

TOWER SEMICONDUCTOR LTD

Form 20-F

April 30, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017 Commission File number: 0-24790

TOWER SEMICONDUCTOR LTD.

(Exact name of registrant as specified in its charter and translation of registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

Ramat Gavriel Industrial Park

P.O. Box 619, Migdal Haemek 2310502, Israel

(Address of principal executive offices)

Nati Somekh, +972-4-6506109, natiso@towersemi.com;

Ramat Gavriel Industrial Park P.O. Box 619, Migdal Haemek 2310502, Israel

(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
Ordinary Shares, par value New Israeli Shekels 15.00 per share	NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: 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: 98,457,717 Ordinary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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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 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 (section 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, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

US GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

FORWARD LOOKING STATEMENTS

This annual report on Form 20-F includes certain “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934. The use of the words “projects,” “expects,” “may,” “plans” or “intends,” or words of similar import, identifies a statement as “forward-looking”. There can be no assurance, however, that actual results will not differ materially from our expectations or projections. Factors that could cause actual results to differ from our expectations or projections include the risks and uncertainties relating to our business described in this annual report in “Item 3. Key Information-Risk Factors”.

EXPLANATORY INFORMATION

All references herein to “dollars”, "US dollars", “USD” or “\$” are to United States dollars, all references to “JPY” is to the Japanese Yen and all references to “Shekels” or “NIS” are to New Israeli Shekels.

In 2008, we completed a merger with Jazz Technologies, Inc. (“Jazz Technologies”) and its wholly-owned subsidiary Jazz Semiconductor, Inc. (“Jazz Semiconductor”), an independent semiconductor foundry focused on specialty process technologies for the manufacture of analog intensive mixed-signal semiconductor devices. As a result of this transaction, Jazz Technologies became a wholly-owned subsidiary of Tower Semiconductor Ltd. (“Tower”). In November 2015, Jazz Technologies (i) was re-named to become Tower US Holdings Inc. (“Tower US Holdings”) and (ii) transferred all of its liabilities and all of its assets, including its ownership of all of the shares of Jazz

Semiconductor to Jazz US Holdings Inc. (“Jazz US Holdings”), a company registered under the laws of Delaware and fully owned by Tower US Holdings (the “November 2015 Jazz Restructure”). The November 2015 Jazz Restructure established Jazz US Holdings as an intermediate holding company, holding all of the shares of Jazz Semiconductor. Tower US Holdings remains 100% owned by Tower. As used in this report, “Jazz” refers to Jazz Technologies, including its subsidiaries, for the period preceding November 23, 2015, and to Jazz US Holdings, including its subsidiaries, following such date.

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In March 2014, we acquired a 51% equity stake in TowerJazz Panasonic Semiconductor Co., Ltd., (“TPSCo”), a company formed by Panasonic Corporation (“Panasonic” or “Panasonic Corporation” or “PSCS”), holding three manufacturing facilities in Japan.

In February 2016, we acquired a fabrication facility in San Antonio, Texas, from Maxim Integrated Products Inc. (“Maxim”). The assets and related business that we acquired from Maxim are held and conducted through an indirect wholly owned US subsidiary, TowerJazz Texas Inc. (“TJT”). TJT is fully owned by Tower US Holdings.

The consolidated financial statements included in this annual report include the results and balances of Tower and the following companies from the applicable merger and acquisition dates: (i) Tower’s wholly-owned indirect subsidiary, Jazz, (ii) since March 31, 2014, its majority-owned subsidiary, TPSCo and (iii) since February 1, 2016, its indirect wholly-owned subsidiary, TJT.

As used in this annual report, “Fab 1” means the semiconductor fabrication facility located in Migdal Haemek, Israel that Tower acquired from National Semiconductor, Inc. (“National Semiconductor”) in 1993. “Fab 2” means the semiconductor fabrication facility located in Migdal Haemek, Israel that Tower established in 2003. “Fab 3” means the semiconductor fabrication facility Jazz operates in Newport Beach, California. “Fab 4” means the semiconductor fabrication facility TJP operated in Nishiwaki City, Hyogo, Japan until 2014. “Arai E” means the semiconductor fabrication facility TPSCo operates in Kurihara 4-5-1, Myoko-shi, Niigata, Japan. “Uozu E” means the semiconductor fabrication facility TPSCo operates in Higashiyama 800, Uozu-shi, Toyama, Japan. “Tonami CD” means the semiconductor fabrication facilities TPSCo operates in Higashi-Kaihotsu 271, Tonami-shi, Toyama, Japan. “Fab 9” means the semiconductor fabrication facility TJT operates in San Antonio, Texas.

As used in this annual report, as of any particular date, “we,” “us,” “our,” and “the Company” and words of similar import, refer collectively to Tower and its then owned and/or consolidated subsidiaries.

Manufacturing or production capacity refers to installed equipment capacity in our facilities and is a function of the process technology and product mix being manufactured because certain processes require more processing steps than others. All information herein with respect to the wafer capacity of our manufacturing facilities is based upon our estimate of the effectiveness of the manufacturing equipment and processes in use or expected to be in use during a period and the estimated or expected process technology and product mix for such period. Unless otherwise specifically stated, all references herein to “wafers” with respect to Fab 1 capacity are to 150-mm wafers, with respect to Fab 2, Fab 3, Fab 4, Arai E, Tonami CD and Fab 9 capacity are to 200-mm wafers, and with respect to Uozu E are to 300-mm wafers, ranging from 0.18 micron to 0.8 micron for the manufacture of products using CMOS and analog based technologies.

JAZZ SEMICONDUCTOR® is a registered trademark of Jazz Semiconductor in the U.S.
TPSCO® and TPSCo ® (and design) are registered trademarks of TPSCo. in the U.S. and Japan.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

Our historical consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (“US GAAP”) and are presented in U.S. dollars (“USD”). The selected historical audited consolidated financial information as of December 31, 2017 and 2016 and for each of the three years ended December 31, 2017, 2016 and 2015 has been derived from, and should be read in conjunction with, our audited consolidated financial statements, and notes thereto appearing elsewhere in this annual report. The selected financial data as of December 31, 2015, 2014 and 2013 and for each of the years ended December 31, 2014 and 2013 has been derived from our audited consolidated financial statements for those years not included in this annual report.

Our audited consolidated financial statements include the results of TowerJazz Japan, Ltd. (“TJP”) commencing June 3, 2011, TPSCo’s results commencing April 1, 2014, and TJT’s results commencing February 1, 2016. In 2011, we acquired a fabrication facility in Nishiwaki City, Hyogo, Japan from Micron Technology, Inc. which we held through a wholly-owned Japanese subsidiary, TJP. Our audited consolidated balance sheets include TJP’s balances since December 31, 2011, TPSCo’s balances since December 31, 2014, and TJT’s balances since December 31, 2016. In 2014, the operations of the facility in Nishiwaki ceased in the course of a restructuring of our activities and business in Japan and it completed its dissolution during 2016.

Due to the acquisition of TPSCo and TJT and the cessation of operations of TJP, it may be difficult to compare the results of operations for the period subsequent to these transactions with prior periods. The selected historical consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes appearing in this annual report and the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this report. Our historical financial information may not be indicative of future performance.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues	\$1,387,310	\$1,249,634	\$960,561	\$828,008	\$505,009
Cost of revenues	1,033,005	946,534	755,196	764,220	476,900
Gross profit	354,305	303,100	205,365	63,788	28,109
Research and development	67,664	63,134	61,669	51,841	33,064
Marketing, general and administrative	66,799	65,439	62,793	58,783	42,916
Nishiwaki Fab restructuring and impairment cost (income), net.....	--	(627)	(991)	55,500	--
Acquisition related costs	--	--	--	1,229	--
Amortization related to a lease agreement early termination	--	--	--	--	7,464
Operating profit (loss)	219,842	175,154	81,894	(103,565)	(55,335)
Interest expense, net	(7,840)	(11,857)	(13,179)	(33,409)	(32,971)
Other financing expense, net	(7,607)	(12,492)	(109,930)	(55,404)	(27,838)
Gain from acquisition, net	--	50,471	--	166,404	--
Other income (expense), net	(2,627)	9,322	(190)	(140)	(904)
Profit (loss) before income tax	201,768	210,598	(41,405)	(26,114)	(117,048)
Income tax benefit (expense)	99,888	(1,432)	12,278	24,742	9,388
Net Profit (loss)	301,656	209,166	(29,127)	(1,372)	(107,660)
Net loss (income) attributable to non-controlling interest	(3,645)	(5,242)	(520)	5,635	--
Net Profit (loss) attributable to the Company	\$298,011	\$203,924	\$(29,647)	\$4,263	\$(107,660)
Basic earnings (loss) per ordinary share	\$3.08	\$2.33	\$(0.40)	\$0.08	\$(2.72)
Diluted earnings per ordinary share	\$2.90	\$2.09		\$0.07	
Other Financial Data:					
Depreciation and amortization, including amortization of financing expenses and accretion	\$208,411	\$197,756	\$256,005	\$243,362	\$164,824

	As of December 31,				
	2017	2016	2015	2014	2013
	(Dollars and share data in thousands)				
Selected Balance Sheet Data:					
Cash and cash equivalents, short-term interest-bearing deposits and designated deposits	\$445,961	\$389,377	\$205,575	\$187,167	\$122,871
Working capital	\$571,959	\$450,883	\$235,608	\$93,759	\$150,498
Total assets	\$1,673,639	\$1,379,884	\$965,368	\$884,146	\$705,887
Short-term bank debt and current maturities of loans, leases and debentures	\$105,958	\$48,084	\$33,259	\$119,999	\$36,441
Loan from banks, net of current maturities	\$87,533	\$133,163	\$210,538	\$159,776	\$108,739
Debentures, net of current maturities	\$128,368	\$162,981	\$45,481	\$107,311	\$208,146
Capital leases, net of current maturities	\$12,822	\$--	\$--	\$--	\$--
Shareholders' equity	\$1,029,706	\$682,614	\$385,586	\$195,561	\$141,248
Number of shares outstanding as of December 31 of any year	98,458	92,985	82,058	58,034	47,870

Risk Factors

Our business faces many risks. Any of the risks discussed below may have an adverse impact on our business, financial condition and operating results.

Risks Affecting Our Business

If we do not maintain our current customers and/or the margins we make on our products sold to them, and do not attract other customers, our business and profitability may be adversely affected.

Loss or cancellation of business from, or decreases in the sales volume or sales prices to, our significant customers, or our failure to replace lost business with new customers, may seriously harm our financial results, revenues and business.

We have relationships with several customers that represent a material portion of our revenues. During the year ended December 31, 2017, we had four customers that contributed between 7% to 30% of our revenues. During the year ended December 31, 2016, we had four customers that each contributed between 5% to 35% of our revenues. During the year ended December 31, 2015, we had three customers that each contributed between 6% to 40% of our revenues. The loss or reduction in volume or sales price to any one of these customers, whether due to their insolvency or their unwillingness or inability to perform their obligations under their respective relationships with us, or if we are unable to renew our engagements with them on commercially reasonable terms, or attract new customers to replace such lost business, may materially negatively impact our overall business, revenue and consolidated financial profitability.

PSCS, a wholly-owned subsidiary of Panasonic Corporation, is a significant customer of TPSCo and Tower on a consolidated basis and is expected to continue to comprise a major portion of TPSCo's and Tower's revenues under the five year volume manufacturing agreement with TPSCo dated March 2014. 30% and 35% of our consolidated revenues for the years ended December 31, 2017 and 2016, respectively, were generated under said agreement. The terms of the extended agreement with PSCS to be effective April 2019 and on is currently being negotiated. Failure to significantly utilize TPSCo's manufacturing capacity and generate sufficient revenues from PSCS and/or new customers in an amount which will cover the costs of operating TPSCo, as well as being able to maintain current or similar selling prices per wafer from PSCS under the extended agreement may adversely affect our revenue and profitability and may have an adverse effect on the operations of one or more of TPSCo's manufacturing facilities if its/their revenue will not cover in full its/their operating and other costs, as well as may negatively impact our revenue and profitability.

We may be required to obtain financing for strategic opportunities, which financing may not be available for us in a timely manner or on favorable terms, and which may dilute the holdings of our shareholders and/or require us to incur additional debt.

In order to invest in strategic opportunities in support of our growth plans and/or business development activities we may be required to obtain funds from financing sources, including through debt vehicles and/or re-financing, sale of new securities or other financing alternatives. There is no assurance that we will be able to obtain sufficient funding, if at all, from the financing sources detailed above or other sources in a timely manner (or on commercially reasonable terms) in order to allow us to fund our growth plans and/or business development activities, which may adversely affect our financial position and operations, may dilute the holdings of our shareholders and/or require us to incur additional debt.

Demand for our foundry services is dependent on the demand in our customers' end markets. A material decrease in demand for products that contain semiconductors may decrease the demand for our services and products and a decrease in the selling prices of our customers' products may reduce our profitability and business.

Our customers generally use the semiconductors produced in our fabs in a wide variety of applications. We derive a significant percentage of our operating revenues from customers who use our manufacturing services to make semiconductors for communication devices, consumer electronics, PCs and other electronic devices. Any significant decrease in the demand for these electronic devices or products may decrease the demand for our services and products. In addition, if the average selling prices of communication devices, consumer electronics, PCs or other electronic devices decline significantly, we may be pressured to reduce our selling prices, which may reduce our revenues and margins significantly. As demonstrated in the past by downturns in demand for high technology products, market conditions can change rapidly, without apparent warning or advance notice. In such instances, our customers may experience inventory buildup and/or difficulties in selling their products and, in turn, may reduce or cancel orders for wafers from us, which may harm our business and profitability. The timing, severity and recovery of these downturns cannot be predicted.

In order for demand for our wafer fabrication services to increase, the markets for the end products utilizing the integrated circuits that we manufacture must develop and expand. For example, the success of our imaging process technologies will depend, in part, on the growth of markets for certain image sensor product applications. Because our services may be used in many new applications, it is difficult to forecast demand. If demand is lower than expected, we may have excess capacity and our revenue may not be sufficient to cover all our costs and serve all our debt, which may adversely affect our financial results and financial position.

Over-demand for our foundry services and/or products may result in a loss of customers and revenues, which may adversely affect our profitability and business.

In periods during which demand for our foundry services exceeds our capacity and manufacturing capabilities, we may be (i) unable to fulfill customer demand in whole or in part, in a timely manner or at all; (ii) incapable to assure production of customers' next generation of products; and/or (iii) unable to provide additional capacity from any of our geographic facilities through transfer of process technologies, successful implementation and timely qualification. As a result, we could lose one or more of our current and/or potential customers, which may adversely affect our revenues, profitability and business.

The production lines of our manufacturing fabrications may stop for short or long periods of time due to high utilization in certain areas, bottlenecks, power outages, water leaks, chemical leaks or other issues, which may adversely affect our cycle time, yield, and on schedule delivery. In addition, affected customers may elect to transfer their product orders to other fabs, thereby potentially causing an immediate loss of a potentially material amount of revenues for the applicable period, which would adversely affect our revenue, profitability and financial position.

There are many events that may occur which may adversely affect the manufacturing process running in a facility. From time to time, we experience high utilization rates in certain of our manufacturing lines and/or areas, which cause bottlenecks in the lines and/or specific areas and/or specific machines, power outages, water leaks, chemical leaks or other issues that may adversely affect our cycle time, yield and on schedule delivery. We try to mitigate any potential damage caused by such events and have insurance coverage, which may compensate us partially or fully against certain types of damages, however, we cannot ensure that such events will not have a negative effect on the Company, such as late deliveries, which may cause customers to elect to transfer their product orders to other fabs, thereby potentially causing an immediate material loss of revenues for the applicable period, which may adversely affect our revenue, profitability and financial position.

Our operating results may fluctuate from quarter to quarter which makes it difficult to predict our future performance and such fluctuations may ultimately negatively affect our financial position.

Our revenues, expenses and operating results have varied significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a number of factors, a portion of which are beyond our control. These factors include, among others:

The cyclical nature of the semiconductor industry and the volatility of the markets served by our customers;

Changes in the economic conditions of geographical regions where our customers and their markets are located;

Inventory and supply chain management of our customers;

The loss of a key customer, not attracting new designs from key customers, postponement of an order from a key customer or the rescheduling or cancellation of large orders;

The occurrence of accounts receivable write-offs, failure of a key customer to pay accounts receivable in a timely manner or the financial condition of our customers;

The occurrence of an unexpected event, such as environmental events or industrial accidents such as fire or explosions, electricity outage or misprocess, affecting the manufacturing process and our ability to recover the lost or damaged products and provide quality and timely production to our customers without charging them significant additional costs;

Completing capacity expansions and recruitment of personnel in a timely manner to address product demands by our customers;

Mergers and acquisitions in the semiconductor industry and their effect on our market share;

Our ability to satisfy our customers' demand for quality and timely production;

The timing and volume of orders relative to our available production capacity;

Our ability to obtain raw materials and equipment on a timely and cost-effective basis;

Price erosion in the industry and our ability to negotiate prices with our current and new customers;

Our susceptibility to intellectual property rights' disputes;

Our dependency on export licenses and other permits required for our operations and the sale of our products;

Our ability to maintain existing partners and to enter into new partnerships and technology and supply alliances on mutually beneficial terms;

Interest, price index and currency rate fluctuations that were not hedged;

Technological changes and short product life cycles;

Timing for the design and qualification of new products; and

Changes in accounting rules affecting our results.

Due to the factors noted above and other risks discussed in this section, a portion of which are beyond our control, it may be difficult to predict our future performance and any such fluctuations may ultimately negatively affect our operating results and financial position.

Our financial position and operations may be affected as a result of our long term debt.

As of December 31, 2017, we had approximately \$347 million of consolidated long term debt outstanding, comprised as follows: (1) Tower had approximately \$135 million outstanding principal amount of debentures Series G, payable in seven semi-annual consecutive equal installments from March 2020 to March 2023; (2) Jazz had approximately \$58 million of outstanding principal amount of debentures, convertible into our ordinary shares, payable in December 2018, unless converted earlier; (3) TPSCo had loans amounting to approximately \$98 million comprised of (i) approximately \$33 million provided by JA Mitsui Leasing, Ltd. and Bank of Tokyo Lease Co., Ltd. (BOT), to be repaid in seven semi-annual equal installments payable between 2016 and June 2019 and (ii) approximately \$65 million provided by JA Mitsui Leasing, Ltd. Sumitomo Mitsui Trust Bank Limited and Showa Leasing Co., Ltd., to be repaid in seven semi-annual equal installments between 2017 and 2020; (4) TJT had a loan amounting to \$40 million from JA Mitsui Leasing Capital Corporation, repayable in seven semi-annual installments between 2019 and 2022 and (5) certain of the Company's subsidiaries had capital lease agreements amounting to \$16 million from JA Mitsui Leasing, repayable in quarterly installments between 2017 and 2021. Carrying such an amount of long term debt may have significant negative consequences on our business, including:

limiting our ability to fulfill our debt obligations and other liabilities;

requiring the use of a substantial portion of our cash to service our indebtedness rather than investing our cash to fund our strategic growth opportunities and plans, working capital and capital expenditures;

increasing our vulnerability to adverse economic and industry conditions;

limiting our ability to obtain additional financing;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete;

placing us at a competitive disadvantage with respect to less leveraged competitors and competitors that have better access to capital resources;

volatility in our non-cash financing expenses due to increases in the fair value of our debt obligations;

fluctuations of the payable amounts in USD of TPSCo loans or other expenses which are denominated in JPY;

potential enforcement by the lenders of their liens against our respective assets, as applicable, if an event of default occurs.

In order to service our debt, the applicable interest it carries and other liabilities and obligations and/or improve its terms and conditions and/or to invest in strategic opportunities for growth and/or business development activities, in addition to our cash on hand and expected cash flow generation from operating activities, we may decide to obtain funds from additional sources including debt vehicles and/or re-financing, sale of new securities, sale of intellectual property and/or intellectual property licensing, as well as additional financing alternatives. However, there is no assurance that we will be able to obtain sufficient funding, if at all, from the financing sources detailed above or other sources in a timely manner (or on commercially reasonable terms) in order to allow us to fund our growth plans and/or cover, in a timely manner, all our costs, capital expenditure investments and all of our scheduled debt detailed above, liabilities and obligations, which may adversely affect our financial position and operations.

There is no assurance that we will be successful in executing future acquisitions, utilizing the acquired facilities at least in an amount that may cover their costs, integrating them into our business and finding new customers and business in order to operate such acquired facilities and/or companies profitably, which may negatively affect our profitability and financial position.

We may decide to expand our business, including through acquisitions, as we have done in 2014 by acquiring a majority interest of TPSCo that holds three Japanese fabs from Panasonic and in 2016 by acquiring the San Antonio fab from Maxim, and attract new customers that will utilize our expanded capacity.

Our success at such expansion is dependent, in part, on finding suitable targets for acquisitions, successfully financing and consummating such acquisitions, integrating the acquired facilities into our business and loading them in an amount that may at least cover their operating and other costs.

Our reliance on acquisitions as a means of growth involves risks that may adversely affect our future revenues and operating results. For example:

We may fail to identify acquisitions that would enable us to execute our business strategy.

Other foundries may bid against us to acquire potential targets. This competition may result in decreased availability of, or increased prices for, suitable acquisition candidates.

We may not be able to obtain the necessary regulatory approvals, or we may not be able to obtain the necessary approvals from our lenders, and as a result, or for other reasons, we may fail to consummate certain acquisitions.

Potential acquisitions and integration require the dedication of substantial management effort, time and resources which may divert management's attention, focus and resources from our existing business operations or other strategic opportunities, which may have a negative adverse effect on our business.

We may fail to integrate acquisitions successfully in accordance with our business strategy, achieve anticipated benefits depending in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, expected synergies, attract sufficient business to newly acquired facilities in a timely manner or realize the anticipated growth opportunities from integrating an acquired business into our existing business.

We may not be able to retain experienced management and skilled employees from the businesses we acquire and, if we cannot retain such personnel, we may not be able to attract new skilled employees and experienced management to replace them.