Philippine pesos, Romanian lei and Indian rupees. We often enter into hedging transactions to minimize our exposure to foreign currency risks. Our current hedging activity is designed to reduce the variability of our foreign currency costs and consists of contracts to purchase or sell these foreign currencies at future dates. These contracts generally extend for periods ranging from one to 15 months. Our hedging transactions may not successfully minimize foreign currency risk, which could have a material adverse effect on our results of operations.

Our customers may be adversely affected by rapid technological changes which have an adverse impact on our business.

Many of our customers compete in markets that are characterized by rapidly changing technology, evolving industry standards and continuous improvements in products and services. These conditions frequently result in short product lifecycles. Our success will depend largely on the success achieved by our customers in developing and marketing their products. If technologies or standards supported by our customers' products become obsolete or fail to gain widespread commercial acceptance, our business could be materially adversely affected. In addition, an accelerating decline in end-market demand in proprietary systems in favor of open systems with standardized technologies could have a material adverse impact on our business.

Our investment in Lean and Six Sigma initiatives may not produce the anticipated cost benefits or achieve the working capital benefits we expect.

We are continually investing in training, business process and information technology tools to eliminate waste, increase quality and reduce defects in the manufacturing process. This investment is critical in our industry, as our customers require us to continually produce cost savings through the elimination of waste and improved efficiencies. Failure to deliver these cost savings could affect our relationships with our customers in a manner which would adversely affect our volumes and operating results. The deployment of Lean and Six Sigma initiatives is part of the roadmap we are using to improve our own operating margin. Failure to achieve the anticipated benefits could have a negative impact on our margin improvement.

Failure of our customers to pay the amounts owed to us in a timely manner may adversely affect our financial condition and results of operations.

We generally provide payment terms ranging from 30 to 60 days. As a result, we generate significant accounts receivable from sales to our customers, historically representing 22% to 39% of current assets. Accounts receivable from sales to customers at December 31, 2006 were $973.2 million (December 31, 2005 $982.6 million; and December 31, 2004 $1,023.3 million). At December 31, 2006, no customer represented more than 10% of total accounts receivable (December 31, 2005 one customer represented 12% of total accounts receivable; and December 31, 2004 two customers represented 25% of total accounts receivable). If any of our customers has insufficient liquidity, we may encounter significant delays or defaults in payments owed to us by customers, and may extend our payment terms or restructure the debt, which may have a significant adverse impact on our financial condition and results of operations. We regularly review our accounts receivable valuations and make adjustments when necessary. Our allowance for doubtful accounts at December 31, 2006 was $21.4 million (December 31, 2005 $21.1 million; and December 31, 2004 $140.1 million), which represented 2% of the gross accounts receivable balance (December&nbs