

SMART Technologies Inc.
Form 20-F
June 07, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

.. **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

OR

p **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

For the fiscal year ended March 31, 2016

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

For the transition period from _____ to _____

OR

.. **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 AS AMENDED**

Date of event requiring this shell company report _____

SMART TECHNOLOGIES INC.

(Exact name of Registrant as specified in its charter)

Province of Alberta, Canada

(Jurisdiction of incorporation or organization)

3636 Research Road N.W., Calgary, Alberta Canada T2L 1Y1

(Address of principal executive offices)

Matt Sudak

1-888-427-6278

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3636 Research Road N.W., Calgary, Alberta Canada T2L 1Y1

(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)
Common Shares, no par value	The Nasdaq Stock Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

(Title of Class)

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

(Title of Class)

None

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:

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12,242,992 Common Shares as of March 31, 2016

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

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 No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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):

Large accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP International Financial Reporting Standards as issued Other

by the International Accounting Standards Board

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 Item 18

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 No

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SMART TECHNOLOGIES INC.

FORM 20-F ANNUAL REPORT

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Unless the context otherwise requires, any reference to the Company, SMART Technologies, SMARTe, our, us or similar terms refers to SMART Technologies Inc. and its subsidiaries. Because our fiscal year ends on March 31, references to a fiscal year refer to the fiscal year ended March 31 of the same calendar year. For example, when we refer to fiscal 2016, we mean our fiscal year ended March 31, 2016. **Unless otherwise indicated, all references to \$ and dollars in this annual report (this Annual Report) mean United States (U.S.) dollars. Certain amounts in this Annual Report may not add up due to rounding. All percentages, however, have been calculated using unrounded amounts.** Capitalized terms used in this Annual Report but not defined will have the meanings given to them in our audited consolidated financial statements. Certain reclassifications have been made to prior years' figures to conform to the current year's presentation. In May 2016 we completed a 1-for-10 consolidation of our issued and outstanding Common Shares. All share and per share amounts in this Annual Report have been retroactively adjusted to reflect the share consolidation for all periods presented.

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FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements that reflect our current views with respect to future events and financial performance. These statements include forward-looking statements both with respect to us specifically and the technology product industry and business, demographic and other matters in general. Statements that include the words expanding, expect, continuing, intend, plan, believe, project, estimate, anticipate, may, further, seek, beginning, evolving, transition and similar words or statements of a future or forward-looking nature identify forward-looking statements for purposes of the applicable securities laws or otherwise. The forward-looking statements in this Annual Report pertain, among other matters, to our business, financial condition, financial performance, cost structure, results of operations, cash flows and plans, including in particular, but without limitation: (i) the decline in interactive display demand, which we believe is beginning to be offset by an early-stage replacement and upgrade cycle; (ii) the transition of education end-users from interactive whiteboards to interactive flat panels; (iii) the decrease in, or stagnation of, government spending on education; (iv) the development and production of products and services substantially similar to ours in the highly competitive industry in which we are engaged; (v) the low level of penetration of interactive display products in the enterprise market, which we believe indicates that the market is in the early stages of the product adoption curve; (vi) the potential to expand and monetize our software and service offerings by leveraging our large and loyal user base; (vii) our extensive and evolving network of knowledgeable distributors and resellers; (viii) our belief that there is a large opportunity for our enterprise solutions; (ix) our belief that we are well-positioned to capitalize on the technology trends in the education and enterprise markets; and (x) our belief that our users are loyal to our products and services.

All forward-looking statements address matters that involve known and unknown risks, uncertainties and assumptions. Accordingly, there are or will be important factors and assumptions that could cause our actual results and other circumstances and events to differ materially from those indicated in such statements. These risk factors and assumptions include, but are not limited to, the following:

our ability to maintain sales, including sales to the education market that continue to decline;

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sales of our new products and services may not be sufficient to offset the overall decline in sales;

difficulty in predicting our sales and operating results;

our ability to raise additional funds, manage cash flow, foreign exchange risk and working capital;

our substantial debt could adversely affect our financial condition;

changes to our business model;

our ability to execute and consummate any strategic opportunities that may be identified as a part of our strategic review, including specifically our ability to consummate a planned transaction with Foxconn Technology Group;

our ability to successfully manufacture, distribute, market and sell kapp as a new product in the market;

our ability to manage our market distribution channel, including changes related to establishing new relationships as well as managing our existing relationships with our resellers and distributors;

our ability to attract, retain and motivate qualified personnel;

the continued service and availability of a limited number of key personnel;

the potential for additional costs or liabilities arising from our inventory and purchase commitments within our supply chain, including raw material components;

competition in our industry, including the potential for our competitors and/or partners to form strategic alliances;

our ability to increase sales in the enterprise market;

our ability to successfully execute our strategy to expand and monetize our software and service offerings;

possible changes in the demand for our products;

the continuing shift in product mix from interactive whiteboards to interactive flat panels;

our ability to grow our sales in global markets;

our ability to enhance current products and develop and introduce new products;

the potential negative effect of product defects;

reduced spending by our customers due to changes in the spending policies or budget priorities for government funding, including the potential shift to other technology products;

the potential negative effect of disruptions of certain business functions provided by third parties;

the potential negative effects of system failures or cybersecurity attacks;

the reliability of component supply and product assembly and logistical services provided by third parties, including their compliance with environmental laws;

the development of the market for interactive learning and collaboration products;

our ability to manage risks inherent in foreign operations;

our ability to manage our systems, procedures and controls;

the potential of increased costs, including any to future restructuring and related charges;

our ability to protect our brand;

our ability to achieve the benefits of strategic partnerships;

our reliance upon a strategic partnership with Microsoft;

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our ability to successfully obtain patents or registration for other intellectual property rights or protect, maintain and enforce such rights;

third-party claims of infringement or violation of, or other conflicts with, intellectual property rights by us;

our ability to manage, defend and settle litigation; and

other factors mentioned in the section entitled Risk Factors.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. The foregoing list should not be construed as exhaustive and should be read in conjunction with the other cautionary statements included in this Annual Report, including the section entitled Risk Factors. Although we believe that the assumptions inherent in the forward-looking statements contained in this Annual Report are reasonable, undue reliance should not be placed on these statements, which apply only as of the date hereof. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

NON-GAAP MEASURES

As used in this Annual Report, GAAP means generally accepted accounting principles in the United States that are in effect from time to time. This Annual Report discloses certain financial measures, such as Adjusted Revenue, Adjusted Gross Margin, Adjusted Gross Margin percentage, Adjusted Net (Loss) Income, Adjusted Net (Loss) Income per share and Adjusted EBITDA.

Adjusted Revenue, Adjusted Gross Margin, Adjusted Gross Margin percentage, Adjusted Net (Loss) Income, Adjusted Net (Loss) Income per share and Adjusted EBITDA are non-GAAP measures and should not be considered as alternatives to revenue, gross margin, gross margin percentage, net (loss) income or any other measure of financial performance calculated and presented in accordance with GAAP. Adjusted Revenue, Adjusted Gross Margin, Adjusted Gross Margin percentage, Adjusted Net (Loss) Income, Adjusted Net (Loss) Income per share, and Adjusted EBITDA have inherent limitations, and the reader should therefore not place undue reliance on them.

In the second quarter of fiscal 2016, we changed our definition of Adjusted Revenue from revenue adjusted for the change in deferred revenue balances during the period, to revenue adjusted for the accelerated deferred revenue recognized as a result of the change in accounting estimate as discussed below. All Adjusted Revenue amounts with respect to prior periods presented herein have been restated to reflect this change.

In the third quarter of fiscal 2016, we recognized the kapp Inventory Charge of \$21 million and elected to remove this expense from our non-GAAP measures, including Adjusted Gross Margin, Adjusted Gross Margin percentage, Adjusted Net (Loss) Income, Adjusted Net (Loss) Income per share, and Adjusted EBITDA. We removed the kapp Inventory Charge as we believe it is unusual and material, and enables us and our shareholders to better assess our operating performance in prior and future periods by improving the comparability of the financial information presented.

We calculate Adjusted Gross Margin by subtracting cost of sales, excluding the kapp Inventory Charge, from Adjusted Revenue.

Adjusted Gross Margin percentage is calculated by dividing Adjusted Gross Margin by Adjusted Revenue.

We define Adjusted Net (Loss) Income as net (loss) income before stock-based compensation (recovery) expense, restructuring costs, foreign exchange gains or losses, accelerated deferred revenue recognized, amortization of intangible assets, gains or losses related to the liquidation of foreign subsidiaries, gains or losses related to the sale of long-lived assets and the kapp Inventory Charge, all net of tax.

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We calculate Adjusted Net (Loss) Income per share by dividing Adjusted Net (Loss) Income by the average number of basic and diluted shares outstanding during the period.

We define Adjusted EBITDA as Adjusted Net (Loss) Income before interest expense, income taxes, depreciation and other income.

Due to the change in accounting estimate as a result of the reduction in the support period for previously sold products, as discussed in Note 1 in the audited consolidated financial statements, included in Item 18 of this Annual Report, and the kapp Inventory Charge, as discussed in Note 4 in the audited consolidated financial statements, we chose to use the non-GAAP measures of Adjusted Revenue and Adjusted Gross Margin. Although the significant impact related to the change in accounting estimate for previously sold products ended in the fourth quarter of fiscal 2015, we will continue adjusting for this change for comparative purposes. We use Adjusted Revenue and Adjusted Gross Margin as key measures to provide additional insights into the operational performance of the Company and to help clarify trends affecting the Company's business.

We use Adjusted Net (Loss) Income to assess the performance of the business after removing the after-tax impact of stock-based compensation (recovery) expense, restructuring costs, foreign exchange gains and losses, accelerated deferred revenue recognized, amortization of intangible assets, gains or losses related to the liquidation of foreign subsidiaries, gains or losses related to the sale of long-lived assets and the kapp Inventory Charge. We also use Adjusted EBITDA as a key measure to assess the core operating performance of our business after removing the after-tax effects of both our leveraged capital structure and the volatility associated with the foreign currency exchange rates on our U.S. dollar-denominated debt. We use both of these measures to assess business performance when we evaluate our results in comparison to budgets, forecasts, prior-year financial results and other companies in our industry. Many of these companies use similar non-GAAP measures to supplement their GAAP disclosures, but such measures may not be directly comparable to ours. In addition to its use by management in the assessment of business performance, Adjusted EBITDA is used by our Board of Directors in assessing management's performance and is a key metric in the determination of payments made under our incentive compensation plans. We believe Adjusted Net (Loss) Income and Adjusted EBITDA may be useful to investors in evaluating our operating performance because securities analysts use metrics similar to Adjusted Net (Loss) Income and Adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies.

We compensate for the inherent limitations associated with using Adjusted Revenue, Adjusted Gross Margin, Adjusted Gross Margin percentage, Adjusted Net (Loss) Income, Adjusted Net (Loss) Income per share and Adjusted EBITDA through disclosure of such limitations, presentation of our financial statements in accordance with GAAP, and reconciliation of Adjusted Revenue, Adjusted Gross Margin, Adjusted Gross Margin percentage, Adjusted Net (Loss) Income per share, Adjusted Net (Loss) Income, and Adjusted EBITDA to the most directly comparable GAAP measures: revenue, gross margin, gross margin percentage, net (loss) earnings per share and net (loss) income.

The following table shows the reconciliation of revenue to Adjusted Revenue and gross margin to Adjusted Gross Margin in millions of dollars:

	2016	2015	2014
Adjusted Revenue			
Revenue	\$ 348.5	\$ 492.9	\$ 589.2
Deferred revenue recognized accelerated amortization		(61.6)	(33.8)

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Adjusted Revenue	\$ 348.5	\$ 431.3	\$ 555.3
Adjusted Gross Margin			
Gross margin	\$ 101.3	\$ 231.9	\$ 249.1
Deferred revenue recognized		(61.6)	(33.8)
accelerated amortization			
kapp Inventory Charge	20.6		
Adjusted Gross Margin	\$ 121.9	\$ 170.3	\$ 215.2

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The following table shows the reconciliations of net (loss) income to Adjusted Net (Loss) Income and Adjusted EBITDA in millions of dollars and basic and diluted (loss) earnings per share to Adjusted Net (Loss) Income per share:

	2016	2015	2014
Net (loss) income	(60.9)	24.1	20.5
Adjustments to net (loss) income			
Amortization of intangible assets	0.1	0.1	22.4
Foreign exchange loss	1.2	11.1	9.9
Accelerated deferred revenue recognized		(61.6)	(33.8)
Stock-based compensation (recovery) expense	(3.8)	5.9	3.6
Restructuring costs	5.1	6.1	5.9
Gain on liquidation of foreign subsidiary ⁽¹⁾		(0.4)	
Gain on sale of long-lived assets		(0.1)	(4.2)
Inventory Charge	20.6		
	23.1	(38.9)	3.7
Tax impact on adjustments ⁽²⁾	(0.4)	(15.0)	(0.7)
Adjustments to net (loss) income, net of tax	23.5	(23.9)	4.4
Adjusted Net (Loss) Income	(37.4)	0.2	24.9
Additional adjustments to Adjusted Net (Loss) Income			
Income tax expense (recovery) ⁽³⁾	15.6	(2.1)	(0.1)
Depreciation in cost of sales	4.1	5.4	9.5
Depreciation of property and equipment	8.1	11.3	16.4
Interest expense	18.3	20.0	21.4
Other income ⁽¹⁾	(0.7)	(0.3)	(0.8)
Adjusted EBITDA	8.0	34.4	71.4
As a percent of revenue ⁽⁴⁾	2.3%	8.0%	12.9%
Adjusted Net (Loss) Income per share			
(Loss) earnings per share basic ⁽⁵⁾	\$ (4.99)	\$ 1.98	\$ 1.70
Adjustments to net (loss) income, net of tax, per share	1.93	(1.97)	0.36
Adjusted Net (Loss) Income per share basic ⁽⁵⁾	\$ (3.06)	\$ 0.01	\$ 2.06
(Loss) earnings per share diluted ⁽⁶⁾	\$ (4.99)	\$ 1.91	\$ 1.62
Adjustments to net (loss) income, net of tax, per share	1.93	(1.90)	0.35
Adjusted Net (Loss) Income per share diluted ⁽⁶⁾	\$ (3.06)	\$ 0.01	\$ 1.97

(1) Included in Other income in the consolidated statements of operations.

- (2) Reflects the tax impact on the adjustments to net (loss) income. A key driver of our foreign exchange gain is the conversion of our U.S. dollar-denominated debt that was originally incurred at an average rate of 1.03 into our functional currency of Canadian dollars. When the unrealized foreign exchange amount on the U.S. dollar-denominated debt is in a net gain position as measured against the original exchange rate, the gain is tax-effected at current rates. When the unrealized foreign exchange amount on the U.S. dollar-denominated debt is in a net loss position as measured against the original exchange rate and the loss cannot be carried back to a previous year, a valuation allowance is taken against it and as a result no net tax effect is recorded.
- (3) Income tax expense of \$16 million (2015 \$13 million; 2014 \$1 million) per consolidated statement of operations, net of tax impact on adjustments to Adjusted Net (Loss) Income of \$0.4 million for the year ended March 31, 2016 (2015 \$15 million; 2014 \$0.7 million).
- (4) Adjusted EBITDA as a percent of revenue is calculated by dividing Adjusted EBITDA by Adjusted Revenue.
- (5) All share and per share amounts have been retroactively adjusted to reflect the share consolidation for all periods presented.

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INDUSTRY AND MARKET DATA

Unless otherwise indicated, information contained in this Annual Report concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunity and market share, is based on information from independent industry organizations such as Futuresource Consulting Ltd. (Futuresource), other third-party sources (including industry publications, surveys and forecasts) and management estimates. The Futuresource report referred to in this Annual Report is the *Quarter 1 2016 World Interactive Displays Quarterly Market Track*. Interactive display in the Futuresource report collectively refers to the product categories of interactive whiteboards and interactive flat panels. Unless otherwise indicated, management estimates are derived from publicly-available information released by independent industry analysts and third-party sources, as well as data from our internal research and historical experience, and are based on assumptions made by us based on such data and our knowledge of our industry and markets that we believe to be reasonable. Our internal research has not been verified by any independent source, and we have not independently verified any of the third-party information to which we refer. While we believe the market position, market opportunity and market share information included in this Annual Report are generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in the sections of this Annual Report entitled *Forward-Looking Statements* and *Risk Factors*. These and other factors could cause our results to differ materially from those we have anticipated based on our estimates and those made by independent industry analysts and third-party sources that we take into account when making our estimates.

Table of Contents**PART I****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**

The following selected financial data as of and for each of the years in the five-year period ended March 31, 2016 is derived from our audited consolidated financial statements. The selected financial data should be read in conjunction with the Company's operating and financial review and prospects in Item 5 of this Annual Report, the consolidated financial statements and related notes in Item 18 of this Annual Report, and other financial information included elsewhere in this Annual Report.

	2016	2015	2014	2013	2012
	(in thousands of U.S. dollars, except shares and per share data)				
Consolidated Statements of Operations Data					
Revenue	348,480	492,919	589,174	589,370	745,800
Operating (loss) income	(26,017)	67,334	51,655	(46,103)	60,564
Net (loss) income	(60,903)	24,128	20,544	(54,495)	31,044
Earnings (loss) per share⁽¹⁾					
Basic	(4.99)	1.98	1.70	(4.51)	2.53
Diluted	(4.99)	1.91	1.62	(4.51)	2.52
Weighted-average number of shares outstanding (in thousands)⁽¹⁾					
Basic	12,197	12,158	12,100	12,074	12,273
Diluted	12,197	12,652	12,682	12,074	12,337
Consolidated Balance Sheet Data					
Total assets	175,722	255,751	347,533	473,186	539,565
Net assets	(61,286)	5,455	(28,971)	(61,016)	(11,609)
Long-term debt (including current portion)	107,934	106,498	114,298	288,225	291,275
Share capital	695,666	695,311	694,041	692,270	696,399
Period end number of shares outstanding (in thousands) ⁽¹⁾	12,243	12,219	12,164	12,099	12,145

- (1) All share and per share amounts have been retroactively adjusted to reflect the May 2016 share consolidation for all periods presented.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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D. RISK FACTORS

Our sales, including sales to the education market, are in decline and may continue to decline.

Our revenues have declined from \$790 million in fiscal 2011 to \$348 million in fiscal 2016, driven primarily from declines in our education market sales, as approximately 80% of our revenue comes from the education market. Our future sales of interactive displays to the education market in developed markets may continue to slow or decrease further as a result of differing budget priorities, competition and market saturation in those markets. See *Decreases in, or stagnation of, spending or changes in the spending policies or budget priorities for government funding of schools, colleges, universities, other education providers or government agencies, or other factors such as technology innovations or mandated national education standards, could have a material adverse effect on our revenue* and *We operate in a highly competitive industry*. Futuresource estimates that as of March 31, 2016, approximately 63% of classrooms in the United States and 92% of classrooms in the United Kingdom already have an interactive display. As a result of these high levels of penetration, the education market for interactive displays in those markets may, or may already have, reached saturation levels. Future sales growth in those markets and other developed markets with similar penetration levels may, as a result, be difficult to achieve, and our sales of interactive displays may decline in those markets. Futuresource estimates that interactive whiteboard sales to the education market will decrease through 2018.

We believe that we are seeing an early-stage replacement and upgrade cycle of education customers transitioning from interactive whiteboards to interactive flat panels, and we rely heavily on this cycle to grow our sales of interactive flat panels in the education market. Currently the adoption rate is not sufficiently fast to offset the decline in interactive whiteboard sales in the education market, and we cannot be certain that it will be sufficiently fast in the future. Furthermore, we cannot be certain that we will be able to compete successfully against our current and future competitors to capture a sufficient market share in the replacement and upgrade cycle when it occurs to offset the decline in our interactive whiteboard sales. See *We operate in a highly competitive industry* and *We face risks related to the shift in our product mix from interactive whiteboards and interactive projectors to interactive flat panels, including a decline in gross margin percentages*.

If we are unable to replace the revenue and earnings we have historically derived from sales of interactive displays to the education market in these developed markets, whether through sales of additional products, sales of new products, sales of replacement products, sales in other markets, sales in the enterprise market or otherwise, our business, financial condition and results of operations may be materially adversely affected. See *Sales of our new products may not be sufficient to offset the decline in our overall sales, and if sales of new products are not sufficiently robust, our liquidity may be materially and adversely affected*, *We may not be successful in our strategy to grow in the enterprise market*, and *We may not be successful in our strategy to monetize software and services*.

Sales of our new products and services may not be sufficient to offset the decline in our overall sales, and if sales of new products and services continue to be weak, our liquidity could be materially and adversely affected.

We are in the midst of a challenging turnaround, with our revenues having declined from \$790 million in fiscal 2011 to \$348 million in fiscal 2016, driven primarily by declines in our sales to the education market, including declines in sales of our legacy interactive whiteboard products. See *Our sales, including sales to the education market, are in decline and may continue to decline*. Our strategy is to stabilize our revenues through the introduction of several new solutions for the education and enterprise markets, including interactive flat panels, kapp, kapp iQ, SMART Room Systems, our education software products and enterprise software services. In fiscal 2016, the revenue from these products and services was not sufficient to offset the decline in revenue from interactive whiteboards, which are primarily sold to the education market. We cannot be certain that the future sales of our new products and services,

particularly interactive flat panels, kapp and software, will ever be sufficient to offset the decline in our education sales. If sales of new products continue to be weak, our liquidity and share price could be materially and adversely affected. See *Our share price may be volatile and the trading price of our shares may decline.*

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Our sales and operating results are difficult to predict.

The vast majority of our revenue currently comes from the sale of our hardware products, including interactive displays. As a result of the short lead times between customer order and fulfillment, our sales have been and may continue to be volatile and unpredictable. In addition, the majority of our products are produced by suppliers overseas. The combination of long lead times from our supply chain and short lead times for customer delivery makes it difficult to forecast demand for our products and manage the production, shipment and inventory levels of each product, which creates challenges in managing cash flows and budgeting expenses.

We sell a significant amount of our products to channel partners who maintain their own inventory of our products for sale to resellers and end-users. We rely on forecasts, information on sales to end-users and inventory information from our channel partners to prepare our revenue estimates for future periods. The information and forecasts we rely upon from our channel partners are sometimes inaccurate, received infrequently or not received at all. To the extent this information is inaccurate or unavailable, our revenue estimates for future periods may be unreliable. In addition, revenues relating to the education market are unpredictable in light of continued challenges with education funding and budgets, see *Decreases in, or stagnation of, spending or changes in the spending policies or budget priorities for government funding of schools, colleges, universities, other education providers or government agencies, or other factors such as technology innovations or mandated national education standards, could have a material adverse effect on our revenue.*

Our working capital requirements and cash flows are subject to fluctuation, which could have a material adverse effect on our business, financial condition or results of operations.

Our working capital requirements and cash flows have historically been, and are expected to continue to be, subject to quarterly and yearly fluctuations, depending on a number of factors. Factors that could result in cash flow fluctuations include:

the level of sales and the related margins on those sales;

the collection of receivables;

the timing and size of purchases of inventory and related components; and

the timing of payment on payables and accrued liabilities.

Our exposure to credit and collectability risks on our trade receivables is higher in certain markets and our ability to mitigate such risks may be limited. While we have procedures to monitor and limit exposure to credit risk on our trade receivables, including insuring the collection of some of our international receivables, we cannot be certain that such procedures will effectively limit our credit risk and avoid losses. See *We are subject to risks inherent in foreign operations.*

If we are unable to manage fluctuations in cash flow, our business, financial condition and results of operations may be materially adversely affected. For example, if we are unable to manage fluctuations in our cash flows effectively, we may be unable to meet certain obligations such as interest payments on our indebtedness and lease payments, or

our suppliers may impose more stringent payment terms.

For fiscal 2016, we reported a net loss of \$61 million and used \$31 million of cash in operating activities, as a result of slower than anticipated kapp sales and significant declines in our education sales. See *We may not be able to manufacture, market, distribute and sell our kapp products successfully* and *Our sales, including sales to the education market, are in decline and may continue to decline.* As of March 31, 2016, we held cash and cash equivalents of \$20 million, primarily in U.S. dollars and Canadian dollars, in addition to the liquidity that is available through our asset-based loan. We believe that our existing working capital, expected cash flow from operations and other available cash resources will enable us to meet our working capital requirements for at least the next twelve months. However, the development and marketing of new products, such as kapp, the

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expansion of distribution channels, and our continuing commercialization of our software products and services require a significant commitment of resources. From time to time, we may seek additional equity or debt financing to finance working capital requirements, continue our expansion, develop new products or make acquisitions or other investments. In addition, if our business plans change, general economic, financial or political conditions in our industry change, or other circumstances arise that have a material effect on our cash flow, the anticipated cash needs of our business, as well as our conclusions as to the adequacy of our available sources of capital, could change significantly. Any of these events or circumstances could result in significant additional funding needs, requiring us to raise additional capital. If additional funds are raised through the issuance of preferred shares or debt securities, the terms of such securities could impose restrictions on our operations. If financing is not available on satisfactory terms, or at all, we may be unable to expand our business or to develop new business at the rate desired and our results of operations may suffer.

The level and upcoming maturities of our current and future debt could have an adverse effect on our business.

We have substantial debt outstanding, and we may incur additional indebtedness in the future. As of March 31, 2016, we had \$108 million of outstanding indebtedness, including a \$10 million draw on our asset-based loan.

We have two credit facilities, including a \$125.0 million Term loan that matures on January 31, 2018 and bears interest at LIBOR plus 9.25% with a LIBOR floor of 1.25%, and a \$50.0 million asset based loan that matures on July 31, 2017 and bears interest at LIBOR plus 2.5%. We believe our cost of capital is significantly greater than that of our competitors. Given the current market conditions, and our financial condition and results of operations, we may not be able to refinance these facilities upon their maturity, and if we are able to refinance these facilities, such refinancing may be on terms materially less favorable than our current terms.

In addition, in May 2013 we entered into a 20-year capital lease on our headquarters facility in Calgary, Canada. The annual payment obligations under the lease are CDN\$5.9 million, with escalations of 8% every five years. The level of our indebtedness, amortization payments, high interest payments and substantial capital lease payments, among other things, could:

make it difficult for us to make scheduled payments on our debt or lease;

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to grow the business and fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate;

place us at a disadvantage compared to our competitors that have less debt; and

limit our ability to borrow additional funds.

A substantial portion of our debt bears interest at floating rates, and we are therefore exposed to fluctuations in interest rates. In order to mitigate the effects of increases in interest rates on our cash flows, we may enter into derivative instruments, including interest rate swaps. These hedging activities mitigate but do not eliminate our exposure to interest rate fluctuations, and as a result, interest rate fluctuations could have a material adverse effect on our business, financial condition or results of operations.

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Our business is going through a challenging period, and we have considered and may continue to consider changes to our business model. Successful implementation of these changes is uncertain.

Our business is going through a challenging period, and as a result, management has considered and may continue to consider changes to our business model. We have also expanded our offering of software to integrate further disparate devices in classrooms. For our enterprise segment, we have partnered with Skype for Business services and support provider to deliver various Skype for Business service offerings, and in June 2015 and December 2015, we launched kapp iQ and kapp iQ + Pro, respectively, as a part of our enterprise solutions. See *We have entered into a strategic partnership with Microsoft and rely upon it heavily for sales of our SMART Room System.* While we believe we have an opportunity to monetize the software and services that we currently offer, in addition to expanding our software offering and charging fees for new software and service offerings, our business to date has primarily been driven by the sale of our interactive displays. See *We may not be successful in our strategy to monetize software and services.* We are also seeing a shift in our product mix from interactive whiteboards and interactive projectors to interactive flat panels, with an attendant decline in product margin percentages. See *We face risks related to the shift in our product mix from interactive whiteboards and interactive projectors to interactive flat panels, including a decline in gross margin percentages.*

Our business model is built on developing and maintaining an effective network of third-party distributors and resellers in the markets in which we operate. This indirect model means that our sales performance is highly dependent on the efforts of our distributors and resellers in taking our changing products and strategy to market. We also need to educate and train our channel partners continually to avoid any confusion as to the desirability of our new product offerings compared to our existing product offerings, and to be able to articulate and differentiate the value of our new offerings over those of our competitors. If our distributors and resellers fail to take our new strategy to market successfully, it could adversely affect our business. See *We depend upon distributors and resellers to promote and sell our products.*

As a result of our strategy towards software monetization, we have developed new systems such as our Electronic Ordering Portal, or EOP, and Software Portal, or SWP. EOP enables automated order entry and processing by capturing end-user details and providing immediate confirmation of an order. SWP enables end-users and channel partners to view and monitor their software license activations and maintenance renewal dates. These systems may fail to support our new business model adequately, which could negatively affect our business, financial condition or results of operations.

These changes to our business model may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses incurred.

We may not be able to execute and consummate any strategic opportunities that may be identified as a part of our strategic review, including specifically our ability to consummate a planned transaction with Foxconn Technology Group.

In October 2015, we embarked on a strategic review to evaluate strategic alternatives, including, but not limited to: the sale of the Company or other business combination; the recapitalization of the Company; or continuing to execute the current business model. Our Board of Directors engaged Evercore Partners as our financial advisor to assist in this process. On May 26, 2016 the Board of Directors unanimously approved the acquisition by Foxconn Technology Group of all of our outstanding Common Shares for a cash payment of US\$4.50 per Common Share (the Arrangement) and recommended that Shareholders vote in favor of it at the Special Meeting; and 689522 N.B. Ltd. (AcquisitionCo) and Foxconn Singapore (Pte.) (Foxconn and, together with AcquisitionCo, the Purchaser) entered into an arrangement agreement with the Company (the Arrangement Agreement). The closing under the Arrangement

Agreement is subject to customary conditions for a transaction of this nature, which include court and regulatory approvals and the favorable vote of the holders of at least 66 2/3% of the Company's outstanding Common Shares represented in person or by proxy at a meeting of Shareholders to be called to consider the Arrangement. As such, there is no assurance that the Arrangement Agreement will be consummated. In the event that the Arrangement does not close, the Company

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could be adversely affected, and, depending on the reasons for failure to consummate the Arrangement, could also be financially liable to the Purchaser. The impact of a failure to close the Arrangement could exacerbate the Company's exposure to various risks, including, without limitation, exposing the Company to a deterioration of our liquidity profile, our relationships with our distribution channels and customers, and our ability to win new business. Our inability to find a strategic alternative to the Arrangement in such circumstances would further exacerbate the above.

Additionally, announcement of the Arrangement Agreement may negatively impact our relationships with certain resellers, distributors and suppliers who may be uncertain of their relationship with the Company or of the Company's strategic direction upon closing of the Arrangement, or who may be in competition with Foxconn Technology Group or its affiliates.

The Arrangement Agreement contains covenants with respect to the manner in which the Company may conduct business between signing and closing. Such covenants may limit our ability to react in a timely manner to circumstances as they arise.

The completion of the Arrangement is subject to a number of conditions precedent, certain of which are outside the control of the Company. There can be no certainty, nor can we provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied. If the Arrangement is not approved by our shareholders or the other conditions to the Arrangement are not satisfied or waived, the Arrangement will not proceed and there can be no assurance that we will pursue or complete an alternative transaction on terms equivalent to the Arrangement or at all.

Completion of the Arrangement requires that we and the Purchaser obtain a number of judicial and regulatory approvals. If any of the required regulatory approvals cannot be obtained on terms satisfactory to the Purchaser, or at all, the Arrangement Agreement may have to be amended in order to mitigate the negative consequence of the failure to obtain any such approval, and accordingly, the benefits available to our shareholders resulting from the Arrangement may be reduced. Alternatively, in the event that the Arrangement Agreement cannot be amended so as to mitigate the negative consequence of the failure to obtain a required judicial or regulatory approval, the Arrangement may not proceed at all.

We may not be able to manufacture, market, distribute and sell our kapp products successfully.

In fiscal 2016, as a result of slower than anticipated kapp sales, we halted production of our kapp products and recorded a \$21 million charge against inventory and purchase commitments in the third quarter of fiscal 2016. If our current kapp sales continue to be slower than anticipated, or if any future models that we launch do not meet their anticipated sales targets, our investment in the product and any obsolete inventory we carry may need to be written down, which could have a material adverse effect on our business, financial condition or results of operations. See

We face substantial inventory risk, including the potential for additional costs or liabilities arising from our inventory and purchase commitments within our supply chain for raw material and components.

We have contracts with manufacturers with facilities in Mexico for the production of our kapp products. Should we decide to start production again, these manufacturers may not have a demonstrated ability to build such a product at the speed and in the quantities that may be required. We have also contracted with third parties to manage our transportation and logistics requirements. While these arrangements may lower costs, they also reduce our direct control over production and shipments. It is uncertain what effect such diminished control will have on the quality or availability of our products or on our flexibility to respond to changing conditions. Our failure to manage production and supply of our products successfully, or the failure of products to meet quality requirements, may adversely affect our reputation and business. If our contract manufacturers are unable to obtain the necessary components for our products in a timely manner to produce a sufficient supply of products,

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it could have a material adverse effect on our business, financial condition or results of operations. See *Our suppliers and contract manufacturers may not be able to supply components or products to us on a timely basis, on favorable terms or without quality control issues* , *We depend on component manufacturing, product assembly and logistical services provided by third parties, some of which are sole source and many of which are located outside of Canada and the United States* and *We face substantial inventory risk, including the potential for additional costs or liabilities arising from our inventory and purchase commitments within our supply chain for raw material and components.*

While we continue to see some demand for kapp, we cannot be certain that kapp will achieve broad customer acceptance. As kapp is a completely new product category for digital capture boards, we have very limited information regarding the demand for it from end-users; therefore, we cannot be certain that we will be successful with this new product category. See *If we are unable to continually enhance our current products and to develop, introduce and sell new technologies and products at competitive prices and in a timely manner, our business could be harmed.*

We have entered into distribution agreements with respect to kapp in various regions, including the United Kingdom and Ireland and North America, and currently rely primarily upon these distributors for the execution of our go-to-market strategy for kapp in their respective regions. These distributors do not have an established record of successfully being able to sell kapp, and our sales performance with respect to kapp is highly dependent on the efforts of these distributors. In addition, we may enter into distribution agreements with respect to kapp for other regions, or to add distributors in existing regions, and we cannot be certain that our efforts to add distributors will be successful, or that such distributors will fulfill our go-to-market needs in their respective regions. We may also from time to time sell kapp directly to end-users. As we do not have an established record of successfully being able to sell kapp directly, we cannot be certain that our efforts will be successful.

kapp has a lower average selling price than an interactive display and its sales generate a correspondingly lower amount of gross margin dollars. Therefore, we cannot be certain that kapp will result in levels of revenue and gross margin equivalent to those that we have experienced in the past with interactive displays.

We have very limited experience in retail sales pricing. If we are not able to offer kapp at a price acceptable to end-users, it may not achieve broad customer acceptance. In addition, our current and future competitors may deliver similar products and services or provide more attractively priced, enhanced or better-quality products and services than we do, which may, among other things, increase pressure on us to discount pricing on existing and any potential future kapp-related products. We may not be able to compete successfully against our current and future competitors in the digital capture board market, as potential future competitors may have greater name recognition, larger customer bases, higher market share and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than we do.

Because it is a new product, kapp has, from time to time, contained and may continue to contain design defects that are difficult to detect and correct. The occurrence of defects in our products could result in loss of, or delay in, market acceptance of our products, and could harm our brand. Correcting such defects could require a significant expenditure of capital. The consequences of such defects and the related claims could have a material adverse effect on our reputation and our business, financial condition and results of operations. See *Defects in our products can be difficult to detect before sale. If defects occur, they could have a material adverse effect on our business, financial condition or results of operations.*

We depend upon distributors and resellers to promote and sell our products.

Substantially all our sales are made through resellers and distributors. Industry and economic conditions have the potential to weaken, and in some cases have weakened, the financial position of our resellers and distributors. Weakened resellers and distributors may no longer sell our products, or may reduce efforts to sell our products, which could have a material adverse effect on our business, financial condition and results of

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operations. Furthermore, if circumstances surrounding the ability of our resellers and distributors to pay our accounts receivable were to result in the write-down or write-off of such receivables, it would negatively affect our operating results for the period in which they occur and could have a material adverse effect on our business and financial condition.

In addition, our resellers and most of our distributors are not contractually required to sell our products exclusively, and they may offer competing interactive display products. We therefore depend on our ability to establish and develop new relationships and to build on existing relationships with resellers and distributors. We cannot be certain that our resellers and distributors will act in a manner that will promote the success of our products. Factors that are largely within the control of those resellers and distributors but are important to the success of our products include:

the degree to which our resellers and distributors actively promote our products;

the extent to which our resellers and distributors offer, promote or develop competitive products;

the quality of installation, training and other support services offered by our resellers and distributors; and

the ability to market and sell our software products successfully.

If some of our competitors offer their products to resellers and distributors on more favorable terms or have more products available to meet their needs, there may be pressure on us to reduce the price of our products or those resellers and distributors may stop carrying our products or de-emphasize the sale of our products in favor of the products of these competitors. If we do not maintain and continue to build relationships with resellers and distributors our business will be harmed.

Our ability to sell our products effectively through resellers and distributors depends on the financial viability of our channel members, over which we have limited control. In the event a reseller or distributor experiences financial difficulty, as we have seen with some of our channel members, their ability to continue to sell our products will be impaired. In such circumstances the Company may also have increased exposure to end-users who may have previously purchased products from such reseller or distributor, and who may now turn to SMART for support that would have normally been provided by such reseller or distributor. In May 2016 we learned that our long-standing distributor in the United Kingdom and Ireland had entered into administration proceedings in the United Kingdom under the Insolvency Act 1986 (c. 45), as amended by the Enterprise Act 2002 (c. 40). While the Company is in the process of establishing a new distribution and reseller network in the United Kingdom and Ireland, we do not have a history of running such a network and we may not be successful in replacing sales previously handled by our long-standing distributor.

Our reseller and distributor networks may also react negatively to certain product or channel changes that the Company has implemented or may implement in the future, which could result in reduced sales and promotional efforts on the part of such channel members.

Globally, we rely on a limited number of distributors for our enterprise products and services, including Westcon Group, Inc., with whom we entered into a new distribution arrangement in 2014, and upon whom we rely primarily in North America, Europe, Australia, New Zealand, and the Middle East. The sales performance of our enterprise

products and services is highly dependent on the efforts of our distributors in serving the needs of our channel partners; the sales performance of many of our products, including kapp iQ and SMART Room System, is also highly dependent on the efforts of our distributors worldwide.

We rely on highly skilled personnel, and if we are unable to attract, retain or motivate qualified personnel, we may not be able to operate our business effectively.

Our success is largely dependent on our ability to attract and retain highly skilled employees. Over the past three fiscal years, we have made significant reductions in our personnel in Canada and other countries.

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Competition for highly skilled management, technical, research and development, engineering and sales personnel and other employees is intense in the high-technology industry, and we may not be able to attract or retain highly qualified personnel in the future, including as a result of our restructuring activities. Also, we may not be successful in hiring qualified personnel for our Seattle office. In addition, we have established offshore engineering and software development operations, and local events, such as natural disasters, military or terrorist actions or economic, business, labor, environmental, public health, or political issues, may interrupt these operations.

In making employment decisions, particularly in the high-technology industry, job candidates often consider the value of the equity awards they would receive in connection with their employment. Our long-term incentive programs may not be attractive enough or perform sufficiently to attract or retain qualified personnel. If we are unable to attract and retain qualified personnel, or experience delays in hiring qualified personnel, particularly engineering, software development and sales personnel, our business may be harmed.

Our future success depends largely on the continued service and availability of a limited number of key personnel.

We depend to a large extent upon the continued service of key members of our senior management team. In particular, our Executive team is critical to the overall management of our company and the development of our technology, our culture and our strategic direction, as well as the successful execution of the strategy and resulting financial performance. The loss of services of any of our key personnel could seriously harm our business. Future changes to our executive and senior management teams, including new executive hires or departures, could cause disruption to the business and have a negative effect on our operating performance, particularly while these operational areas are in transition. Competition for qualified executive and other management personnel is intense, and we may not be successful in attracting or retaining such personnel. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution.

We face substantial inventory risk, including the potential for additional costs or liabilities arising from our inventory and purchase commitments within our supply chain for raw material and components.

As we develop or announce new products and services, many of our older products and services will reach the end of their life cycle. In addition, we may decide or may be required to discontinue sales of certain products or services, or not pursue the development of certain products or services, as a result of such factors, including expected demand, lower than expected sales, litigation or government action. As we discontinue the manufacturing and sale of these products and services, we must manage the liquidation of inventory, supplier commitments and customer expectations. In addition, we record a write-down for product and component inventories that have become obsolete, can no longer be sold or exceed anticipated demand or net realizable value, and accrue any necessary purchase commitments related to excess products and components. Our financial condition and results of operations could be materially and adversely affected in the future by any failure on our part to manage inventory levels properly or respond to short-term shifts in customer demand patterns.

No assurance can be given that we will not incur additional related costs with respect to our existing or future products given the rapid and unpredictable pace of product obsolescence in the industry in which we compete.

We must order components for our products and build inventory in advance of product announcements and shipments. Components are normally acquired through purchase orders based on projected demand. Because our markets are volatile, competitive and subject to rapid technology and price changes, and we may fail to forecast demand for our new products accurately or may order or produce excess or insufficient inventories of finished products or their components.

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We significantly increased our inventory and purchase commitments related to SMART kapp to meet the estimated sales forecasts. A portion of this increase led to charges against inventory and purchase commitments of approximately \$21 million in the third quarter of fiscal 2016. Additional complexity and uncertainty exists with forecasting related to the introduction of any new product. See *We may not be able to manufacture, market, distribute and sell our kapp products successfully* and *If we are unable to continually enhance our products and develop, introduce and sell new technologies and products at competitive prices and in a timely manner, our business will be harmed.*

We operate in a highly competitive industry.

We are engaged in an industry that is highly competitive. Because our industry is evolving and characterized by technological change, it is difficult for us to predict whether, when and by whom new competing technologies may be introduced or when new competitors may enter our markets. We face increased competition from companies with strong positions in certain markets we currently serve and in new markets and regions we may enter. These companies manufacture and/or distribute new, disruptive or substitute products that compete for the pool of available funds that previously could have been spent on interactive displays and associated products. We compete with other interactive display developers such as Promethean World Plc, Seiko Epson Corp., Samsung Electronics Co., Sharp Corporation, BenQ Corporation, Panasonic Corporation, and LG Electronics Inc. Additionally, makers of personal computer technologies, tablets, television screens, meeting room systems, smart phones, collaboration technologies and other technology companies such as Apple Inc., Polycom, Inc., ShenZhen iBoard Technology Co., Ltd., Hewlett-Packard Company, Google Inc., and Microsoft Corporation have provided, and may continue to provide, integrated products and services that include interactive learning and collaboration features substantially similar to those offered by our products, and may promote their existing technologies and alternative products as substitutes for our products. For example, demand for our interactive displays has been negatively affected by additional competition in the interactive display market and from alternative products, such as tablet computers, and may continue to decrease in the future. We also compete with other software providers such as Promethean World Plc, DisplayNote Technologies, Mimio LLC and Blackboard Inc. that provide software offerings with features similar to those of to our software products.

Many of our current and potential future competitors may have significantly greater financial and other resources than we do and have spent, and may continue to spend, significant amounts of resources to try to enter or expand their presence in the market. Other competitors may bring to market low cost or lower specification products as a means to enter the global marketplace for interactive technologies. In addition, low cost competitors have appeared in major and secondary markets such as China and other countries. We may not be able to compete effectively against these current and future competitors. Increased competition or other competitive pressures have and may continue to result in price reductions, reduced margins or loss of market share, any of which could have a material adverse effect on our business, financial condition or results of operations.

Some of our customers are required to purchase equipment by soliciting proposals from a number of sources, and in some cases are required to purchase from the lowest bidder. Some of our current and potential competitors may have lower cost product offerings and a lower cost structure, and/or they may be able to provide products and services at little or no profit. Because we have positioned our product and brand at a premium quality level, we do not actively compete with these product offerings. While we attempt to price our products competitively based upon the relative features they offer, due to our competitors' prices and other factors, we are often not the lowest bidder and may lose sales to lower bidders. When we are the successful bidder, it is most often as a result of our products being perceived as providing better value to the customer. Our ability to provide better value to the customer depends on continually enhancing our products and developing new products at competitive prices and in a timely manner. We cannot assure that we will be able to continue to maintain our value advantage and be competitive. See *If we are unable to continually enhance our products and to develop, introduce and sell new technologies and products at competitive*

prices and in a timely manner, our business could be harmed.

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Competitors may be able to respond to new or emerging technologies and changes in customer requirements more effectively than we can, or devote greater resources to the development, promotion and sale of products than we can. Current and potential competitors may establish cooperative relationships among themselves or with third parties, including through mergers or acquisitions, to increase the ability of their products to address the needs of our current or prospective customers. If these interactive display competitors or other substitute or alternative technology competitors acquire significantly increased market share, it could have a material adverse effect on our business, financial condition or results of operations.

We may not be successful in our strategy to grow in the enterprise market.

A substantial majority of our revenue historically has been derived from sales to the education market, which sales are in decline. See *Our sales, including sales to the education market, are in decline and may continue to decline.* Our business strategy therefore depends in part upon expanding our sales to the enterprise market. However, there has not been widespread adoption of interactive display and collaboration products in this market, and these products may fail to achieve wide acceptance or acceptance may be at a slower rate than anticipated. Successful expansion into the enterprise market will require us to continue to augment and develop new distributor and reseller relationships, and we may not be successful in developing those relationships. We will also be required to continue to develop a sales force that is successful at selling our product offerings to the enterprise market as well as an effective go-to-market strategy. In addition, widespread acceptance of our collaboration products and services may not occur due to lack of familiarity with how our products work, the perception that our products are difficult to use, and a lack of appreciation of the contribution they can make to enterprises. We may not be successful in achieving penetration in the enterprise market for other reasons as well. In addition, our brand is less recognized in the enterprise market than it is in the education market.

Our business strategy in the enterprise market depends, in part, upon sales of our SMART Room Systems (SRS). We have entered into a strategic partnership with Microsoft that enables us to develop SRS using Skype for Business, and to sell SRS to companies who have Skype for Business deployments. Any deterioration or change in the terms of this partnership, including a different view of the role of strategic partners in the Skype for Business Room System category by Microsoft and the introduction of competing products by Microsoft such as Surface Hub, could have a material adverse effect on the continued development and sales of SRS, both of which would negatively affect our revenue and results of operations. See *We have entered into and rely upon a strategic partnership with Microsoft and rely upon it heavily for sale of our SMART Room System.*

In June 2015 and December 2015, we launched kapp iQ and kapp iQ + Pro, respectively, as a part of our enterprise solutions. As kapp is a completely new product category for digital capture boards, we have very limited information regarding the demand for it from end-users. kapp products have a lower average selling price than SRS, and its sales generate a correspondingly lower amount of gross margin dollars. Therefore, we cannot be certain that our kapp products will result in levels of revenue and gross margin equivalent to those that we have experienced in the past with SRS. We cannot be certain that we will be successful with this new product category or that its sales will be sufficient to replace any decline in SRS revenue. See *If we are unable to continually enhance our current products and to develop, introduce and sell new technologies and products at competitive prices and in a timely manner, our business could be harmed.*

Furthermore, our ability to grow our sales to the enterprise market successfully depends to a large extent upon revenue and cash flows derived from sales to the education market. As the education market represents a significant portion of our revenue and cash flow, we utilize cash from sales to the education market to fund our operating expenses. If we cannot continue to augment and develop new distributor and reseller relationships successfully, market our brand, develop strategic alliances and innovate new technologies due to, among other things, decreased revenue from the

education market, we may not be successful in our strategy to grow in the enterprise market.

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We may not be successful in our strategy to monetize software and services.

We continue to work to monetize software and services that we previously provided for free with our hardware. We have also expanded our offering of software to integrate further disparate devices in classrooms. Successful expansion into the software market will require us to develop new distribution channels to sell our software products, develop adequate back office support and ordering systems for our software products, and develop a robust renewal base for our software products. We will also be required to develop a sales force that is successful at selling software as well as an effective go-to-market strategy. If we cannot develop these in a sufficiently short timeframe, our strategy to monetize software may be negatively affected. Historically, the coupling of our software with hardware has been a differentiating factor for our hardware. Sales of our interactive displays could be negatively affected by our software strategy as customers now have the ability to pair our software with lower cost competitor product offerings and our interactive displays are more comparable to those offered by our competitors as a result of our products being offered without free software and without software updates and upgrades for the life of the product. While we believe that we have an opportunity to monetize the software and services that are currently being used, in addition to expanding our software offering and charging fees for new software, those efforts have not been sufficiently successful to offset the overall decline in our sales to the education market, and we may not be successful in our strategy to monetize software and services.

We generate a substantial majority of our revenue from the sale of our interactive displays, and any further significant reduction in sales of these products would materially harm our business.

We generated approximately 89% of our revenue from sales of our interactive displays during fiscal 2016. Our competitors have introduced attractive alternatives to our interactive displays, and we have experienced a decrease in sales as customers migrate to those alternative products. See *We operate in a highly competitive industry.* Any further significant decreases in sales of interactive displays would materially harm our business.

We face risks related to the shift in our product mix from interactive whiteboards and interactive projectors to interactive flat panels, including a decline in gross margin percentages.

We have seen a shift in our product mix from interactive whiteboards and interactive projectors to interactive flat panels, and we anticipate this shift to continue. Futuresource estimates that in calendar year 2015, interactive flat panels accounted for more than one-half of all interactive displays sold to educational institutions worldwide. We believe this shift is primarily driven by the fact that customers prefer the high resolution and better touch, durability and usability of an interactive flat panel compared to a projector-based interactive whiteboard. Pricing of interactive flat panels has also declined, and the total cost of ownership over time of an interactive flat panel in some cases is less than that of an interactive white board and projector combination.

Sales of interactive flat panels have lower gross margin percentages than sales of interactive whiteboards. We have experienced a year-over-year decline in sales related to our core product, interactive whiteboards, and we expect this trend to continue. See *Our sales, including sales to the education market, are in decline and may continue to decline.* The shift to interactive flat panels has increased our product cost, as we are dependent upon pricing for critical components of these products that is set by third parties, and any increases in such pricing lowers our gross margin percentages.

According to Futuresource, there is a preference for interactive projectors in certain markets, including Latin America, and this technology is showing growth in worldwide sales. Sales of interactive projectors typically have lower gross margin percentages than sales of interactive whiteboards. We believe this shift is primarily driven by the lower cost of interactive projectors over competing technologies (interactive whiteboards and interactive flat panels) and the ability

of these projectors to provide a larger viewing area.

We may not be able to compete successfully against our current and future competitors in the interactive flat panel markets as our brand is less recognized in these markets and our current market share in these markets is

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significantly lower than those of some of our competitors. Some of our competitors have greater name recognition, larger customer bases, higher market share and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than we do. In addition, product differentiation in the interactive flat panel market tends to be more difficult for customers to understand, and customers may gravitate toward more recognized brand names in those markets as a result.

We face significant challenges growing our sales in global markets.

As the market for interactive learning and collaboration products and services in North America and the United Kingdom has become more saturated, the growth rate of our revenue in those markets has decreased, as a result, our revenue growth has become more dependent on sales in other foreign markets. In order for our products to gain broad acceptance in foreign markets, we may need to develop customized products and services specifically designed for each country in which we seek to grow our sales and to sell those products and services at prices that are competitive in that country. For example, while our hardware requires only minimal modification to be usable in other countries, our software and content requires significant customization and modification to adapt to the needs of foreign customers. Specifically, our software will need to be adapted to work in a user-friendly way in several languages and alphabets, and content that fits the specific needs of foreign customers (such as, for example, classroom lessons adapted to specific foreign curricula) will need to be developed. For example, our SMART amp collaborative learning software is currently available only in English, Spanish and French. If we are not able to develop, or choose not to support, customized products and services for use in a particular country, we may be unable to compete successfully in that country and our sales growth in that country will be adversely affected. We cannot be certain that we will be able to develop successfully or support customized products and services for each foreign country in which we seek to grow our sales, or that our products and services, if developed, will be competitive in the relevant country.

Growth in many foreign countries will require us to price our products at prices that are competitive in the context of those countries. In certain developing countries, we have been and may continue to be required to sell our products at prices significantly below those that we are currently charging in developed countries. Such pricing pressures could reduce our gross margins and adversely affect revenue. Moreover, the economies of some of the countries in which we have sales have in the past suffered from currency devaluation. If such events occur again, they could potentially make our products too expensive to buy and adversely affect revenue.

Our customers' experience with our products is directly affected by the availability and quality of our customers' Internet access. We are unable to control broadband penetration rates, and to the extent broadband growth in emerging markets slows, our growth in international markets could be adversely affected.

We face lengthy and unpredictable sales cycles in foreign markets, particularly in countries with centralized decision-making. In these countries, particularly in connection with significant technology product purchases, we have experienced recurrent requests for proposals, significant delays in the decision-making process, and in some cases indefinite deferrals of purchases or cancellations of requests for proposals. If we are unable to overcome these challenges, the growth of our sales in these markets will be adversely affected.

We are exposed to fluctuations in the exchange rates with respect to foreign currencies that could have a material adverse effect on our results of operations.

We are exposed to foreign exchange risk as a result of transactions in currencies other than our functional currency of the Canadian dollar. For example, all of our long-term debt is denominated in U.S. dollars. If the Canadian dollar depreciates relative to the U.S. dollar, the outstanding amount of that debt when translated to our Canadian dollar functional currency would increase. Although we report our results in U.S. dollars, a foreign exchange loss would

result from the increase in the outstanding amount of our debt, which could have a material adverse effect on our business, financial condition or results of operations.

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In addition, we are exposed to fluctuations in the exchange rates with respect to foreign currencies as a result of transactions in currencies other than our reporting currency of the U.S. dollar. A large portion of our revenue and purchases of materials and components are denominated in U.S. dollars. However, a substantial portion of our revenue is denominated in other foreign currencies, primarily the Canadian dollar, Euro and British pound sterling. If the value of any of these currencies depreciates relative to the U.S. dollar, our foreign currency revenue would decrease when translated to U.S. dollars for financial reporting purposes. If the value of any of these currencies appreciates relative to the U.S. dollar, our expenses would increase when translated to U.S. dollars for financial reporting purposes. As our products are primarily priced in U.S. dollars, devaluation of foreign currencies relative to the U.S. dollar could cause our products to become uncompetitive in certain foreign markets.

We monitor our foreign exchange exposures, and in certain circumstances we maintain net monetary asset and/or liability balances in foreign currencies and enter into forward contracts and other derivative contracts to convert a portion of our foreign currency denominated cash flows primarily into Canadian dollars. These activities mitigate, but do not eliminate, our exposure to exchange rate fluctuations. As a result, exchange rate fluctuations could have a material adverse effect on our business, financial condition or results of operations.

If we are unable to continually enhance our products and develop, introduce and sell new technologies and products at competitive prices and in a timely manner, our business will be harmed.

The market for interactive learning and collaboration products and services is still emerging and evolving. It is characterized by rapid technological change and frequent new product introductions, many of which may compete with, be considered as alternatives to, or replace, our interactive displays. For example, we have observed significant spending on non-interactive display technology infrastructure by school districts in the United States whose technology budgets could otherwise have been used to purchase interactive displays. As well, we continue to see spending on tablets, laptops and Chromebooks for 1:1 student learning programs instead of on front-of-room interactive displays. Accordingly, our future success depends upon our ability to enhance our products and to develop, introduce and sell new technologies and products offering enhanced performance and functionality at competitive prices and in a timely manner.

The development of new technologies and products involves time, substantial costs and risks. Due to the highly volatile and competitive nature of the industries in which we compete, we must continually introduce new products, services and technologies, enhance existing products and services, and effectively stimulate customer demand for new and upgraded products. The pace at which we are innovating has increased and is expected to continue to increase. Our ability to develop new technologies successfully depends in large measure on our ability to maintain a technically-skilled research and development staff and to adapt to technological changes and advances in the industry. The success of new product introductions depends on a number of factors, including timely and successful product development, market acceptance, effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of components in appropriate quantities and costs to meet anticipated demand, development of effective distribution channels, effective management of product quality, our ability to manage distribution and production issues related to new product introductions, and our ability to achieve adequate margins. We cannot be certain that we will be able to meet these challenges successfully.

If we are unsuccessful in selling the new products we are currently developing and introducing, or any future products that we may develop, we may carry obsolete inventory and have reduced available working capital for the development of other new technologies and products. See *We may not be able to manufacture, market, distribute and sell our kapp products successfully* and *We face substantial inventory risk, including the potential for additional costs or liabilities arising from our inventory and purchase commitments within our supply chain and raw material components*. Our future success is heavily dependent on new product revenue, so the failure of our new product

development efforts, our inability to manage product transitions properly or to anticipate new product demand or successfully market new products, or our inability to enter new markets, could have a material adverse effect on our business, financial condition or results of operations.

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If we are unable, for any reason, to develop, introduce, sell and enhance new products in a timely manner, or at all, in response to changing market conditions or customer requirements or otherwise, our business could be harmed.

Defects in our products can be difficult to detect before sale. If defects occur, they could have a material adverse effect on our business, financial condition or results of operations.

Our products are highly complex and sophisticated, and from time to time they have contained and may continue to contain design defects or software bugs or failures that are difficult to detect and correct. Defects may be found in new products after commercial shipments have already begun, and we may be unable to correct such defects in a timely manner or at all. In addition, we are currently pairing our software and hardware with competitor hardware and software, which could lead to integration issues, design defects or software bugs with our partners' hardware and software. The occurrence of defects in our products could result in loss of, or delay in, market acceptance of our products and harm to our brand, and correcting such errors and failures in our products could require significant expenditure of capital. In addition, we are rapidly developing and introducing new products, and new products may have higher rates of defects than our established products. For example, our new software offerings utilize the cloud offerings of partners, and we rely on such partners for security and overall performance. We historically have provided warranties on interactive displays for between two and five years, and the failure of our products to operate as described could give rise to warranty claims. The consequences of such defects and claims could have a material adverse effect on our business, financial condition, or results of operations.

Decreases in, or stagnation of, spending or changes in the spending policies or budget priorities for government funding of schools, colleges, universities, other education providers or government agencies, or other factors such as technology innovations or mandated national education standards, could have a material adverse effect on our revenue.

Our customers include primary and secondary schools, colleges, universities, other education providers, and, to a lesser extent, governmental agencies, each of which depends heavily on government funding. If tax revenues of governments decrease, those governmental agencies may react to the decrease by cutting funding to those educational institutions, especially in North America and Western Europe where other technology spending priorities and high classroom penetration rates have led to a decline in interactive display demand. See *Our sales, including sales to the education market, are in decline and may continue to decline.* If our products are not a high priority expenditure for those institutions, or if institutions allocate expenditures to substitute or alternative technologies, we could lose revenue.

Any additional decrease in, stagnation of, or change in national, federal, state, provincial or local funding for primary and secondary schools, colleges, universities, or other education providers or for governmental agencies that use our products, or the introduction of new competing products, such as new or improved personal digital devices, or the introduction of new mandated educational standards, such as common core curriculum in the United States that obliges schools to divert budget dollars to improving their internet infrastructure and buying individual devices in order to administer the required national testing, could cause our current and prospective customers to reduce their purchases of our products further.

If a disruption occurs with our third-party service providers for certain business functions, our business could be adversely affected.

At the end of fiscal 2015, we successfully transferred many of our in-house information technology functions to a single third-party service provider. This arrangement has significantly lowered information technology operating costs, but has introduced the following risks: reduction of our direct control over our systems, and if the service

provider fails to meet our performance expectations and standards, including its

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obligations with respect to data security, it could cause interruptions in our operations and could result in material harm to our business. In addition, we could face increased costs associated with finding replacement providers or hiring new team members to provide these services in-house. See *Our business and operations would suffer in the event of system failures or cybersecurity attacks.*

A part of our education business is the sale of SMART Learning Suite, for which we utilize third-party cloud hosting services. Problems faced by our third-party cloud hosting service providers, including technological or business-related disruptions, may adversely affect our end-users' ability to efficiently and effectively receive streaming content. In addition, natural disasters, power losses, telecommunication failures, and similar events may damage these systems and hardware or cause them to fail completely, all of which may adversely affect our business and reputation. Our kapp boards rely on similar third-party cloud hosting services that enable our customers to leverage critical product features such as saving and sharing collaboration content.

Our business and operations would suffer in the event of system failures or cybersecurity attacks.

The temporary or permanent loss of our computer and telecommunications equipment, servers and software systems, through natural disasters, casualty, energy blackouts, operating malfunction, software virus or malware, cybersecurity attacks or other sources, could disrupt our operations.

Cyber threats are constantly evolving, thereby increasing the difficulty of detecting and successfully defending against them. Like many other companies, we could be the target of attempts by unauthorized third parties to access our business-critical, proprietary and confidential information by breaching security measures that we have implemented. Unauthorized parties may attempt to breach our security measures through the actions of outside parties (e.g., hacking or malware) or employee action (e.g., error, malfeasance, or otherwise), in an attempt to obtain access to confidential information. Additionally, outside parties may attempt to fraudulently induce employees, partners or customers to disclose sensitive information in order to gain access to our confidential information. Breaches of our network or data security could disrupt the security of our internal systems and business applications, impair our ability to provide services to our customers and protect the privacy of their data, result in product development delays, compromise confidential or technical business information, harming our competitive position, and result in theft or misuse of our intellectual property or other assets. Furthermore, we may be required to invest additional resources to defend against such threats.

We maintain disaster recovery plans for our core customer facing web-services that enable applications such as SMART amp, kapp, SMART Exchange, as well as our web-properties such as smarttech.com. Our financial system (Oracle EBS) is hosted by Oracle, and it provides high-availability and disaster recovery plans and procedures. Disaster recovery plans and procedures are similarly maintained by the respective contracted third-party vendors such as Salesforce.com hosting our CRM system, and Flexera hosting our software licensing systems. We also have the ability to failover other critical network infrastructure services to a dedicated (dark) disaster recovery site. Any system failure or accident that causes interruptions in our operations could result in material harm to our business if the responsible third party fails to implement its defined recovery plans.

Our suppliers and contract manufacturers may not be able to supply components or products to us on a timely basis, on favorable terms, without quality control issues or comply with environmental laws.

We rely on contract manufacturers for the assembly of our products and depend on obtaining adequate supplies of quality components on a timely basis on favorable terms. Some of those components, as well as certain complete products that we sell, are provided to us by only one supplier or contract manufacturer. We are subject to risks that disruptions in the operations of our sole or limited number of suppliers or contract manufacturers may cause them to

decrease or stop production of these components and products, or that such suppliers and manufacturers do not produce components and products of sufficient quality. We are also subject to the risk that the components provided by such suppliers do not comply with the environmental regulations in the jurisdictions in which we do business. See *If our products fail to comply with consumer product or*

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environmental laws, it could materially affect our financial performance. On May 26, 2016, we announced the Arrangement Agreement with Foxconn Technology Group. Our suppliers may react adversely to this arrangement with Foxconn Technology Group, with whom they may be in competition, which may significantly harm our business.

Alternative sources are not always readily available. Many of our components are manufactured overseas and have long lead times. We have from time to time experienced shortages of several of our products and components that we obtain from third parties. We cannot ensure that product or component shortages will not occur in the future. Due to the global reach of our supply chain, world events such as local disruptions, natural disasters or political conflict may cause unexpected interruptions to the supply of our products or components. As a result of these factors, we have had, and may have in the future, delays in delivering the number of products ordered by our customers. If we cannot supply products due to performance failures of our contract manufacturers, a lack of components, or are unable to redesign products with other components, correct manufacturing deficiencies, or ramp up production of products to meet demand in a timely manner, our business will be significantly harmed.

We do not have written agreements with some of our significant suppliers. Although we are endeavoring to enter into written agreements with certain of our suppliers, we cannot be certain that our efforts will be successful. Even where we do have a written agreement for the supply of a component, there is no guarantee that we will be able to extend or renew that agreement on similar favorable terms, or at all, upon expiration of the agreement, or otherwise obtain favorable pricing in the future.

We depend on component manufacturing, product assembly and logistical services provided by third parties, some of which are sole source and many of which are located outside of Canada and the United States.

All our components and finished products are manufactured or assembled, in whole or in part, by a limited number of third parties. Most of these third parties are located outside of Canada and the United States. For example, we rely on contract manufacturers in China for the production of all projectors used in our interactive whiteboard solution, and we rely on contract manufacturers in Mexico, Korea and China for the final production of our completed interactive displays. We have also contracted with third parties to manage our transportation and logistics requirements. While these arrangements may lower costs, they also reduce our direct control over production and shipments. It is uncertain what effect such diminished control will have on the quality or availability of our products or on our flexibility to respond to changing conditions. Our failure to manage production and supply of our products adequately, or the failure of products to meet quality requirements, could have a material adverse effect on our business, financial condition or results of operation.

Although arrangements with our suppliers and contract manufacturers may contain provisions for warranty expense reimbursement, it may be difficult or impossible for us to recover from suppliers and contract manufacturers, and we may remain responsible to the customer for warranty service in the event of product defects. Any unanticipated product defect or warranty liability, whether pursuant to arrangements with suppliers, contract manufacturers or otherwise, could have a material adverse effect on our reputation or our business, financial condition, and results of operation.

Final assembly of our interactive display products is currently performed by contract manufacturers in Mexico, Korea and China. If assembly or logistics in these locations is disrupted for any reason, including natural disasters, information technology failures, breaches of system security, military or terrorist actions or economic, business, labor, environmental, public health, or political issues, our business, financial condition and operating results could be materially adversely affected.

We currently do not regularly monitor the financial position of our suppliers or contract manufacturers. Any current or future financial problems of suppliers or contract manufacturers could adversely affect us by increasing our costs or by exposing us to credit risks of these suppliers or contract manufacturers or the complete

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cessation of supply. In addition, if suppliers or contract manufacturers or other third parties experience insolvency or bankruptcy, we may lose the benefit of any warranties and indemnities. If our contract manufacturers are unable to obtain the necessary components for our products in a timely manner, they may not be able to produce a sufficient supply of products, which could lead to reduced revenue, and our business, financial condition and results of operations could be harmed.

If we are unable to ship and transport components and finished products efficiently and economically across long distances and borders, our business could be harmed.

We transport significant volumes of components and finished products across long distances and international borders. If transportation is disrupted for any reason, including natural disasters, military or terrorist actions or economic, business, labor, environmental, public health, or political issues, our business and operating results could be materially adversely affected. Any increases in our transportation costs would increase our costs and the final prices of our products to our customers. In addition, any increases in customs or tariffs, as a result of changes to existing trade agreements between countries or otherwise, could increase our costs or the final cost of our products to our customers or decrease our margins. Such increases could harm our competitive position and could have a material adverse effect on our business. The laws governing customs and tariffs in many countries are complex, subject to many interpretations, and often include substantial penalties for non-compliance. Disputes may arise and could subject us to material liabilities and have a material adverse effect on our business.

The emerging market for interactive learning and collaboration products and services may not develop as we expect.

The market for interactive learning and collaboration products and services is evolving rapidly and is characterized by an increasing number of market entrants. As is typical of a rapidly evolving industry, the demand for and market acceptance of these products and services are uncertain. The adoption of these products and services may not become widespread. If the market for these products and services fails to develop or develops more slowly than we anticipate, sales may decline from current levels or we may fail to achieve growth.

We are subject to risks inherent in foreign operations.

Sales outside the United States and Canada represented approximately 36% of our consolidated sales in fiscal 2016. We intend to continue to selectively pursue international market growth opportunities, which could result in those international sales accounting for a more significant proportion of our revenue. We have committed, and may continue to commit, significant resources to our international operations and sales activities. While we have experience conducting business outside the United States and Canada, we may not be aware of all the factors that may affect our business in foreign jurisdictions.

We are subject to a number of risks associated with international business activities that may increase costs, lengthen sales cycles and require significant management attention. International operations carry certain risks and associated costs, such as the complexities and expense of administering a business abroad, complications in compliance with, and unexpected changes in, regulatory requirements, foreign laws, international import and export le