

JABIL CIRCUIT INC  
Form 10-Q  
June 30, 2016  
Table of Contents

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended May 31, 2016**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-14063**

**JABIL CIRCUIT, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**10560 Dr. Martin Luther King, Jr. Street North, St. Petersburg, Florida 33716**  
(Address of principal executive offices) (Zip Code)  
**(727) 577-9749**  
(Registrant's telephone number, including area code)

**38-1886260**  
(I.R.S. Employer  
Identification 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 23, 2016, there were 191,085,619 shares of the registrant's Common Stock outstanding.



**Table of Contents****JABIL CIRCUIT, INC. AND SUBSIDIARIES INDEX****Part I Financial Information**

Item 1.	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets at May 31, 2016 and August 31, 2015</u>	3
	<u>Condensed Consolidated Statements of Operations for the three months and nine months ended May 31, 2016 and 2015</u>	4
	<u>Condensed Consolidated Statements of Comprehensive Income for the three months and nine months ended May 31, 2016 and 2015</u>	5
	<u>Condensed Consolidated Statements of Stockholders' Equity at May 31, 2016 and August 31, 2015</u>	6
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended May 31, 2016 and 2015</u>	7
	<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4.	<u>Controls and Procedures</u>	41

**Part II Other Information**

Item 1.	<u>Legal Proceedings</u>	43
Item 1A.	<u>Risk Factors</u>	43
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	62
Item 3.	<u>Defaults Upon Senior Securities</u>	62
Item 4.	<u>Mine Safety Disclosures</u>	62
Item 5.	<u>Other Information</u>	62
Item 6.	<u>Exhibits</u>	63
	<u>Signatures</u>	64

**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****JABIL CIRCUIT, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except for share data)

	May 31, 2016 (Unaudited)	August 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 886,991	\$ 913,963
Accounts receivable, net of allowance for doubtful accounts of \$11,474 at May 31, 2016 and \$11,663 at August 31, 2015	1,296,924	1,467,247
Inventories	2,292,350	2,507,264
Prepaid expenses and other current assets	1,056,461	898,790
Deferred income taxes		79,045
Total current assets	5,532,726	5,866,309
Property, plant and equipment, net of accumulated depreciation of \$2,607,896 at May 31, 2016 and \$2,239,422 at August 31, 2015	3,218,141	2,804,333
Goodwill	584,793	462,382
Intangible assets, net of accumulated amortization of \$222,022 at May 31, 2016 and \$195,864 at August 31, 2015	308,822	283,536
Deferred income taxes	150,836	85,169
Other assets	110,756	101,478
Total assets	\$ 9,906,074	\$ 9,603,207
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current installments of notes payable, long-term debt and capital lease obligations	\$ 359,885	\$ 323,833
Accounts payable	3,191,304	3,663,264
Accrued expenses	1,836,475	1,685,589
Deferred income taxes		2,455
Total current liabilities	5,387,664	5,675,141
Notes payable, long-term debt and capital lease obligations, less current installments	1,791,028	1,346,558
Other liabilities	68,275	67,951
Income tax liabilities	91,071	96,379

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Deferred income taxes	56,779	82,167
Total liabilities	7,394,817	7,268,196
Commitments and contingencies		
Equity:		
Jabil Circuit, Inc. stockholders' equity:		
Preferred stock, \$0.001 par value, authorized 10,000,000 shares; no shares issued and no shares outstanding		
Common stock, \$0.001 par value, authorized 500,000,000 shares; 249,082,324 and 246,680,008 shares issued and 191,220,619 and 192,068,068 shares outstanding at May 31, 2016 and August 31, 2015, respectively	249	247
Additional paid-in capital	2,024,526	1,955,104
Retained earnings	1,637,392	1,468,910
Accumulated other comprehensive loss	(46,107)	(50,854)
Treasury stock at cost, 57,861,705 and 54,611,940 shares at May 31, 2016 and August 31, 2015, respectively	(1,123,608)	(1,058,551)
Total Jabil Circuit, Inc. stockholders' equity	2,492,452	2,314,856
Noncontrolling interests	18,805	20,155
Total equity	2,511,257	2,335,011
Total liabilities and equity	\$ 9,906,074	\$ 9,603,207

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

**JABIL CIRCUIT, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except for per share data)

(Unaudited)

	Three months ended		Nine months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Net revenue	\$ 4,310,752	\$ 4,358,641	\$ 13,922,323	\$ 13,218,382
Cost of revenue	3,989,665	3,982,804	12,718,268	12,091,739
Gross profit	321,087	375,837	1,204,055	1,126,643
Operating expenses:				
Selling, general and administrative	239,646	228,476	716,097	653,183
Research and development	7,675	6,997	24,431	19,502
Amortization of intangibles	9,711	5,724	26,150	17,097
Restructuring and related charges	4,460	(782)	8,349	31,833
Operating income	59,595	135,422	429,028	405,028
Other expense	2,412	1,880	6,346	5,238
Interest income	(2,302)	(2,836)	(6,653)	(6,452)
Interest expense	35,212	31,997	102,509	95,884
Income from continuing operations before tax	24,273	104,381	326,826	310,358
Income tax expense	18,434	32,124	110,639	107,186
Income from continuing operations, net of tax	5,839	72,257	216,187	203,172
Discontinued operations:				
Loss from discontinued operations, net of tax		(1,514)		(5,224)
Gain (loss) on sale of discontinued operations, net of tax		1,681		(875)
Discontinued operations, net of tax		167		(6,099)
Net income	5,839	72,424	216,187	197,073
Net income attributable to noncontrolling interests, net of tax	626	221	159	756
Net income attributable to Jabil Circuit, Inc.	\$ 5,213	\$ 72,203	\$ 216,028	\$ 196,317

Earnings per share attributable to the stockholders of Jabil Circuit, Inc.

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Basic:

Income from continuing operations, net of tax	\$	0.03	\$	0.37	\$	1.13	\$	1.05
Discontinued operations, net of tax	\$	0.00	\$	0.00	\$	0.00	\$	(0.03)
Net income	\$	0.03	\$	0.37	\$	1.13	\$	1.01

Diluted:

Income from continuing operations, net of tax	\$	0.03	\$	0.37	\$	1.12	\$	1.03
Discontinued operations, net of tax	\$	0.00	\$	0.00	\$	0.00	\$	(0.03)
Net income	\$	0.03	\$	0.37	\$	1.12	\$	1.00

Weighted average shares outstanding:

Basic	191,206	193,785	190,841	193,617				
Diluted	193,069	196,304	193,058	195,793				
Cash dividends declared per common share	\$	0.08	\$	0.08	\$	0.24	\$	0.24

See accompanying notes to Condensed Consolidated Financial Statements.



Table of Contents**JABIL CIRCUIT, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)****(Unaudited)**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>May 31, 2016</b>	<b>May 31, 2015</b>	<b>May 31, 2016</b>	<b>May 31, 2015</b>
Net income	\$ 5,839	\$ 72,424	\$ 216,187	\$ 197,073
Other comprehensive income:				
Foreign currency translation adjustment	18,734	(13,084)	(5,433)	(94,693)
Changes in fair value of derivative instruments, net of tax	(2,021)	2,647	(15,834)	(7,711)
Reclassification of net losses realized and included in net income related to derivative instruments, net of tax	6,812	1,548	29,762	5,620
Unrealized (loss) gain on available for sale securities	(621)	223	(3,748)	578
<b>Total other comprehensive income (loss)</b>	<b>22,904</b>	<b>(8,666)</b>	<b>4,747</b>	<b>(96,206)</b>
Comprehensive income	\$ 28,743	\$ 63,758	\$ 220,934	\$ 100,867
Comprehensive income attributable to noncontrolling interests	626	221	159	756
Comprehensive income attributable to Jabil Circuit, Inc.	\$ 28,117	\$ 63,537	\$ 220,775	\$ 100,111

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents**JABIL CIRCUIT, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(in thousands, except for share data)

(Unaudited)

	Common Stock		Additional Paid-in Capital	Jabil Circuit, Inc. Stockholders Equity				Total Equity
	Shares Outstanding	Par Value		Retained Earnings	Accumulated Other (Loss) Income	Treasury Stock	Noncontrolling Interests	
Balance at August 31, 2015	192,068,068	\$ 247	\$ 1,955,104	\$ 1,468,910	\$ (50,854)	\$ (1,058,551)	\$ 20,155	\$ 2,335,011
Shares issued upon exercise of stock options	19,109							
Shares issued under employee stock purchase plan	594,044		10,660					10,660
Vesting of restricted stock awards	1,789,163	2	(2)					
Purchases of treasury stock under employee stock plans	(454,836)					(10,490)		(10,490)
Treasury shares purchased	(2,794,929)					(54,567)		(54,567)
Recognition of stock-based compensation			58,505					58,505
Excess tax benefit of stock awards			259					259
Declared dividends				(47,546)				(47,546)
Comprehensive income				216,028	4,747		159	220,934

Declared dividends to noncontrolling interests							(1,500)	(1,500)
Foreign currency adjustments attributable to noncontrolling interests							(9)	(9)
Balance at May 31, 2016	191,220,619	249	\$ 2,024,526	\$ 1,637,392	\$ (46,107)	\$ (1,123,608)	\$ 18,805	\$ 2,511,257

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents**JABIL CIRCUIT, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(Unaudited)**

	<b>Nine months ended</b>	
	<b>May 31, 2016</b>	<b>May 31, 2015</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 216,187	\$ 197,073
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	512,972	385,136
Restructuring and related charges		4,567
Provision for allowance for doubtful accounts	240	8,193
Recognition of stock-based compensation expense and related charges	58,505	53,101
Deferred income taxes	(24,403)	(14,143)
Loss on sale of property, plant and equipment	13,229	10,045
Other, net	5,906	9,856
<b>Change in operating assets and liabilities, exclusive of net assets acquired:</b>		
Accounts receivable	180,830	(43,982)
Inventories	229,187	(253,579)
Prepaid expenses and other current assets	(131,682)	37,687
Other assets	(7,466)	14,417
Accounts payable, accrued expenses and other liabilities	(565,558)	474,550
<b>Net cash provided by operating activities</b>	<b>487,947</b>	<b>882,921</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of discontinued operations, net of cash		9,663
Acquisition of property, plant and equipment	(668,505)	(735,459)
Proceeds from sale of property, plant and equipment	18,710	13,187
Cash paid for business and intangible asset acquisitions, net of cash	(206,039)	(78,007)
Issuance of notes receivable	(29,300)	
Other, net	(5,250)	(6,645)
<b>Net cash used in investing activities</b>	<b>(890,384)</b>	<b>(797,261)</b>
<b>Cash flows from financing activities:</b>		
Borrowings under debt agreements	4,748,060	4,723,083
Payments toward debt agreements	(4,268,839)	(4,731,894)
Payments to acquire treasury stock	(54,567)	(40,040)
Dividends paid to stockholders	(47,122)	(47,623)
	10,660	9,004

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Net proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan		
Treasury stock minimum tax withholding related to vesting of restricted stock	(10,490)	(7,536)
Other, net	(1,696)	(99)
Net cash provided by (used in) financing activities	376,006	(95,105)
Effect of exchange rate changes on cash and cash equivalents	(541)	(28,010)
Net decrease in cash and cash equivalents	(26,972)	(37,455)
Cash and cash equivalents at beginning of period	913,963	1,000,249
Cash and cash equivalents at end of period	\$ 886,991	\$ 962,794

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents**JABIL CIRCUIT, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the information set forth therein have been included. The Company has made certain reclassification adjustments to conform prior periods' Condensed Consolidated Financial Statements to the current presentation. The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in the Annual Report on Form 10-K of Jabil Circuit, Inc. (the Company ) for the fiscal year ended August 31, 2015. Results for the nine month period ended May 31, 2016 are not necessarily an indication of the results that may be expected for the full fiscal year ending August 31, 2016.

**2. Discontinued Operations**

On December 17, 2013, the Company announced that it entered into a stock purchase agreement with iQor Holdings, Inc. ( iQor ) for the sale of Jabil's Aftermarket Services ( AMS ) business for consideration of \$725.0 million, which consists of \$675.0 million in cash and an aggregate liquidation preference value of \$50.0 million in Senior Non-Convertible Cumulative Preferred Stock of iQor that accretes dividends at an annual rate of 8 percent and is redeemable in nine years or upon a change in control. The purchase price was finalized during fiscal year 2015 and was reduced by \$100.2 million for cash, indebtedness, taxes, interest and certain working capital accounts of the Company's AMS business. Also, as part of this transaction, the Company is subject to a limited covenant not to compete. On April 1, 2014, the Company completed the sale of the AMS business except for the Malaysian operations, for which the sale was completed on December 31, 2014. In connection with the AMS transaction, the Company entered into a transition services agreement, effective April 1, 2014, to provide certain administrative services to facilitate the orderly transfer of the business operations to iQor.

For all periods presented, the operating results associated with this business have been reclassified into discontinued operations, net of tax in the Condensed Consolidated Statements of Operations. The following table provides a summary of AMS amounts included in discontinued operations (in thousands):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>May 31, 2016</b>	<b>May 31, 2015</b>	<b>May 31, 2016</b>	<b>May 31, 2015</b>
Net revenue	\$	\$	\$	\$ 14,624
Loss from discontinued operations, before tax	\$	(1,514)	\$	(5,222)
Income tax expense				2

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Loss from discontinued operations, net of tax	\$	\$ (1,514)	\$	\$ (5,224)
Gain (loss) on sale of discontinued operations, before tax	\$	\$ 1,681	\$	\$ (300)
Income tax expense				575
Gain (loss) on sale of discontinued operations, net of tax	\$	\$ 1,681	\$	\$ (875)
Discontinued operations, net of tax	\$	\$ 167	\$	\$ (6,099)

**Table of Contents****3. Earnings Per Share and Dividends****a. Earnings Per Share**

The Company calculates its basic earnings per share by dividing net income attributable to Jabil Circuit, Inc. by the weighted average number of common shares outstanding during the period. The Company's diluted earnings per share is calculated in a similar manner, but includes the effect of dilutive securities. To the extent these securities are anti-dilutive, they are excluded from the calculation of diluted earnings per share. The following table sets forth the calculations of basic and diluted earnings per share attributable to the stockholders of Jabil Circuit, Inc. (in thousands, except earnings per share data):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Numerator:</b>				
Income from continuing operations, net of tax	\$ 5,839	\$ 72,257	\$ 216,187	\$ 203,172
Net income attributable to noncontrolling interests, net of tax	626	221	159	756
Income from continuing operations attributable to Jabil Circuit, Inc., net of tax	5,213	72,036	216,028	202,416
Discontinued operations attributable to Jabil Circuit, Inc., net of tax		167		(6,099)
Net income attributable to Jabil Circuit, Inc.	\$ 5,213	\$ 72,203	\$ 216,028	\$ 196,317
<b>Denominator for basic and diluted earnings per share:</b>				
Denominator for basic earnings per share	191,206	193,785	190,841	193,617
Dilutive common shares issuable under the employee stock purchase plan and upon exercise of stock options and stock appreciation rights	31	221	130	95
Dilutive unvested restricted stock awards	1,832	2,298	2,087	2,081
Denominator for diluted earnings per share	193,069	196,304	193,058	195,793
<b>Earnings per share attributable to the stockholders of Jabil Circuit, Inc.</b>				
<b>Basic:</b>				
Income from continuing operations, net of tax	\$ 0.03	\$ 0.37	\$ 1.13	\$ 1.05
Discontinued operations, net of tax	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.03)
Net income	\$ 0.03	\$ 0.37	\$ 1.13	\$ 1.01



Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Diluted:								
Income from continuing operations, net of tax	\$	0.03	\$	0.37	\$	1.12	\$	1.03
Discontinued operations, net of tax	\$	0.00	\$	0.00	\$	0.00	\$	(0.03)
Net income	\$	0.03	\$	0.37	\$	1.12	\$	1.00

For the three months and nine months ended May 31, 2016, 2,124,084 and 2,454,562 stock appreciation rights, respectively, were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. For the nine months ended May 31, 2015, options to purchase 290,881 shares of common stock were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. For the three months and nine months ended May 31, 2015, 2,514,276 and 2,707,912 stock appreciation rights, respectively, were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive.

**b. Dividends**

The following table sets forth certain information relating to the Company's cash dividends declared to common stockholders of the Company during the nine months ended May 31, 2016 and 2015 (in thousands, except for per share data):

	<b>Dividend Declaration Date</b>	<b>Dividend per Share</b>	<b>Total of Cash Dividends Declared</b>	<b>Date of Record for Dividend Payment</b>	<b>Dividend Cash Payment Date</b>
<b>Fiscal Year 2016:</b>	October 14, 2015	\$ 0.08	\$ 15,906	November 16, 2015	December 1, 2015
	January 21, 2016	0.08	15,947	February 16, 2016	March 1, 2016
	April 21, 2016	0.08	15,940	May 16, 2016	June 1, 2016
<b>Fiscal Year 2015:</b>	October 16, 2014	\$ 0.08	\$ 15,973	November 14, 2014	December 1, 2014
	January 21, 2015	0.08	16,020	February 13, 2015	March 2, 2015
	April 15, 2015	0.08	15,988	May 15, 2015	June 1, 2015

**Table of Contents****4. Inventories**

Inventories consist of the following (in thousands):

	<b>May 31, 2016</b>	<b>August 31, 2015</b>
Raw materials	\$ 1,315,789	\$ 1,300,559
Work in process	531,958	714,237
Finished goods	444,603	492,468
Total inventories	\$ 2,292,350	\$ 2,507,264

**5. Stock-Based Compensation**

The Company recognizes stock-based compensation expense, reduced for estimated forfeitures, on a straight-line basis over the requisite service period of the award, which is generally the vesting period for outstanding stock awards. The Company recorded \$13.4 million and \$58.5 million of stock-based compensation expense gross of tax effects, which is included in selling, general and administrative expenses within the Condensed Consolidated Statements of Operations for the three months and nine months ended May 31, 2016, respectively. The Company recorded tax benefits related to the stock-based compensation expense of \$0.1 million and \$0.8 million, which is included in income tax expense within the Condensed Consolidated Statements of Operations for three months and nine months ended May 31, 2016, respectively. The Company recorded \$20.1 million and \$53.1 million of stock-based compensation expense gross of tax effects, which is included in selling, general and administrative expenses within the Condensed Consolidated Statements of Operations for the three months and nine months ended May 31, 2015, respectively. The Company recorded tax benefits related to the stock-based compensation expense of \$0.1 million and \$0.6 million, which is included in income tax expense within the Condensed Consolidated Statements of Operations for the three months and nine months ended May 31, 2015, respectively.

The following table summarizes shares available for grant and stock appreciation rights ( SARS ) activity from August 31, 2015 through May 31, 2016:

	<b>Shares Available for Grant</b>	<b>SARS Outstanding</b>	<b>Average Intrinsic Value (in thousands)</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Life (years)</b>
Balance at August 31, 2015	8,376,072	3,760,871	\$ 492,060	\$ 26.60	1.53
SARS canceled	1,155,298	(1,155,298)		\$ 30.00	
Restricted stock awards granted, net of forfeitures <sup>(a)</sup>	(4,749,623)				
SARS exercised		(135,910)		\$ 20.92	
Balance at May 31, 2016	4,781,747	2,469,663	\$ 342	\$ 25.31	1.37

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Exercisable at May 31, 2016	2,469,663	\$	342	\$	25.31	1.37
-----------------------------	-----------	----	-----	----	-------	------

- (a) Represents the maximum number of shares that can be issued based on the achievement of certain performance criteria.

**Table of Contents**

The following table summarizes restricted stock activity from August 31, 2015 through May 31, 2016:

	<b>Shares</b>	<b>Weighted-Average Grant-Date Fair Value</b>
Unvested balance at August 31, 2015	11,931,585	\$ 19.44
Changes during the period		
Shares granted <sup>(a)</sup>	5,364,030	\$ 24.02
Shares vested	(1,789,163)	\$ 19.15
Shares forfeited	(614,407)	\$ 20.35
Unvested balance at May 31, 2016	14,892,045	\$ 21.10

<sup>(a)</sup> For those shares granted that are based on the achievement of certain performance criteria, represents the maximum number of shares that can vest.

Certain key employees have been granted time-based, performance-based and market-based restricted stock awards. The time-based restricted awards granted generally vest on a graded vesting schedule over three years. The performance-based restricted awards generally vest on a cliff vesting schedule over three to five years and provide a range of vesting possibilities of up to a maximum of 100% or 150%, depending on the specified performance condition and the level of achievement obtained. The market-based awards have a vesting condition that is tied to the Company's stock performance in relation to the Standard and Poor's (S&P) Super Composite Technology Hardware and Equipment Index. The market conditions are considered in the grant date fair value using a Monte Carlo valuation model, which utilizes multiple input variables to determine the probability of the Company achieving the specified market conditions. Stock-based compensation expense related to an award with a market condition will be recognized over the requisite service period regardless of whether the market condition is satisfied, provided that the requisite service period has been completed. During the nine months ended May 31, 2016 and 2015, the Company awarded approximately 2.6 million and 2.8 million time-based restricted stock units, respectively, 1.3 million and 1.7 million performance-based restricted stock units, respectively and 0.4 million and 0.0 million market-based stock units, respectively.

At May 31, 2016, there was \$76.9 million of total unrecognized stock-based compensation expense related to restricted stock awards. This expense is expected to be recognized over a weighted-average period of 1.5 years.

## 6. Concentration of Risk and Segment Data

### a. Concentration of Risk

Sales of the Company's products are concentrated among specific customers. During the nine months ended May 31, 2016, the Company's five largest customers accounted for approximately 51% of its net revenue and 81 customers accounted for approximately 90% of its net revenue. Sales to these customers were reported in the Electronics Manufacturing Services (EMS) and Diversified Manufacturing Services (DMS) operating segments.

The Company procures components from a broad group of suppliers. Almost all of the products manufactured by the Company require one or more components that are available from only a single source.

Production levels for a portion of the DMS segment are subject to seasonal influences. The Company may realize greater net revenue during its first fiscal quarter due to higher demand for consumer related products manufactured in the DMS segment during the holiday selling season. Therefore, quarterly results should not be relied upon as necessarily being indicative of results for the entire fiscal year.

***b. Segment Data***

Operating segments are defined as components of an enterprise that engage in business activities from which they may earn revenues and incur expenses; for which separate financial information is available; and whose operating results are regularly reviewed by the chief operating decision maker to assess the performance of the individual segment and make decisions about resources to be allocated to the segment.

**Table of Contents**

The Company derives its revenue from providing comprehensive electronics design, production and product management services. The chief operating decision maker evaluates performance and allocates resources on a segment basis. The Company's operating segments consist of two segments – EMS and DMS, which are also the Company's reportable segments.

The EMS segment is focused around leveraging IT, supply chain design and engineering, technologies largely centered on core electronics, sharing of the Company's large scale manufacturing infrastructure and the ability to serve a broad range of end markets. The EMS segment includes customers primarily in the automotive, capital equipment, computing and storage, digital home, industrial and energy, networking and telecommunications, point of sale and printing industries. The DMS segment is focused on providing engineering solutions and a focus on material sciences and technologies. The DMS segment includes customers primarily in the consumer lifestyles and wearable technologies, defense and aerospace, emerging growth, healthcare, mobility and packaging industries.

On April 1, 2014, the Company completed the sale of the AMS business except for the Malaysian operations, for which the sale was completed on December 31, 2014. The AMS business was included in the DMS segment, and the results of operations of this business are classified as discontinued operations for all periods presented. See Note 2 – Discontinued Operations – for further details.

Net revenue for the operating segments is attributed to the segment in which the service is performed. An operating segment's performance is evaluated based on its pre-tax operating contribution, or segment income. Segment income is defined as net revenue less cost of revenue, segment selling, general and administrative expenses, segment research and development expenses and an allocation of corporate manufacturing expenses and selling, general and administrative expenses, and does not include amortization of intangibles, stock-based compensation expense and related charges, restructuring and related charges, distressed customer charges, acquisition costs and certain purchase accounting adjustments, loss on disposal of subsidiaries, settlement of receivables and related charges, impairment of notes receivable and related charges, goodwill impairment charges, income (loss) from discontinued operations, gain (loss) on sale of discontinued operations, other expense, interest income, interest expense, income tax expense or adjustment for net income (loss) attributable to noncontrolling interests. Total segment assets are defined as accounts receivable, inventories, net customer-related property, plant and equipment, intangible assets net of accumulated amortization and goodwill. All other non-segment assets are reviewed on a global basis by management. Transactions between operating segments are generally recorded at amounts that approximate those at which we would transact with third parties.

**Table of Contents**

The following tables set forth operating segment information (in thousands):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Net revenue</b>				
EMS	\$ 2,846,919	\$ 2,741,910	\$ 8,228,595	\$ 8,001,299
DMS	1,463,833	1,616,731	5,693,728	5,217,083
	\$ 4,310,752	\$ 4,358,641	\$ 13,922,323	\$ 13,218,382
<b>Segment income (loss) and reconciliation of income before tax</b>				
EMS	\$ 99,758	\$ 95,349	\$ 267,717	\$ 212,664
DMS	(12,547)	65,109	254,315	294,400
<i>Total segment income</i>	\$ 87,211	\$ 160,458	\$ 522,032	\$ 507,064
<b>Reconciling items:</b>				
Amortization of intangibles	9,711	5,724	26,150	17,097
Stock-based compensation expense and related charges	13,445	20,094	58,505	53,106
Restructuring and related charges	4,460	(782)	8,349	31,833
Other expense	2,412	1,880	6,346	5,238
Interest income	(2,302)	(2,836)	(6,653)	(6,452)
Interest expense	35,212	31,997	102,509	95,884
Income from continuing operations before tax	\$ 24,273	\$ 104,381	\$ 326,826	\$ 310,358

	<b>May 31, 2016</b>	<b>August 31, 2015</b>
<b>Total assets</b>		
EMS	\$ 2,631,139	\$ 2,865,172
DMS	4,615,292	4,241,699
Other non-allocated assets	2,659,643	2,496,336
	\$ 9,906,074	\$ 9,603,207

As of May 31, 2016, the Company operated in 28 countries worldwide. Sales to unaffiliated customers are based on the Company's location that maintains the customer relationship and transacts the external sale. Total foreign net revenue represented 90.4% and 91.0% of net revenue during the three months and nine months ended May 31, 2016, respectively, compared to 86.6% and 87.1% of net revenue during the three months and nine months ended May 31, 2015, respectively.

**7. Notes Payable, Long-Term Debt and Capital Lease Obligations**

Notes payable, long-term debt and capital lease obligations outstanding at May 31, 2016 and August 31, 2015 are summarized below (in thousands):

	<b>May 31, 2016</b>	<b>August 31, 2015</b>
7.750% Senior Notes due 2016	\$ 311,667	\$ 310,378
8.250% Senior Notes due 2018	399,333	399,047
5.625% Senior Notes due 2020	400,000	400,000
4.700% Senior Notes due 2022	500,000	500,000
Borrowings under credit facilities	64	323
Borrowings under loans <sup>(a)</sup>	510,794	30,410
Capital lease obligations	28,758	28,156
Fair value adjustment related to terminated interest rate swaps on the 7.750% Senior Notes	297	2,077
<b>Total notes payable, long-term debt and capital lease obligations</b>	<b>2,150,913</b>	<b>1,670,391</b>
Less current installments of notes payable, long-term debt and capital lease obligations	359,885	323,833
<b>Notes payable, long-term debt and capital lease obligations, less current installments</b>	<b>\$ 1,791,028</b>	<b>\$ 1,346,558</b>



---

**Table of Contents**

The \$312.0 million of 7.750% senior unsecured notes, \$400.0 million of 8.250% senior unsecured notes, \$400.0 million of 5.625% senior unsecured notes and \$500.0 million of 4.700% senior unsecured notes outstanding are carried at the principal amount of each note, less any unamortized discount. The estimated fair values of these senior notes were approximately \$313.9 million, \$439.1 million, \$426.0 million and \$500.5 million, respectively, at May 31, 2016. The fair value estimates are based upon observable market data (Level 2 criteria).

- (a) On July 6, 2015, the Company entered into an amended and restated senior unsecured five year credit agreement. The credit agreement provides for a revolving credit facility (the Revolving Credit Facility ) in the initial amount of \$1.5 billion, which may, subject to the lenders' discretion, potentially be increased up to \$2.0 billion and a \$500.0 million five year delayed draw term loan facility (the Term Loan Facility and, together with the Revolving Credit Facility, the Credit Facility ). On September 22, 2015, the Company borrowed \$500.0 million against the Term Loan Facility.

During the third quarter of fiscal year 2012, the Company entered into a master lease agreement with a variable interest entity (the VIE ) whereby it sells to and subsequently leases back from the VIE up to \$60.0 million in certain machinery and equipment for a period of up to five years. In connection with this transaction, the Company holds a variable interest in the VIE, which was designed to hold debt obligations payable to third-party creditors. The proceeds from such debt obligations are utilized to finance the purchase of the machinery and equipment that is then leased by the Company. The Company is the primary beneficiary of the VIE as it has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Therefore, the Company consolidates the financial statements of the VIE and eliminates all intercompany transactions. At May 31, 2016, the VIE had approximately \$21.3 million of total assets, of which approximately \$21.0 million was comprised of a note receivable due from the Company, and approximately \$20.9 million of total liabilities, of which approximately \$20.9 million were debt obligations to the third-party creditors (as the VIE has utilized approximately \$20.9 million of the \$60.0 million debt obligation capacity). The third-party creditors have recourse to the Company's general credit only in the event that the Company defaults on its obligations under the terms of the master lease agreement. In addition, the assets held by the VIE can be used only to settle the obligations of the VIE.

On May 19, 2016, the Company entered into a note purchase agreement with certain third parties which it anticipates closing on July 14, 2016 for a private placement of \$300.0 million of senior unsecured notes maturing on July 14, 2023 with an interest rate of 4.9% (the 4.900% Senior Notes ). The proceeds from the sale of the notes are anticipated to be used to repay the Company's \$312.0 million 7.750% Senior Notes due July 15, 2016. The Company is subject to financial covenants based in part on those set forth in its Revolving Credit Facility, including: (1) a maximum ratio of consolidated indebtedness to consolidated EBITDA and (2) a minimum ratio of (a) consolidated EBITDA to (b) interest payable on, and amortization of debt discount in respect of, all indebtedness and loss on sale of accounts receivable. In addition, the Company and its subsidiaries are subject to other covenants, such as: limitation upon transactions with affiliates; limitation upon mergers, consolidations, etc.; limitation upon sales of assets; limitation upon changes in line of business; terrorism sanction regulations; limitation upon subsidiary indebtedness; limitation upon liens; financial and business information; visitation rights; compliance with laws; insurance; maintenance of properties; payment of taxes and claims; preservation of corporate existence, etc.; keeping of books and records; subsidiary guarantees or liability for certain indebtedness; and most favored lender requirement with respect to certain indebtedness. Terms used above in the description of financial covenants have specific meanings ascribed to them in the note purchase agreement.

## **8. Trade Accounts Receivable Securitization and Sale Programs**

The Company regularly sells designated pools of trade accounts receivable under two asset-backed securitization programs and three uncommitted trade accounts receivable sale programs (collectively referred to herein as the programs ). The Company continues servicing the receivables sold and in exchange receives a servicing fee under each of the programs. Servicing fees related to each of the programs recognized during the three months and nine months ended May 31, 2016 and 2015 were not material. The Company does not record a servicing asset or liability on the Condensed Consolidated Balance Sheets as the Company estimates that the fee it receives to service these receivables approximates the fair market compensation to provide the servicing activities.

---

**Table of Contents**

Transfers of the receivables under the programs are accounted for as sales and, accordingly, net receivables sold under the programs are excluded from accounts receivable on the Condensed Consolidated Balance Sheets and are reflected as cash provided by operating activities on the Condensed Consolidated Statements of Cash Flows.

***a. Asset-Backed Securitization Programs***

The Company continuously sells designated pools of trade accounts receivable under its North American asset-backed securitization program, currently scheduled to expire on October 20, 2017, and its foreign asset-backed securitization program, currently scheduled to expire on May 1, 2018, (collectively referred to herein as the asset-backed securitization programs ) to special purpose entities, which in turn sell 100% of the receivables to conduits administered by unaffiliated financial institutions (for the North American asset-backed securitization program) and to an unaffiliated financial institution and a conduit administered by an unaffiliated financial institution (for the foreign asset-backed securitization program). The special purpose entity in the North American asset-backed securitization program is a wholly-owned subsidiary of the Company. The special purpose entity in the foreign asset-backed securitization program is a separate bankruptcy-remote entity whose assets would be first available to satisfy the creditor claims of the unaffiliated financial institution. The Company is deemed the primary beneficiary of this special purpose entity as the Company has both the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive the benefits that could potentially be significant to the entity from the transfer of the trade accounts receivable into the special purpose entity. Accordingly, the special purpose entities associated with these asset-backed securitization programs are included in the Company's Condensed Consolidated Financial Statements. Any portion of the purchase price for the receivables which is not paid in cash upon the sale taking place is recorded as a deferred purchase price receivable, which is paid as payments on the receivables are collected. Net cash proceeds of up to a maximum of \$200.0 million and \$275.0 million for the North American and foreign asset-backed securitization programs, respectively, are available at any one time. The foreign asset-backed securitization program was amended to increase the facility limit from \$175.0 million to \$275.0 million, effective May 20, 2016.

In connection with the asset-backed securitization programs, the Company sold \$2.0 billion and \$5.8 billion of eligible trade accounts receivable during the three months and nine months ended May 31, 2016, respectively. In exchange, the Company received cash proceeds of \$1.5 billion and \$5.3 billion during the three months and nine months ended May 31, 2016, respectively, (of which approximately \$0.0 million and \$3.0 million, respectively, represented new transfers and the remainder represented proceeds from collections reinvested in revolving-period transfers) and a deferred purchase price receivable. The Company sold \$1.9 billion and \$5.6 billion of eligible trade accounts receivable during the three months and nine months ended May 31, 2015, respectively. In exchange, the Company received cash proceeds of \$1.5 billion and \$5.2 billion during the three months and nine months ended May 31, 2015, respectively, (of which approximately \$0.0 million and \$5.9 million, respectively, represented new transfers and the remainder represented proceeds from collections reinvested in revolving-period transfers) and a deferred purchase price receivable. At May 31, 2016 and 2015, the deferred purchase price receivables recorded in connection with the asset-backed securitization programs totaled approximately \$517.3 million and \$438.5 million, respectively.

The Company recognized pre-tax losses on the sales of receivables under the asset-backed securitization programs of approximately \$1.3 million and \$3.5 million during the three months and nine months ended May 31, 2016, respectively, and approximately \$1.2 million and \$2.8 million during the three months and nine months ended May 31, 2015, respectively, which are recorded to other expense within the Condensed Consolidated Statements of Operations.

The deferred purchase price receivables recorded under the asset-backed securitization programs are recorded initially at fair value as prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets and are

valued using unobservable inputs (Level 3 inputs), primarily discounted cash flows, and due to their credit quality and short-term maturity the fair values approximated book values. The unobservable inputs consist of estimated credit losses and estimated discount rates, which both have an immaterial impact on the fair value calculations of the deferred purchase price receivables.

***b. Trade Accounts Receivable Sale Programs***

In connection with three separate trade accounts receivable sale programs with unaffiliated financial institutions, the Company may elect to sell, at a discount, on an ongoing basis, up to a maximum of \$650.0 million, \$150.0 million and \$100.0 million, respectively, of specific trade accounts receivable at any one time. The \$650.0 million trade accounts receivable sale program is an uncommitted facility that was amended during the first quarter of fiscal year 2016 to increase the uncommitted capacity from \$450.0 million to \$650.0 million and to extend the expiration date to November 1, 2016, although any party may elect to terminate the agreement upon 15 days prior notice. The \$650.0 million trade accounts receivable sale program will be automatically extended each year until August 31, 2017, unless any party gives no less than 30 days prior notice that the agreement should not be extended. The \$150.0 million trade accounts receivable sale program is an uncommitted facility that is subject to expiration on August 31, 2016. The \$100.0 million trade accounts receivable sale program is an uncommitted facility that is scheduled to expire on November 1, 2016 (as the agreement was automatically extended on November 1, 2015), although any party may elect to terminate the agreement upon 15 days prior notice. The \$100.0 million trade accounts receivable sale program will be automatically extended each year until November 1, 2018, unless any party gives no less than 30 days prior notice that the agreement should not be extended.

**Table of Contents**

During the three months and nine months ended May 31, 2016, the Company sold \$0.7 billion and \$3.0 billion of trade accounts receivable under these programs, respectively, compared to \$0.5 billion and \$1.5 billion during three months and nine months ended May 31, 2015, respectively. In exchange, the Company received cash proceeds of \$0.7 billion and \$2.9 billion during the three months and nine months ended May 31, 2016, respectively, compared to \$0.5 billion and \$1.5 billion during the three months and nine months ended May 31, 2015, respectively. The resulting losses on the sales of trade accounts receivable during the three months and nine months ended May 31, 2016 and 2015 were not material, and were recorded to other expense within the Condensed Consolidated Statements of Operations.

**9. Accumulated Other Comprehensive Income**

The following table sets forth the changes in accumulated other comprehensive income ( AOCI ), net of tax, by component from August 31, 2015 to May 31, 2016 (in thousands):

	Foreign Currency Translation Adjustment	Derivative Instruments	Actuarial Loss	Prior Service Cost	Unrealized (Loss) Gain on Available for Sale Securities	Total
Balance at August 31, 2015	\$ 6,666	\$ (12,033)	\$ (30,624)	\$ 1,054	\$ (15,917)	\$ (50,854)
Other comprehensive loss before reclassifications	(5,433)	(15,834)			(3,748)	(25,015)
Amounts reclassified from AOCI		29,762				29,762
Other comprehensive (loss) income	(5,433)	13,928			(3,748)	4,747
Balance at May 31, 2016	\$ 1,233	\$ 1,895	\$ (30,624)	\$ 1,054	\$ (19,665)	\$ (46,107)

The portion of AOCI reclassified into earnings during the nine months ended May 31, 2016 for derivative instruments was primarily classified as a component of cost of revenue. The tax benefit (expense) on the derivative instruments component of AOCI, including reclassification adjustments, is not material for the three months and nine months ended May 31, 2016. There was no tax benefit (expense) on the foreign currency translation adjustment and the unrealized (loss) gain on available for sale securities components of AOCI, including reclassification adjustments, for the three months and nine months ended May 31, 2016.

**10. Postretirement and Other Employee Benefits**

The Company sponsors defined benefit pension plans in several countries in which it operates. The pension obligations relate primarily to the following: (a) a funded retirement plan in the United Kingdom and (b) both funded and unfunded retirement plans, mainly in Austria, France, Germany, The Netherlands, Poland, and Taiwan, which provide benefits based upon years of service and compensation at retirement.

The following table provides information about net periodic benefit cost for the pension plans during the three months and nine months ended May 31, 2016 and 2015 (in thousands):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>May</b>	<b>May</b>	<b>May</b>	<b>May</b>
	<b>31,</b>	<b>31,</b>	<b>31,</b>	<b>31,</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Service cost	\$ 222	\$ 256	\$ 662	\$ 803
Interest cost	1,208	1,384	3,693	4,267
Expected long-term return on plan assets	(1,383)	(1,440)	(4,243)	(4,431)
Recognized actuarial loss	264	479	790	1,491
Amortization of prior service cost	(35)	(35)	(104)	(114)
Net periodic benefit cost	\$ 276	\$ 644	\$ 798	\$ 2,016

During the nine months ended May 31, 2016, the Company made contributions of approximately \$2.6 million to its defined benefit pension plans. The Company expects to make total cash contributions of between \$3.0 million and \$3.8 million to its funded pension plans during the fiscal year ended August 31, 2016.

---

**Table of Contents****11. Commitments and Contingencies**

The Company is party to certain lawsuits in the ordinary course of business. The Company does not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Internal Revenue Service ( IRS ) completed its field examination of the Company's tax returns for fiscal years 2009 through 2011 and issued a Revenue Agent's Report on May 27, 2015 proposing adjustments primarily related to U.S. taxation of certain intercompany transactions. If the IRS ultimately prevails in its positions, the Company's income tax payment due for the fiscal years 2009 through 2011 would be approximately \$34.6 million after utilization of tax loss carry forwards available through fiscal year 2011. Also, the IRS has proposed interest and penalties with respect to fiscal years 2009 through 2011. The IRS may make similar claims in future audits with respect to these types of transactions. At this time, anticipating the amount of any future IRS proposed adjustments, interest, and penalties is not practicable.

The Company disagrees with the proposed adjustments and intends to vigorously contest these matters through the applicable IRS administrative and judicial procedures, as appropriate. As the final resolution of the proposed adjustments remains uncertain, the Company continues to provide for the uncertain tax positions based on the more likely than not standard. While the resolution of the issues may result in tax liabilities, interest and penalties, which are significantly higher than the amounts provided for these matters, management currently believes that the resolution will not have a material adverse effect on the Company's financial position, results of operations or cash flows. Despite this belief, an unfavorable resolution, particularly if the IRS successfully asserts similar claims for later years, could have a material adverse effect on the Company's results of operations and financial condition.

**12. Derivative Financial Instruments and Hedging Activities**

The Company is directly and indirectly affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company's financial performance and are referred to as market risks. The Company, where deemed appropriate, uses derivatives as risk management tools to mitigate the potential impact of certain market risks. The primary market risks managed by the Company through the use of derivative instruments are foreign currency fluctuation risk and interest rate risk.

All derivative instruments are recorded gross on the Condensed Consolidated Balance Sheets at their respective fair values. The accounting for changes in the fair value of a derivative instrument depends on the intended use and designation of the derivative instrument. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative and the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is initially reported as a component of AOCI, net of tax, and is subsequently reclassified into the line item within the Condensed Consolidated Statements of Operations in which the hedged items are recorded in the same period in which the hedged item affects earnings. The ineffective portion of the gain or loss is recognized immediately in current earnings. For derivative instruments that are not designated as hedging instruments, gains and losses from changes in fair values are recognized in earnings. Cash receipts and cash payments related to derivative instruments are recorded in the same category as the cash flows from the items being hedged on the Condensed Consolidated Statements of Cash Flows.

For derivatives accounted for as hedging instruments, the Company formally designates and documents, at inception, the financial instruments as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. In addition, the Company formally performs an assessment, both at inception

and at least quarterly thereafter, to determine whether the financial instruments used in hedging transactions are effective at offsetting changes in the cash flows on the related underlying exposures.

***a. Foreign Currency Risk Management***

Forward contracts are put in place to manage the foreign currency risk associated with the anticipated foreign currency denominated revenues and expenses. A hedging relationship existed with an aggregate notional amount outstanding of \$245.1 million and \$615.1 million at May 31, 2016 and August 31, 2015, respectively. The related forward foreign exchange contracts have been designated as hedging instruments and are accounted for as cash flow hedges. The forward foreign exchange contract transactions will effectively lock in the value of anticipated foreign currency denominated revenues and expenses against foreign currency fluctuations. The anticipated foreign currency denominated revenues and expenses being hedged are expected to occur between June 1, 2016 and November 30, 2016.

In addition to derivatives that are designated as hedging instruments and qualify for hedge accounting, the Company also enters into forward contracts to economically hedge transactional exposure associated with commitments arising from trade accounts receivable, trade accounts payable, fixed purchase obligations and intercompany transactions denominated in a currency other than the functional currency of the respective operating entity. The aggregate notional amount of these outstanding contracts at May 31, 2016 and August 31, 2015, was \$1.3 billion and \$1.8 billion, respectively.



**Table of Contents**

The following table presents the Company's assets and liabilities related to forward foreign exchange contracts measured at fair value on a recurring basis as of May 31, 2016, aggregated by the level in the fair-value hierarchy in which those measurements are classified (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Forward foreign exchange contracts	\$	5,320		\$ 5,320
<b>Liabilities:</b>				
Forward foreign exchange contracts		(15,348)		(15,348)
<b>Total</b>	\$	(10,028)		\$ (10,028)

The Company's forward foreign exchange contracts are measured on a recurring basis at fair value, based on foreign currency spot rates and forward rates quoted by banks or foreign currency dealers.

The following table presents the fair values of the Company's derivative instruments located on the Condensed Consolidated Balance Sheets utilized for foreign currency risk management purposes at May 31, 2016 and August 31, 2015 (in thousands):

<b>Fair Values of Derivative Instruments</b>							
<b>Asset Derivatives</b>				<b>Liability Derivatives</b>			
	<b>Balance Sheet Location</b>	<b>Fair Value at May 31, 2016</b>	<b>Fair Value at August 31, 2015</b>		<b>Balance Sheet Location</b>	<b>Fair Value at May 31, 2016</b>	<b>Fair Value at August 31, 2015</b>
<b>Derivatives designated as hedging instruments:</b>							
Forward foreign exchange contracts	Prepaid expenses and other current assets	\$ 1,377	\$ 267	Accrued expenses		\$ 4,914	\$ 16,509
<b>Derivatives not designated as hedging instruments:</b>							
Forward foreign exchange contracts	Prepaid expenses and other current assets	\$ 3,943	\$ 5,525	Accrued expenses		\$ 10,434	\$ 29,529

As of May 31, 2016 and August 31, 2015, the Company also included gains and losses in AOCI related to changes in fair value of its derivatives utilized for foreign currency risk management purposes and designated as hedging instruments. These gains and losses were not material and the portion that is expected to be reclassified into earnings during the next 12 months will be classified as components of net revenue, cost of revenue and selling, general and administrative expense. The gains and losses recognized in earnings due to hedge ineffectiveness and the amount excluded from effectiveness testing were not material for all periods presented and are included as components of net revenue, cost of revenue and selling, general and administrative expense.

The Company recognized gains and losses in earnings related to changes in fair value of derivatives utilized for foreign currency risk management purposes and not designated as hedging instruments during the three months and nine months ended May 31, 2016 and 2015. These amounts were not material and were recognized as components of cost of revenue.

***b. Interest Rate Risk Management***

The Company periodically enters into interest rate swaps to manage interest rate risk associated with the Company's borrowings.

*Fair Value Hedges*

During the second quarter of fiscal year 2011, the Company entered into a series of interest rate swaps with an aggregate notional amount of \$200.0 million designated as fair value hedges of a portion of the Company's 7.750% Senior Notes. Under these interest rate swaps, the Company received fixed rate interest payments and paid interest at a variable rate based on LIBOR plus a spread. The effect of these swaps was to convert fixed rate interest expense on a portion of the 7.750% Senior Notes to floating rate interest expense. Gains and losses related to changes in the fair value of the interest rate swaps were recorded to interest expense and offset changes in the fair value of the hedged portion of the underlying 7.750% Senior Notes.

**Table of Contents**

During the fourth quarter of fiscal year 2011, the Company terminated the interest rate swaps entered into in connection with the 7.750% Senior Notes with a fair value of \$12.2 million, including accrued interest of \$0.6 million at August 31, 2011. The portion of the fair value that is not accrued interest is recorded as a hedge accounting adjustment to the carrying amount of the 7.750% Senior Notes and is being amortized as a reduction to interest expense over the remaining term of the 7.750% Senior Notes. The Company recorded \$1.8 million in amortization as a reduction to interest expense during the nine months ended May 31, 2016. At May 31, 2016 and August 31, 2015, the unamortized hedge accounting adjustment recorded is \$0.3 million and \$2.1 million, respectively, in the Condensed Consolidated Balance Sheets.

*Cash Flow Hedges*

During the fourth quarter of fiscal year 2007, the Company entered into forward interest rate swap transactions to hedge the fixed interest rate payments for an anticipated debt issuance, which was the issuance of the 8.250% Senior Notes. The swaps were accounted for as a cash flow hedge and had a notional amount of \$400.0 million. Concurrently with the pricing of the 8.250% Senior Notes, the Company settled the swaps by its payment of \$43.1 million. The ineffective portion of the swaps was immediately recorded to interest expense within the Condensed Consolidated Statements of Operations. The effective portion of the swaps is recorded on the Company's Condensed Consolidated Balance Sheets as a component of AOCI and is being amortized to interest expense within the Company's Condensed Consolidated Statements of Operations over the life of the 8.250% Senior Notes, which is through March 15, 2018. The effective portions of the swaps amortized to interest expense during the three months and nine months ended May 31, 2016 and 2015 were not material. Existing losses related to interest rate risk management hedging arrangements that are expected to be reclassified into earnings during the next 12 months are not material.

During the second quarter of fiscal year 2016, the Company entered into a series of treasury rate lock transactions to hedge the fixed interest rate payments for an anticipated debt issuance. The treasury rate locks had an aggregate notional amount of \$200.0 million and were designated as hedging instruments and accounted for as cash flow hedges. During the third quarter of fiscal year 2016, the Company settled the treasury rate locks, which resulted in a positive cash settlement amount of approximately \$0.1 million.

Table of Contents**13. Restructuring and Related Charges*****2013 Restructuring Plan***

In conjunction with the restructuring plan that was approved by the Company's Board of Directors in fiscal year 2013 (the 2013 Restructuring Plan), the Company charged \$4.5 million and \$8.3 million of restructuring and related charges to the Condensed Consolidated Statement of Operations during the three months and nine months ended May 31, 2016, respectively, compared to \$(0.8) million and \$33.3 million during the three months and nine months ended May 31, 2015, respectively. The 2013 Restructuring Plan is intended to better align the Company's manufacturing capacity in certain geographies and to reduce the Company's worldwide workforce in order to reduce operating expenses. These restructuring activities are intended to address current market conditions and customer requirements. The restructuring and related charges during the three months and nine months ended May 31, 2016 include cash costs of \$4.2 million and \$7.7 million related to employee severance and benefit costs, respectively, and \$0.3 million and \$0.6 million of other related costs, respectively. The restructuring and related charges during the three months and nine months ended May 31, 2015 include cash costs of \$(1.9) million and \$23.3 million related to employee severance and benefit costs, respectively, \$0 and \$2.8 million related to lease costs, respectively, and \$0.4 million and \$1.5 million of other related costs, respectively, as well as non-cash costs of \$0.7 million and \$5.7 million related to asset write-off costs, respectively.

The Company currently expects to recognize approximately \$179.0 million, excluding the restructuring and related charges previously incurred for the AMS discontinued operations, in pre-tax restructuring and other related costs over the course of the Company's fiscal years 2013 through 2017 under the 2013 Restructuring Plan. Since the inception of the 2013 Restructuring Plan, a total of \$158.9 million of restructuring and related costs have been recognized. Of the \$158.9 million recognized to date, \$121.0 million was allocated to the EMS segment, \$29.0 million was allocated to the DMS segment and \$8.9 million was not allocated to a segment. A majority of the total restructuring costs are related to employee severance and benefit arrangements. The charges related to the 2013 Restructuring Plan, excluding asset write-off costs, are currently expected to result in cash expenditures of approximately \$157.4 million that have been or will be payable over the course of the Company's fiscal years 2013 through 2017. The remaining \$20.1 million of the restructuring and related costs expected to be recognized reflects the Company's intention only and restructuring decisions, and the timing of such decisions, at certain plants are still subject to the finalization of timetables for the transition of functions and consultation with the Company's employees and their representatives.

The tables below set forth the significant components and activity in the 2013 Restructuring Plan during the three months and nine months ended May 31, 2016 and 2015 (in thousands):

**2013 Restructuring Plan Three Months Ended May 31, 2016**

	Liability Balance at February 29, 2016	Restructuring Asset Write-off Related Charge and Other Charges	Non-Cash Activity	Cash Payments	Liability Balance at May 31, 2016
Employee severance and benefit costs	\$ 18,115	\$ 4,197	\$ 407	\$ (3,234)	\$ 19,485
Lease costs	64	(43)			21
Other related costs	871	306	22	(310)	889

Total	\$	19,050	\$	4,460	\$	429	\$	(3,544)	\$	20,395
-------	----	--------	----	-------	----	-----	----	---------	----	--------

**2013 Restructuring Plan - Nine Months Ended May 31, 2016**

	<b>Liability Balance at August 31, 2015</b>	<b>Restructuring Related Charges</b>	<b>Asset Write-off Charge and Other Non-Cash Activity</b>	<b>Cash Payments</b>	<b>Liability Balance at May 31, 2016</b>
Employee severance and benefit costs	\$ 30,047	\$ 7,743	\$ (404)	\$ (17,901)	\$ 19,485
Lease costs	64	(43)			21
Other related costs	846	649		(606)	889
Total	\$ 30,957	\$ 8,349	\$ (404)	\$ (18,507)	\$ 20,395

**Table of Contents****2013 Restructuring Plan Three Months Ended May 31, 2015**

	<b>Restructuring Liability Balance at February 28, 2015</b>	<b>Related Charges</b>	<b>Asset Write-off Charge and Other Non-Cash Activity</b>	<b>Cash Payments</b>	<b>Liability Balance at May 31, 2015</b>
Employee severance and benefit costs	\$ 36,156	\$ (1,847)	\$ (803)	\$ (2,586)	\$ 30,920
Lease costs	2,403			(53)	2,350
Asset write-off costs		701	(701)		
Other related costs	906	364	(30)	(480)	760
<b>Total</b>	<b>\$ 39,465</b>	<b>\$ (782)</b>	<b>\$ (1,534)</b>	<b>\$ (3,119)</b>	<b>\$ 34,030</b>

**2013 Restructuring Plan Nine Months Ended May 31, 2015**

	<b>Liability Balance at August 31, 2014</b>	<b>Restructuring Related Charges</b>	<b>Asset Write-off Charge and Other Non-Cash Activity</b>	<b>Cash Payments</b>	<b>Liability Balance at May 31, 2015</b>
Employee severance and benefit costs	\$ 45,246	\$ 23,355	\$ (4,714)	\$ (32,967)	\$ 30,920
Lease costs	18	2,777	(26)	(419)	2,350
Asset write-off costs		5,688	(5,688)		
Other related costs	257	1,507	(93)	(911)	760
<b>Total</b>	<b>\$ 45,521</b>	<b>\$ 33,327</b>	<b>\$ (10,521)</b>	<b>\$ (34,297)</b>	<b>\$ 34,030</b>

**Table of Contents**

The tables below set forth the significant components and activity in the 2013 Restructuring Plan by reportable segment during the three months and nine months ended May 31, 2016 and 2015 (in thousands):

**2013 Restructuring Plan Three Months Ended May 31, 2016**

	Liability Balance at February 29, 2016	Restructuring Related Charges	Asset Write-off Charge and Other Non-Cash Activity	Cash Payments	Liability Balance at May 31, 2016
EMS	\$ 17,115	\$ 4,460	\$ 429	\$ (2,858)	\$ 19,146
DMS	1,935			(686)	1,249
Total	\$ 19,050	\$ 4,460	\$ 429	\$ (3,544)	\$ 20,395

**2013 Restructuring Plan Nine Months Ended May 31, 2016**

	Liability Balance at August 31, 2015	Restructuring Related Charges	Asset Write-off Charge and Other Non-Cash Activity	Cash Payments	Liability Balance at May 31, 2016
EMS	\$ 28,834	7,454	(395)	(16,747)	\$ 19,146
DMS	1,960	1,014	(9)	(1,716)	1,249
Other	163	(119)		(44)	
Total	\$ 30,957	\$ 8,349	\$ (404)	\$ (18,507)	\$ 20,395

**2013 Restructuring Plan Three Months Ended May 31, 2015**

	Liability Balance at February 28, 2015	Restructuring Related Charges	Asset Write-off Charge and Other Non-Cash Activity	Cash Payments	Liability Balance at May 31, 2015
EMS	\$ 35,358	\$ (1,107)	\$ (1,534)	\$ (1,897)	\$ 30,820
DMS	3,701			(910)	2,791
Other	406	325		(312)	419
Total	\$ 39,465	\$ (782)	\$ (1,534)	\$ (3,119)	\$ 34,030

**2013 Restructuring Plan - Nine Months Ended May 31, 2015**

	<b>Liability Balance at August 31, 2014</b>	<b>Restructuring Related Charges</b>	<b>Asset Write-off Charge and Other Non-Cash Activity</b>	<b>Cash Payments</b>	<b>Liability Balance at May 31, 2015</b>
EMS	\$ 35,504	\$ 30,743	\$ (10,375)	\$ (25,052)	\$ 30,820
DMS	8,268	424	(146)	(5,755)	2,791
Other	1,749	2,160		(3,490)	419
Total	\$ 45,521	\$ 33,327	\$ (10,521)	\$ (34,297)	\$ 34,030

**14. Business Acquisitions****Fiscal year 2016**

On November 25, 2015, the Company entered into a master purchase agreement for certain assets and liabilities of various legal entities, collectively referred to as Hanson. On January 13, 2016, the Company completed the acquisition of the assets for approximately \$139.2 million in cash, plus the assumption of certain liabilities of \$230.0 million (such liabilities were subsequently paid in February 2016 and classified in our Condensed Consolidated Statement of Cash Flows as a component of cash flows from operating activities), with the exception of the real property for which the purchase price is \$33.3 million and is expected to close during the fourth quarter of fiscal year 2016. Hanson is engaged in the business of manufacturing certain parts for customers in the DMS segment.



---

**Table of Contents**

The acquisition of certain Hanson assets has been accounted for as a business combination using the acquisition method of accounting. Assets acquired of \$373.3 million, including \$248.0 million in property, plant and equipment, \$125.3 million in goodwill and intangible assets assigned to customer relationships, liabilities assumed of \$230.0 million and \$4.1 million of deferred tax liabilities were recorded at their estimated fair values as of the acquisition date. The Company is currently evaluating the fair values of the assets related to this business combination. The preliminary estimates and measurements for the completed portion of the acquisition are, therefore, subject to change during the measurement period for property, plant and equipment, intangible assets and tax adjustments. The excess of the purchase price over the fair value of the acquired assets was recorded to goodwill and was fully allocated to the DMS segment. None of the goodwill is currently expected to be deductible for income tax purposes. A customer relationship was valued using the multi-period excess earnings method under the income approach. The Company expensed transaction costs in connection with the acquisition of approximately \$2.1 million during the nine months ended May 31, 2016. The results of operations were included in the Company's condensed consolidated financial results beginning on January 13, 2016. Pro forma information has not been provided as the acquisition of Hanson is not deemed to be significant.

During the first quarter of fiscal year 2016, the Company completed two additional acquisitions (Inala Technologies Limited and various legal entities collectively referred to as Shemer Companies) which were not deemed to be significant individually or in the aggregate. The acquired businesses expanded the Company's capabilities in capital equipment, networking and telecommunications, and printing. The aggregate purchase price of these acquisitions totaled approximately \$72.3 million in cash.

These two acquisitions have been accounted for as business combinations using the acquisition method of accounting. Assets acquired of \$92.2 million, including \$19.3 million in goodwill and \$31.4 million in intangible assets, and liabilities assumed of \$19.9 million were recorded at their estimated fair values as of the acquisition dates. The excess of the purchase prices over the fair values of the acquired assets and assumed liabilities of \$19.3 million was recorded to goodwill and was fully allocated to the EMS segment. None of the goodwill is currently expected to be deductible for income tax purposes. The Company expensed transaction costs in connection with the acquisitions of approximately \$1.1 million during the nine months ended May 31, 2016. The results of operations of the acquired businesses were included in the Company's condensed consolidated financial results beginning on the date of the acquisitions. Pro forma information has not been provided as the acquisitions are not deemed to be significant individually or in the aggregate.

**Fiscal year 2015**

On July 1, 2015, the Company completed the acquisition of J.Y.E. Castella Llorca, S.L. and each of its subsidiaries (collectively referred to as Plasticos) by acquiring 100% of the issued and outstanding common shares of J.Y.E. Castella Llorca, S.L. The aggregate purchase price totaled approximately \$111.0 million in cash, based on the exchange rate on the date of acquisition.

The acquisition of Plasticos has been accounted for as a business combination using the acquisition method of accounting. Assets acquired of \$168.5 million, including \$41.7 million in goodwill and \$32.1 million in intangible assets, and liabilities assumed of \$49.7 million were recorded at their estimated fair values based on the exchange rate on the date of acquisition. During the fourth quarter of fiscal year 2015, the Company recorded a step acquisition gain of \$6.2 million on the previously held Plasticos equity interest of \$1.6 million. The excess of the purchase price over the fair value of the acquired assets and assumed liabilities of \$41.7 million was recorded to goodwill. None of the goodwill is currently expected to be deductible for income tax purposes. The results of operations were included in the Company's condensed consolidated financial results beginning on July 1, 2015. Pro forma information has not been provided as the acquisition of Plasticos is not deemed to be significant.

In connection with the acquisition of Plasticos, the Company acquired \$32.1 million of intangible assets, including \$24.4 million assigned to customer relationships with an assigned useful life of up to 10 years, \$6.5 million assigned to intellectual property with an assigned useful life of up to 5 years and \$1.2 million assigned to a definite-lived trade name with an assigned useful life of up to 1 year.

During the fiscal year ended August 31, 2015, the Company completed five additional acquisitions which were not deemed to be significant individually or in the aggregate. The acquired businesses expanded the Company's capabilities in consumer lifestyles and wearable technologies and networking and telecommunications. The aggregate purchase price of these acquisitions totaled approximately \$117.0 million in cash.

---

**Table of Contents**

The acquisitions have been accounted for as business combinations using the acquisition method of accounting. Assets acquired of \$167.8 million, including \$42.4 million in goodwill and \$31.7 million in intangible assets, and liabilities assumed of \$50.8 million were recorded at their estimated fair values as of the acquisition dates. The excess of the purchase prices over the fair values of the acquired assets and assumed liabilities of \$42.4 million was recorded to goodwill. None of the goodwill is currently expected to be deductible for income tax purposes. The results of operations were included in the Company's condensed consolidated financial results beginning on the date of the acquisitions. Pro forma information has not been provided as the acquisitions are not deemed to be significant individually or in the aggregate.

**15. New Accounting Guidance*****a. Recently Adopted Accounting Guidance***

During the first quarter of fiscal year 2016, the Financial Accounting Standards Board ( FASB ) issued an accounting standard to simplify the presentation of deferred taxes. The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet, as opposed to being presented as current and noncurrent. The Company early adopted this new standard as of the first quarter of fiscal year 2016, applying it prospectively. Prior periods were not retrospectively adjusted.

During the first quarter of fiscal year 2016, the FASB issued an accounting standard to simplify an acquirer's accounting for adjustments made to provisional amounts recognized in a business combination. The guidance requires the acquirer to recognize any adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined, as opposed to retrospectively applying adjustments to prior periods presented in financial statements. Thus, the acquirer will adjust its financial statements as needed, including recognizing in its current period earnings the effect of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The Company early adopted this new standard during the second quarter of fiscal year 2016, applying it prospectively. The adoption of the new standard did not have a material impact on the Company's Condensed Consolidated Financial Statements.

***b. Recently Issued Accounting Guidance***

During the third quarter of fiscal year 2014, the FASB issued an accounting standard which will supersede existing revenue recognition guidance under current U.S. GAAP. The new standard is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. During the fourth quarter of fiscal year 2015, the FASB issued an accounting standard deferring the effective date of this accounting guidance by one year. Therefore, the accounting standard is effective for the Company in the first quarter of fiscal year 2019. Companies may use either a full retrospective or a modified retrospective approach to adopt this standard and management is currently evaluating which transition approach to use. The Company is currently in the process of assessing what impact this new standard may have on its Condensed Consolidated Financial Statements.

During the third quarter of fiscal year 2015, the FASB issued new accounting guidance intended to simplify the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented as a direct deduction from the carrying amount of that debt liability on the balance sheet, consistent with the presentation for debt discounts. During the fourth quarter of fiscal year 2015, the FASB issued an accounting standard to address the presentation and subsequent measurement of debt issuance costs related to line-of-credit

arrangements. The guidance allows an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This guidance must be applied on a retrospective basis and is effective for the Company beginning in the first quarter of fiscal year 2017 with early adoption permitted. The Company does not expect the adoption of this guidance to have a significant impact on its Condensed Consolidated Financial Statements.

During the fourth quarter of fiscal year 2015, the FASB issued a new accounting standard intended to simplify the subsequent measurement of inventory, excluding inventory accounted for under the last-in, first-out or the retail inventory methods. The new standard replaces the current lower of cost or market test with a lower of cost and net realizable value test. Under the current guidance, market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance is required to be applied on a prospective basis and is effective for the Company beginning in the first quarter of fiscal year 2018 with early adoption permitted. The Company is currently in the process of assessing what impact this new standard may have on its Condensed Consolidated Financial Statements.

During the second quarter of fiscal year 2016, the FASB issued a new accounting standard to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance is effective for the Company beginning

## **Table of Contents**

in the first quarter of fiscal year 2019. Early application is permitted only for certain provisions, and the update must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption and applied prospectively to equity investments that exist as of the date of adoption of the standard. The Company is currently assessing the impact this new standard may have on its Condensed Consolidated Financial Statements.

During the second quarter of fiscal year 2016, the FASB issued a new accounting standard revising lease accounting. The new guidance requires organizations to recognize lease assets and lease liabilities on the consolidated balance sheet and disclose key information regarding leasing arrangements. This guidance is effective for the Company beginning in the first quarter of fiscal year 2020. Early application of the new standard is permitted and must be adopted using a modified retrospective approach. The adoption of this standard will impact the Company's consolidated balance sheet. The Company is currently assessing any other impacts this new standard will have on its Condensed Consolidated Financial Statements.

During the third quarter of fiscal year 2016, the FASB issued an accounting standard to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for the Company beginning in the first quarter of fiscal year 2018 and early adoption is permitted. The Company is currently assessing the impact this new standard may have on its Condensed Consolidated Financial Statements.

## **16. Income Taxes**

The effective tax rate differed from the U.S. federal statutory rate of 35% during the three months and nine months ended May 31, 2016 and 2015 primarily due to: (a) income in tax jurisdictions with lower statutory tax rates than the U.S.; (b) tax incentives granted to sites in Brazil, China, Malaysia, Poland, Singapore and Vietnam; (c) losses in tax jurisdictions with existing valuation allowances; and (d) tax benefits from favorable audit resolutions and expiration of statutes in non-U.S. jurisdictions during the three months and nine months ended May 31, 2016. The material tax incentives expire at various dates through fiscal year 2020. Such tax incentives are subject to conditions with which the Company expects to continue to comply.

## **17. Subsequent Events**

The Company has evaluated subsequent events that occurred through the date of the filing of the Company's third quarter of fiscal year 2016 Form 10-Q. No significant events occurred subsequent to the balance sheet date and prior to the filing date of this report that would have a material impact on the Condensed Consolidated Financial Statements.

**Table of Contents**

**JABIL CIRCUIT, INC. AND SUBSIDIARIES**

*References in this report to the Company, Jabil, we, our, or us mean Jabil Circuit, Inc. together with its subsidiaries, except where the context otherwise requires. This Quarterly Report on Form 10-Q contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ) which are made in reliance upon the protections provided by such acts for forward-looking statements. These forward-looking statements (such as when we describe what will, may, or should occur, what we plan, intend, estimate, believe, expect or anticipate will occur, and other similar statements) include, but are not limited to, statements regarding future sales and operating results, potential risks pertaining to these future sales and operating results, future prospects, anticipated benefits of proposed (or future) acquisitions, dispositions and new facilities, growth, the capabilities and capacities of business operations, any financial or other guidance and all statements that are not based on historical fact, but rather reflect our current expectations concerning future results and events. We make certain assumptions when making forward-looking statements, any of which could prove inaccurate, including, but not limited to, statements about our future operating results and business plans. Therefore, we can give no assurance that the results implied by these forward-looking statements will be realized. Furthermore, the inclusion of forward-looking information should not be regarded as a representation by the Company or any other person that future events, plans or expectations contemplated by the Company will be achieved. The ultimate correctness of these forward-looking statements is dependent upon a number of known and unknown risks and events, and is subject to various uncertainties and other factors that may cause our actual results, performance or achievements to be different from any future results, performance or achievements expressed or implied by these statements. The following important factors, among others, could affect future results and events, causing those results and events to differ materially from those expressed or implied in our forward-looking statements:*

*business conditions and growth or declines in our customers industries, the electronic manufacturing services industry and the general economy;*

*variability of our operating results;*

*our dependence on a limited number of major customers;*

*any potential future termination, or substantial winding down, of significant customer relationships;*

*availability of components;*

*our dependence on certain industries;*

*the susceptibility of our production levels to the variability of customer requirements, including seasonal influences on the demand for certain end products;*

*our substantial international operations, and the resulting risks related to our operating internationally, including weak global economic conditions, instability in global credit markets, governmental restrictions on the transfer of funds to us from our operations outside the U.S. and unfavorable fluctuations in currency exchange rates;*

*the potential consolidation of our customer base, and the potential movement by some of our customers of a portion of their manufacturing from us in order to more fully utilize their excess internal manufacturing capacity;*

*our ability to successfully negotiate definitive agreements and consummate acquisitions, and to integrate operations following the consummation of acquisitions;*

*our ability to successfully negotiate definitive agreements and consummate dispositions, and to disentangle operations following the consummation of dispositions;*

*our ability to take advantage of our past, current and possible future restructuring efforts to improve utilization and realize savings and whether any such activity will adversely affect our cost structure, our ability to service customers and our labor relations;*

*our ability to maintain our engineering, technological and manufacturing process expertise;*

*other economic, business and competitive factors affecting our customers, our industry and our business generally; and*

*other factors that we may not have currently identified or quantified.*

**Table of Contents**

*For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations sections contained in this document, as well as our Annual Report on Form 10-K for the fiscal year ended August 31, 2015, any subsequent reports on Form 10-Q and Form 8-K and other filings with the Securities and Exchange Commission (SEC). Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements.*

*All forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report on Form 10-Q, and we do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware. You should read this document and the documents that we incorporate by reference into this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements, even if our situation changes in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.*



**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Overview**

We are one of the leading providers of worldwide electronic manufacturing services and solutions. We provide comprehensive electronics design, production and product management services to companies in the automotive, capital equipment, consumer lifestyles and wearable technologies, computing and storage, defense and aerospace, digital home, emerging growth, healthcare, industrial and energy, mobility, networking and telecommunications, packaging, point of sale and printing industries. We serve our customers primarily with dedicated business units that combine highly automated, continuous flow manufacturing with advanced electronic design and design for manufacturability. We currently depend, and expect to continue to depend, upon a relatively small number of customers for a significant percentage of our net revenue and upon their growth, viability and financial stability. Based on net revenue, for the nine months ended May 31, 2016, our largest customers include Apple, Inc., Cisco Systems, Inc., EMC Corporation, LM Ericsson Telephone Company, Hewlett-Packard Company, Ingenico S.A., NetApp, Inc., Sony Mobile Communications, Inc., Valeo S.A. and Zebra Technologies Corporation. For the nine months ended May 31, 2016, we had net revenues of approximately \$13.9 billion and net income attributable to Jabil Circuit, Inc. of approximately \$216.0 million.

We offer our customers comprehensive electronics design, production and product management services that are responsive to their manufacturing and supply chain management needs. Our business units are capable of providing our customers with varying combinations of the following services:

integrated design and engineering;

component selection, sourcing and procurement;

automated assembly;

design and implementation of product testing;

parallel global production;

enclosure services;

systems assembly, direct order fulfillment and configure to order; and

injection molding, metal, plastics, precision machining and automation.

We currently conduct our operations in facilities that are located in Austria, Belgium, Brazil, Canada, China, Finland, France, Germany, Hungary, India, Ireland, Israel, Italy, Japan, Malaysia, Mexico, The Netherlands, Poland, Russia, Scotland, Singapore, South Africa, South Korea, Spain, Taiwan, Ukraine, the U.S. and Vietnam. Our global

manufacturing production sites allow customers to manufacture products simultaneously in the optimal locations for their products. Our services allow customers to reduce manufacturing costs, improve supply-chain management, reduce inventory obsolescence, lower transportation costs and reduce product fulfillment time. Our global presence is key to assessing our business opportunities.

As of September 1, 2014, we began reporting our business in the following two segments: Electronics Manufacturing Services ( EMS ) and Diversified Manufacturing Services ( DMS ). Our EMS segment is focused around leveraging IT, supply chain design and engineering, technologies largely centered on core electronics, sharing of our large scale manufacturing infrastructure and the ability to serve a broad range of end markets. Our EMS segment includes customers primarily in the automotive, capital equipment, computing and storage, digital home, industrial and energy, networking and telecommunications, point of sale and printing industries. Our DMS segment is focused on providing engineering solutions and a focus on material sciences and technologies. Our DMS segment includes customers primarily in the consumer lifestyles and wearable technologies, defense and aerospace, emerging growth, healthcare, mobility and packaging industries.

**Table of Contents**

The industry in which we operate has historically been composed of companies that provide a range of design and manufacturing services to companies that utilize electronics components. The industry experienced rapid change and growth through the 1990s as an increasing number of companies chose to outsource an increasing portion, and, in some cases, all of their manufacturing. In mid-2001, the industry's revenue declined as a result of significant cut-backs in customer production requirements, which was consistent with the overall downturn in the technology sector. In response to this downturn in the technology sector, we implemented restructuring programs to reduce our cost structure and further align our manufacturing capacity with the geographic production demands of our customers. Industry revenues generally began to stabilize in 2003 and companies began to turn more to outsourcing versus internal manufacturing. In addition, the number of industries serviced, as well as the market penetration in certain industries, by electronic manufacturing service providers has increased over the past several years. In mid-2008, the industry's revenue declined when a deteriorating macro-economic environment resulted in illiquidity in global credit markets and a significant economic downturn in the North American, European and Asian markets. In response to this downturn, and the termination of our business relationship with BlackBerry Limited, we implemented additional restructuring programs, including the restructuring plans that were approved by our Board of Directors in fiscal year 2014 (the 2014 Restructuring Plan) and in fiscal year 2013 (the 2013 Restructuring Plan), to reduce our cost structure and further align our manufacturing capacity with the geographic production demands of our customers.

We continue to try to monitor the current economic environment and its potential impact on both the customers that we serve as well as our end-markets and closely manage our costs and capital resources so that we can respond appropriately as circumstances continue to change.

*Summary of Results*

The following table sets forth, for the three months and nine months ended May 31, 2016 and 2015, certain key operating results and other financial information (in thousands, except per share data):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>May 31, 2016</b>	<b>May 31, 2015</b>	<b>May 31, 2016</b>	<b>May 31, 2015</b>
Net revenue	\$ 4,310,752	\$ 4,358,641	\$ 13,922,323	\$ 13,218,382
Gross profit	\$ 321,087	\$ 375,837	\$ 1,204,055	\$ 1,126,643
Operating income	\$ 59,595	\$ 135,422	\$ 429,028	\$ 405,028
Net income attributable to Jabil Circuit, Inc.	\$ 5,213	\$ 72,203	\$ 216,028	\$ 196,317
Net earnings per share - basic	\$ 0.03	\$ 0.37	\$ 1.13	\$ 1.01
Net earnings per share - diluted	\$ 0.03	\$ 0.37	\$ 1.12	\$ 1.00
Cash dividend per share - declared	\$ 0.08	\$ 0.08	\$ 0.24	\$ 0.24

*Key Performance Indicators*

Management regularly reviews financial and non-financial performance indicators to assess the Company's operating results. The following table sets forth, for the quarterly periods indicated, certain of management's key financial performance indicators:

**Three Months Ended**

	<b>May 31, 2016</b>	<b>February 29, 2016</b>	<b>November 30, 2015</b>	<b>August 31, 2015</b>
Sales cycle	7 days	13 days	6 days	4 days
Inventory turns (annualized)	7 turns	7 turns	8 turns	7 turns
Days in accounts receivable	27 days	30 days	29 days	28 days
Days in inventory	52 days	51 days	48 days	52 days
Days in accounts payable	72 days	68 days	71 days	76 days

The sales cycle is calculated as the sum of days in accounts receivable and days in inventory, less the days in accounts payable; accordingly, the variance in the sales cycle quarter over quarter is a direct result of changes in these indicators. During the three months ended May 31, 2016, days in accounts receivable decreased 3 days to 27 days as compared to the prior sequential quarter primarily due to the timing of sales and cash collection efforts during the quarter. During the three months ended May 31, 2016, days in inventory increased 1 day to 52 days as compared to the prior sequential quarter as a result of lower production in the DMS segment due to reduced consumer demand in the mobility business. During the three months ended May 31, 2016, days in accounts payable increased 4 days to 72 days from the prior sequential quarter primarily due to the timing of purchases and cash payments for purchases during the quarter. During the three months ended May 31, 2016, inventory turns, on an annualized basis, remained consistent at 7 turns from the prior sequential quarter. The sales cycle was 7 days during the three months ended May 31, 2016. The changes in the sales cycle are due to the changes in accounts receivable, accounts payable and inventory that are discussed above.

**Table of Contents**

**Critical Accounting Policies and Estimates**

The preparation of our Condensed Consolidated Financial Statements and related disclosures in conformity with U.S. generally accepted accounting principles ( U.S. GAAP ) requires management to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. For further discussion of our significant accounting policies, refer to Note 1

Description of Business and Summary of Significant Accounting Policies to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

**Recent Accounting Pronouncements**

See Note 15 New Accounting Guidance to the Condensed Consolidated Financial Statements for a discussion of recent accounting guidance.

**Table of Contents****Results of Operations**

The following table sets forth, for the three months and nine months ended May 31, 2016 and 2015, certain statements of operations data expressed as a percentage of net revenue:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>May 31, 2016</b>	<b>May 31, 2015</b>	<b>May 31, 2016</b>	<b>May 31, 2015</b>
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	92.6	91.4	91.4	91.5
Gross profit	7.4	8.6	8.6	8.5
Operating expenses:				
Selling, general and administrative	5.5	5.2	5.1	5.0
Research and development	0.2	0.2	0.2	0.1
Amortization of intangibles	0.2	0.1	0.2	0.1
Restructuring and related charges	0.1		0.1	0.2
Operating income	1.4	3.1	3.0	3.1
Other expense	0.1		0.0	
Interest income	(0.1)	(0.1)	(0.0)	
Interest expense	0.8	0.8	0.7	0.8
Income from continuing operations before tax	0.6	2.4	2.3	2.3
Income tax expense	0.4	0.7	0.8	0.8
Income from continuing operations, net of tax	0.2	1.7	1.5	1.5
Discontinued operations:				
Loss from discontinued operations, net of tax	0.0	0.0	0.0	0.0
Gain (loss) on sale of discontinued operations, net of tax	0.0	0.0	0.0	0.0
Discontinued operations, net of tax	0.0	0.0	0.0	0.0
Net income	0.2	1.7	1.5	1.5
Net income attributable to noncontrolling interests, net of tax	0.0	0.0	0.0	0.0
Net income attributable to Jabil Circuit, Inc.	0.2%	1.7%	1.5%	1.5%

**The Three Months And Nine Months Ended May 31, 2016 Compared to the Three Months And Nine Months Ended May 31, 2015**

**Net Revenue.** Net revenue decreased 1.1% to \$4.3 billion during the three months ended May 31, 2016, compared to \$4.4 billion during the three months ended May 31, 2015. Specifically, the DMS segment revenues decreased 9% as a

result of the less than anticipated product demand that we experienced in the mobility business during the third quarter of fiscal year 2016. EMS segment revenues increased 4% due to a 6% increase in revenues from new business with existing customers within our telecommunications business, partially offset by a 2% revenue decline spread across the remaining industries within the EMS segment.

Net revenue increased 5.3% to \$13.9 billion during the nine months ended May 31, 2016, compared to \$13.2 billion during the nine months ended May 31, 2015. Specifically, the DMS segment revenues increased 9% as a result of a 7% increase in revenues from customers within our mobility business due to strengthened end user product demand during the first half of fiscal year 2016 and new business, 1% revenue growth in the consumer lifestyles and wearable technologies businesses and 1% revenue growth spread across the remaining industries within the DMS segment. EMS segment revenues increased 3% due to a 5% increase in revenues from new business with existing customers within our telecommunications business, partially offset by a 2% revenue decline spread across the remaining industries within the EMS segment.

Generally, we assess revenue on a global customer basis regardless of whether the growth is associated with organic growth or as a result of an acquisition. Accordingly, we do not differentiate or report separately revenue increases generated by acquisitions as opposed to existing business. In addition, the added cost structures associated with our acquisitions have historically been relatively insignificant when compared to our overall cost structure.

The distribution of revenue across our segments has fluctuated, and will continue to fluctuate, as a result of numerous factors, including but not limited to the following: fluctuations in customer demand as a result of recessionary and other conditions, such as

**Table of Contents**

the less than anticipated product demand that we experienced within our DMS segment that impacted our second and third fiscal quarters and is expected to impact at least the following fiscal quarter; efforts to de-emphasize the economic performance of certain portions of our business; seasonality in our business; business growth from new and existing customers; specific product performance; and any potential termination, or substantial winding down, of significant customer relationships.

On April 1, 2014, we completed the sale of our Aftermarket Services ( AMS ) business except for the Malaysian operations, for which the sale was completed on December 31, 2014. The AMS business was included in the DMS segment, and the results of operations of this business are classified as discontinued operations for all periods presented. See Note 2 Discontinued Operations to the Condensed Consolidated Financial Statements for further details.

The following table sets forth, for the periods indicated, revenue by segment expressed as a percentage of net revenue:

	Three months ended		Nine months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
<b>EMS</b>	<b>66%</b>	<b>63%</b>	<b>59%</b>	<b>61%</b>
<b>DMS</b>	<b>34%</b>	<b>37%</b>	<b>41%</b>	<b>39%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Foreign source revenue represented 90.4% and 91.0% of our net revenue for the three months and nine months ended May 31, 2016, respectively, compared to 86.6% and 87.1% of net revenue for the three months and nine months ended May 31, 2015. We currently expect our foreign source revenue to remain relatively consistent as compared to current levels over the course of the next 12 months.

**Gross Profit.** Gross profit decreased to \$321.1 million (7.4% of net revenue) and increased to \$1.2 billion (8.6% of net revenue) during the three months and nine months ended May 31, 2016, respectively, compared to \$375.8 million (8.6% of net revenue) and \$1.1 billion (8.5% of net revenue) during the three months and nine months ended May 31, 2015, respectively. The decrease in gross profit on an absolute basis and as a percentage of revenue during the three months ended May 31, 2016 is primarily due to a decrease in our revenues from existing customers within the DMS segment, which declined at a higher rate than certain of our fixed costs. Gross profit on an absolute basis and as a percentage of net revenue remained relatively consistent during the nine months ended May 31, 2016 as compared to the nine months ended May 31, 2015.

**Selling, General and Administrative.** Selling, general and administrative expenses increased to \$239.6 million (5.5% of net revenue) and \$716.1 million (5.1% of net revenue) during the three months and nine months ended May 31, 2016, respectively, compared to \$228.5 million (5.2% of net revenue) and \$653.2 million (5.0% of net revenue) during the three months and nine months ended May 31, 2015, respectively. The increase on an absolute basis and as a percentage of net revenue was primarily the result of increases in salary and salary related expenses and other costs due to increased headcount to support the continued growth of our business.

**Research and Development.** Research and development ( R&D ) expenses remained relatively consistent at \$7.7 million (0.2% of net revenue) during the three months ended May 31, 2016 compared to \$7.0 million (0.2% of net revenue) during the three months ended May 31, 2015. R&D expenses increased to \$24.4 million (0.2% of net revenue) during the nine months ended May 31, 2016 compared to \$19.5 million (0.1% of net revenue) during the



nine months ended May 31, 2015 primarily as the result of new projects in targeted growth sectors.

**Amortization of Intangibles.** Amortization of intangibles increased to \$9.7 million and \$26.2 million during the three months and nine months ended May 31, 2016, respectively, compared to \$5.7 million and \$17.1 million during the three months and nine months ended May 31, 2015, respectively. The increase is due to the definite lived intangible assets acquired in connection with the Plasticos acquisition that occurred in the fourth quarter of fiscal year 2015 and the acquisitions of Shemer and Hanson that occurred during the first and second quarters of fiscal year 2016, respectively.

**Restructuring and Related Charges.**

*2013 Restructuring Plan*

In conjunction with the 2013 Restructuring Plan, we charged \$4.5 million and \$8.3 million of restructuring and related charges to the Condensed Consolidated Statements of Operations during the three months and nine months ended May 31, 2016, respectively, compared to \$(0.8) million and \$33.3 million during the three months and nine months ended May 31, 2015, respectively. The 2013 Restructuring Plan is intended to better align our manufacturing capacity in certain geographies and to reduce our worldwide workforce in order to reduce operating expenses. These restructuring activities are intended to address current market conditions and

---

**Table of Contents**

customer requirements. The restructuring and related charges during the three months and nine months ended May 31, 2016 include cash costs of \$4.2 million and \$7.7 million related to employee severance and benefit costs, respectively, and \$0.3 million and \$0.6 million of other related costs, respectively. The restructuring and related charges during the three months and nine months ended May 31, 2015 include cash costs of \$(1.9) million and \$23.3 million related to employee severance and benefit costs, respectively, \$0 and \$2.8 million related to lease costs, respectively, and \$0.4 million and \$1.5 million of other related costs, respectively, as well as non-cash costs of \$0.7 million and \$5.7 million related to asset write-off costs, respectively.

During the three months and nine months ended May 31, 2016, \$3.5 million and \$18.5 million, respectively, was paid related to the 2013 Restructuring Plan. At May 31, 2016, accrued liabilities of approximately \$19.7 million related to the 2013 Restructuring Plan are expected to be paid over the next twelve months.

We currently expect to recognize approximately \$179.0 million, excluding the restructuring and related charges previously incurred for the AMS discontinued operations, in pre-tax restructuring and other related costs over the course of fiscal years 2013 through 2017 under the 2013 Restructuring Plan. The restructuring and related charges are expected to include \$149.4 million of employee severance and benefit costs; \$21.6 million of asset write-off costs; \$3.5 million of contract termination costs and \$4.5 million of other related costs. Since the inception of the 2013 Restructuring Plan, a total of \$158.9 million of restructuring and related costs have been recognized as of May 31, 2016. The charges related to the 2013 Restructuring Plan, excluding asset write-off costs, are currently expected to result in cash expenditures of approximately \$157.4 million that have been or will be payable over the course of our fiscal years 2013 through 2017. The remaining \$20.1 million of the restructuring and related costs expected to be recognized reflects our intention only and restructuring decisions, and the timing of such decisions, at certain plants are still subject to the finalization of timetables for the transition of functions and consultation with our employees and their representatives.

Upon its completion, the 2013 Restructuring Plan is expected to yield annualized cost savings of approximately \$76.8 million. The expected avoided annual costs consist of a reduction in employee related expenses of \$72.5 million, a reduction in depreciation expense associated with asset disposals of \$3.1 million, and a reduction in rent expense associated with leased buildings that have been vacated of approximately \$1.2 million. The majority of these annual cost savings are expected to be reflected as a reduction in cost of revenue as well as a reduction of selling, general and administrative expense. These annual costs savings are expected to be partially offset by decreased revenues and incremental costs expected to be incurred by those plants to which certain production will be shifted. After considering these partial cost savings offsets, we expect to realize annual cost savings of approximately \$65.0 million.

**Other Expense.** Other expense remained relatively consistent over the prior periods at \$2.4 million and \$6.3 million for the three months and nine months ended May 31, 2016, respectively, compared to \$1.9 million and \$5.2 million for the three months and nine months ended May 31, 2015, respectively.

**Interest Income.** Interest income remained relatively consistent over the prior periods at \$2.3 million and \$6.7 million during the three months and nine months ended May 31, 2016, respectively, compared to \$2.8 million and \$6.5 million during the three months and nine months ended May 31, 2015, respectively.

**Interest Expense.** Interest expense increased to \$35.2 million and \$102.5 million during the three months and nine months ended May 31, 2016, respectively, compared to \$32.0 million and \$95.9 million during the three months and nine months ended May 31, 2015, respectively. The increase for the three and nine months ended May 31, 2016 is due to interest expense associated with the Term Loan Facility entered into on July 6, 2015.

**Income Tax Expense.** Income tax expense reflects an effective tax rate of 75.9% and 33.9% for the three months and nine months ended May 31, 2016, respectively, compared to an effective tax rate of 30.8% and 34.5% for the three months and nine months ended May 31, 2015, respectively.

The effective tax rate for the three months ended May 31, 2016 increased from the effective tax rate for the three months ended May 31, 2015 primarily due to decreased income in low tax-rate jurisdictions, increased losses in tax jurisdictions with existing valuation allowances, and overall lower income from continuing operations during the three months ended May 31, 2016. This effective tax rate increase was partially offset by tax benefits from favorable audit resolutions and expiration of statutes in non-U.S. jurisdictions during the three months ended May 31, 2016.

The effective tax rate for the nine months ended May 31, 2016 decreased from the effective tax rate for the nine months ended May 31, 2015 primarily due to tax benefits from favorable audit resolutions and expiration of statutes in non-U.S. jurisdictions during fiscal year 2016. These effective tax rate decreases were partially offset by decreased income from continuing operations in low tax-rate jurisdictions and increased losses in tax jurisdictions with existing valuation allowances during fiscal year 2016.

## **Table of Contents**

The effective tax rate differed from the U.S. federal statutory rate of 35% during the three months and nine months ended May 31, 2016 and 2015 due to: (a) income in tax jurisdictions with lower statutory tax rates than the U.S.; (b) tax incentives granted to sites in Brazil, China, Malaysia, Poland, Singapore and Vietnam; (c) losses in tax jurisdictions with existing valuation allowances; and (d) tax benefits from favorable audit resolutions and expiration of statutes in non-U.S. jurisdictions during the three months and nine months ended May 31, 2016. The material tax incentives expire at various dates through fiscal year 2020. Such tax incentives are subject to conditions with which we expect to continue to comply.

## **Non-U.S. GAAP Core Financial Measures**

The following discussion and analysis of our financial condition and results of operations include certain non-U.S. GAAP financial measures as identified in the reconciliation below. The non-U.S. GAAP financial measures disclosed herein do not have standard meaning and may vary from the non-U.S. GAAP financial measures used by other companies or how we may calculate those measures in other instances from time to time. Non-U.S. GAAP financial measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with U.S. GAAP. Also, our core financial measures should not be construed as an inference by us that our future results will be unaffected by those items which are excluded from our core financial measures.

Management believes that the non-U.S. GAAP core financial measures set forth below are useful to facilitate evaluating the past and future performance of our ongoing manufacturing operations over multiple periods on a comparable basis by excluding the effects of the amortization of intangibles, stock-based compensation expense and related charges, restructuring and related charges, distressed customer charges, acquisition costs and certain purchase accounting adjustments, loss on disposal of subsidiaries, settlement of receivables and related charges, impairment of notes receivable and related charges, goodwill impairment charges, income (loss) from discontinued operations, gain (loss) on sale of discontinued operations and certain other expenses, net of tax and certain deferred tax valuation allowance charges. Among other uses, management uses non-U.S. GAAP core financial measures as a factor in determining certain employee performance when determining incentive compensation.

We are reporting core operating income and core earnings to provide investors with an additional method for assessing operating income and earnings, by presenting what we believe are our core manufacturing operations. A significant portion (based on the respective values) of the items that are excluded for purposes of calculating core operating income and core earnings also impacted certain balance sheet assets, resulting in a portion of an asset being written off without a corresponding recovery of cash we may have previously spent with respect to the asset. In the case of restructuring and related charges, we may be making associated cash payments in the future. In addition, although, for purposes of calculating core operating income and core earnings, we exclude stock-based compensation expense (which we anticipate continuing to incur in the future) because it is a non-cash expense, the associated stock issued may result in an increase in our outstanding shares of stock, which may result in the dilution of our stockholders' ownership interest. We encourage you to evaluate these items and the limitations for purposes of analysis in excluding them.

**Table of Contents**

Included in the table below is a reconciliation of the non-U.S. GAAP financial measures to the most directly comparable U.S. GAAP financial measures as provided in our Condensed Consolidated Financial Statements (in thousands):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>May 31, 2016</b>	<b>May 31, 2015</b>	<b>May 31, 2016</b>	<b>May 31, 2015</b>
<b>Operating income (U.S. GAAP)</b>	\$ 59,595	\$ 135,422	\$ 429,028	\$ 405,028
Amortization of intangibles	9,711	5,724	26,150	17,097
Stock-based compensation expense and related charges	13,445	20,094	58,505	53,106
Restructuring and related charges	4,460	(782)	8,349	31,833
<b>Core operating income (Non-U.S. GAAP)</b>	\$ 87,211	\$ 160,458	\$ 522,032	\$ 507,064
<b>Net income attributable to Jabil Circuit, Inc. (U.S. GAAP)</b>	\$ 5,213	\$ 72,203	\$ 216,028	\$ 196,317
Amortization of intangibles, net of tax	8,959	5,528	24,066	16,893
Stock-based compensation expense and related charges, net of tax	13,321	19,949	57,738	52,471
Restructuring and related charges, net of tax	4,470	(1,029)	8,358	31,172
Loss from discontinued operations, net of tax		1,514		5,224
(Gain) loss on sale of discontinued operations, net of tax		(1,681)		875
<b>Core earnings (Non-U.S. GAAP)</b>	\$ 31,963	\$ 96,484	\$ 306,190	\$ 302,952
<b>Net earnings per share (U.S. GAAP):</b>				
Basic	\$ 0.03	\$ 0.37	\$ 1.13	\$ 1.01
Diluted	\$ 0.03	\$ 0.37	\$ 1.12	\$ 1.00
<b>Core earnings per share (Non-U.S. GAAP):</b>				
Basic	\$ 0.17	\$ 0.50	\$ 1.60	\$ 1.56
Diluted	\$ 0.17	\$ 0.49	\$ 1.59	\$ 1.55
<b>Weighted average shares outstanding used in the calculations of earnings per share (U.S. GAAP &amp; Non-U.S. GAAP):</b>				
Basic	191,206	193,785	190,841	193,617
Diluted	193,069	196,304	193,058	195,793

Core operating income decreased 45.6% to \$87.2 million and increased 3.0% to \$522.0 million during the three months and nine months ended May 31, 2016, respectively, compared to \$160.5 million and \$507.1 million during the three months and nine months ended May 31, 2015, respectively. Core earnings decreased 66.9% to \$32.0 million and increased 1.1% to \$306.2 million during the three months and nine months ended May 31, 2016, respectively, compared to \$96.5 million and \$303.0 million during the three months and nine months ended May 31, 2015, respectively. These variances were the result of the same factors described above in Management's Discussion and Analysis of Financial Condition and Results of Operations – The Three Months And Nine Months Ended May 31, 2016 Compared to the Three Months And Nine Months Ended May 31, 2015.

### **Acquisitions and Expansion**

As discussed in Note 14 – Business Acquisitions to the Condensed Consolidated Financial Statements, we completed three acquisitions during the nine months ended May 31, 2016 and six acquisitions during the fiscal year ended August 31, 2015. Acquisitions are accounted for as business combinations using the acquisition method of accounting. Our Condensed Consolidated Financial Statements include the operating results of each business from the date of acquisition. See Risk Factors – We have on occasion not achieved, and may not in the future achieve, expected profitability from our acquisitions; and some divestitures may adversely affect our financial condition, results of operations or cash flows.

### **Seasonality**

Production levels for a portion of the DMS segment are subject to seasonal influences. We may realize greater net revenue during our first fiscal quarter due to higher demand for consumer related products manufactured in the DMS segment during the holiday selling season. Therefore, quarterly results should not be relied upon as necessarily being indicative of results for the entire fiscal year.

**Table of Contents****Liquidity and Capital Resources**

At May 31, 2016, our principal sources of liquidity consisted of cash, available borrowings under our credit facilities, our asset-backed securitization programs and our uncommitted trade accounts receivable sale programs.

***Cash Flows***

The following table sets forth selected consolidated cash flow information during the nine months ended May 31, 2016 and 2015 (in thousands):

	<b>Nine months ended</b>	
	<b>May 31, 2016</b>	<b>May 31, 2015</b>
Net cash provided by operating activities	\$ 487,947	\$ 882,921
Net cash used in investing activities	(890,384)	(797,261)
Net cash provided by (used in) financing activities	376,006	(95,105)
Effect of exchange rate changes on cash and cash equivalents	(541)	(28,010)
<b>Net decrease in cash and cash equivalents</b>	<b>\$ (26,972)</b>	<b>\$ (37,455)</b>

Net cash provided by operating activities during the nine months ended May 31, 2016 was approximately \$487.9 million. This resulted primarily from net income of \$216.2 million, \$513.0 million in non-cash depreciation and amortization expense, a \$229.2 million decrease in inventories, a \$180.8 million decrease in accounts receivable and \$58.5 million of recognized stock-based compensation expense and related charges; which were partially offset by a \$565.6 million decrease in accounts payable, accrued expenses and other liabilities and a \$131.7 million increase in prepaid expenses and other current assets. The decrease in inventories was primarily due to lower production in the DMS segment in the second and third quarters of fiscal year 2016 as compared to the fourth quarter of fiscal year 2015 due to reduced consumer demand in the mobility business. The decrease in accounts receivable is primarily driven by the reduced consumer demand in the mobility business in the second and third quarters of fiscal year 2016, coupled with cash collection efforts. The decrease in accounts payable and accrued expenses was primarily driven by the timing of purchases and cash payments and lower materials purchases associated with lower sales levels in the DMS segment in the second and third quarters of fiscal year 2016 as compared to the fourth quarter of fiscal year 2015 due to reduced consumer demand in the mobility business. The increase in prepaid expenses and other current assets was primarily due to increases in the deferred purchase price receivable under our asset-backed securitization programs due to an increase in receivables sold to the unaffiliated conduits and financial institutions and advanced deposits.

Net cash used in investing activities during the nine months ended May 31, 2016 was \$890.4 million. This consisted primarily of capital expenditures of \$668.5 million principally for machinery and equipment for new business particularly within our DMS segment, maintenance levels of machinery and equipment and information technology infrastructure upgrades, \$206.0 million of cash paid for business acquisitions, net of cash received and \$29.3 million of cash paid for the issuance of notes receivable.

Net cash provided by financing activities during the nine months ended May 31, 2016 was \$376.0 million. This resulted from our receipt of approximately \$4.7 billion of proceeds from borrowings under existing debt agreements,

which primarily included an aggregate of \$4.1 billion of borrowings under the Revolving Credit Facility, \$500.0 million under the Term Loan Facility and \$169.9 million under credit facilities with foreign subsidiaries, along with \$10.7 million of net proceeds from the exercise of stock options and issuance of common stock under the employee stock purchase plan. This was offset by repayments in an aggregate amount of approximately \$4.3 billion, which primarily included an aggregate of \$4.1 billion of repayments under the Revolving Credit Facility and \$170.1 million under credit facilities with foreign subsidiaries. In addition, during the nine months ended May 31, 2016 we paid \$54.6 million, including commissions, to repurchase 2,794,929 of our common shares, we paid \$47.1 million in dividends to stockholders and we paid \$10.5 million (the equivalent of 454,836 of our common shares) to the IRS on behalf of certain employees to satisfy minimum tax obligations related to the vesting of certain restricted stock awards (as consideration for these payments to the IRS, we withheld \$10.5 million of employee-owned common stock related to this vesting).

### ***Sources***

We may need to finance day-to-day working capital needs, as well as future growth and any corresponding working capital needs, with additional borrowings under our Revolving Credit Facility and our other revolving credit facilities described below, as well as additional public and private offerings of our debt and equity. Currently, we have a shelf registration statement with the SEC registering the potential sale of an indeterminate amount of debt and equity securities in the future, from time-to-time over the three years following the registration, to augment our liquidity and capital resources. The current shelf registration statement will expire in



---

**Table of Contents**

the first quarter of fiscal year 2018 at which time we currently anticipate filing a new shelf registration statement. Any future sale or issuance of equity or convertible debt securities could result in dilution to current or future shareholders. Further, we may issue debt securities that have rights and privileges senior to those of holders of ordinary shares, and the terms of this debt could impose restrictions on operations, increase debt service obligations, limit our flexibility as a result of debt service requirements and restrictive covenants, potentially negatively affect our credit ratings, and limit our ability to access additional capital or execute our business strategy. We continue to assess our capital structure and evaluate the merits of redeploying available cash to reduce existing debt or repurchase common shares.

We regularly sell designated pools of trade accounts receivable under two asset-backed securitization programs and three uncommitted trade accounts receivable sale programs (collectively referred to herein as the programs). Transfers of the receivables under the programs are accounted for as sales and, accordingly, net receivables sold under the programs are excluded from accounts receivable on the Condensed Consolidated Balance Sheets and are reflected as cash provided by operating activities on the Condensed Consolidated Statements of Cash Flows. Discussion of each of the programs is included in the following paragraphs. In addition, refer to Note 8 Trade Accounts Receivable Securitization and Sale Programs to the Condensed Consolidated Financial Statements for further details on the programs.

Also, as described in Note 2 Discontinued Operations to the Condensed Consolidated Financial Statements, on April 1, 2014, we completed the sale of our AMS business except for the Malaysian operations, for which the sale was completed on December 31, 2014. We completed these sales for consideration of \$725.0 million, which consisted of \$675.0 million in cash and an aggregate liquidation preference value of \$50.0 million in Senior Non-Convertible Cumulative Preferred Stock of iQor that accretes dividends at an annual rate of 8 percent and is redeemable in nine years or upon a change in control.

***a. Asset-Backed Securitization Programs***

We continuously sell designated pools of trade accounts receivable under our asset-backed securitization programs to special purpose entities, which in turn sell 100% of the receivables to conduits administered by unaffiliated financial institutions (for the North American asset-backed securitization program) and to an unaffiliated financial institution and a conduit administered by an unaffiliated financial institution (for the foreign asset-backed securitization program). Any portion of the purchase price for the receivables which is not paid in cash upon the sale taking place is recorded as a deferred purchase price receivable, which is paid from available cash as payments on the receivables are collected. Net cash proceeds up to a maximum of \$200.0 million for the North American asset-backed securitization program, currently scheduled to expire on October 20, 2017, are available at any one time. Net cash proceeds up to a maximum of \$275.0 million for the foreign asset-backed securitization program, currently scheduled to expire on May 1, 2018, are available at any one time. The foreign asset-backed securitization program was amended to increase the facility limit from \$175.0 million to \$275.0 million, effective May 20, 2016.

In connection with our asset-backed securitization programs, at May 31, 2016, we sold \$992.7 million of eligible trade accounts receivable, which represents the face amount of total sold outstanding receivables at that date. In exchange, we received cash proceeds of \$475.4 million and a deferred purchase price receivable. At May 31, 2016, the deferred purchase price receivable in connection with the asset-backed securitization programs totaled \$517.3 million. The deferred purchase price receivable was recorded initially at fair value as prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets.

***b. Trade Accounts Receivable Sale Programs***

In connection with three separate trade accounts receivable sale programs with unaffiliated financial institutions, we may elect to sell, at a discount, on an ongoing basis, up to a maximum of \$650.0 million, \$150.0 million and \$100.0 million, respectively, of specific trade accounts receivable at any one time. The \$650.0 million trade accounts receivable sale program is an uncommitted facility that was amended during the first quarter of fiscal year 2016 to increase the uncommitted capacity from \$450.0 million to \$650.0 million and to extend the expiration date to November 1, 2016, although any party may elect to terminate the agreement upon 15 days prior notice. The \$650.0 million trade accounts receivable sale program will be automatically extended each year until August 31, 2017, unless any party gives no less than 30 days prior notice that the agreement should not be extended. The \$150.0 million trade accounts receivable sale program is an uncommitted facility that is subject to expiration on August 31, 2016. The \$100.0 million trade accounts receivable sale program is an uncommitted facility that is scheduled to expire on November 1, 2016 (as the agreement was automatically extended on November 1, 2015), although any party may elect to terminate the agreement upon 15 days prior notice. The \$100.0 million trade accounts receivable sale agreement will be automatically extended each year until November 1, 2018, unless any party gives no less than 30 days prior notice that the agreement should not be extended.

During the three months and nine months ended May 31, 2016, we sold \$0.7 billion and \$3.0 billion of trade accounts receivable under these programs, respectively, and we received cash proceeds of \$0.7 billion and \$2.9 billion during the three months and nine months ended May 31, 2016, respectively.

**Table of Contents**

Notes payable, long-term debt and capital lease obligations outstanding at May 31, 2016 and August 31, 2015 are summarized below (in thousands):

	<b>May 31, 2016</b>	<b>August 31, 2015</b>
7.750% Senior Notes due 2016	\$ 311,667	\$ 310,378
8.250% Senior Notes due 2018	399,333	399,047
5.625% Senior Notes due 2020	400,000	400,000
4.700% Senior Notes due 2022	500,000	500,000
Borrowings under credit facilities	64	323
Borrowings under loans <sup>(a)</sup>	510,794	30,410
Capital lease obligations	28,758	28,156
Fair value adjustment related to terminated interest rate swaps on the 7.750% Senior Notes	297	2,077
<b>Total notes payable, long-term debt and capital lease obligations</b>	<b>2,150,913</b>	<b>1,670,391</b>
Less current installments of notes payable, long-term debt and capital lease obligations	359,885	323,833
<b>Notes payable, long-term debt and capital lease obligations, less current installments</b>	<b>\$ 1,791,028</b>	<b>\$ 1,346,558</b>

<sup>(a)</sup> On July 6, 2015, we entered into an amended and restated senior unsecured five year credit agreement. The credit agreement provides for a revolving credit facility (the Revolving Credit Facility ) in the initial amount of \$1.5 billion, which may, subject to the lenders' discretion, potentially be increased up to \$2.0 billion and a \$500.0 million five year delayed draw term loan facility (the Term Loan Facility ) and, together with the Revolving Credit Facility, the Credit Facility ). On September 22, 2015, we borrowed \$500.0 million against the Term Loan Facility.

On May 19, 2016, we entered into a note purchase agreement with certain third parties which we anticipate closing on July 14, 2016 for a private placement of \$300.0 million of senior unsecured notes maturing on July 14, 2023 with an interest rate of 4.9% (the 4.900% Senior Notes ). The proceeds from the sale of the notes are anticipated to be used to repay our \$312.0 million 7.750% Senior Notes due July 15, 2016. We are subject to financial covenants based in part on those set forth in our Revolving Credit Facility, including: (1) a maximum ratio of consolidated indebtedness to consolidated EBITDA and (2) a minimum ratio of (a) consolidated EBITDA to (b) interest payable on, and amortization of debt discount in respect of, all indebtedness and loss on sale of accounts receivable. In addition, we and our subsidiaries, are subject to other covenants, such as: limitation upon transactions with affiliates; limitation upon mergers, consolidations, etc.; limitation upon sales of assets; limitation upon changes in line of business; terrorism sanction regulations; limitation upon subsidiary indebtedness; limitation upon liens; financial and business information; visitation rights; compliance with laws; insurance; maintenance of properties; payment of taxes and claims; preservation of corporate existence, etc.; keeping of books and records; subsidiary guarantees or liability for certain indebtedness; and most favored lender requirement with respect to certain indebtedness. Terms used above in the description of financial covenants have specific meanings ascribed to them in the note purchase agreement.

At May 31, 2016, we were in compliance with all covenants under the Credit Facility, the 4.900% Senior Notes and our asset-backed securitization programs. At August 31, 2015, we were in compliance with all covenants under the Credit Facility and our asset-backed securitization programs.

*Uses*

At May 31, 2016, we had approximately \$887.0 million in cash and cash equivalents. As our growth remains predominantly outside of the United States, a significant portion of such cash and cash equivalents are held by our foreign subsidiaries. We estimate that approximately \$647.8 million of the cash and cash equivalents held by our foreign subsidiaries could not be repatriated to the United States without potential income tax consequences.

For discussion of our cash management and risk management policies see [Quantitative and Qualitative Disclosures About Market Risk](#).

We currently anticipate that during the next 12 months, our capital expenditures, which do not include any amounts spent on acquisitions, will be in the range of \$500.0 million to \$800.0 million, principally for capacity and infrastructure; to support ongoing

---

**Table of Contents**

business in the EMS segment; and investments in our DMS operations, specifically our healthcare, packaging, consumer lifestyles and mobility businesses. Additionally, our capital expenditures will be used to expand our capabilities and invest in new non-traditional end markets. The amounts used to fund such capital expenditures will not be available to be deployed elsewhere by us. We believe that our level of resources, which include cash on hand, available borrowings under our revolving credit facilities, additional proceeds available under our trade accounts receivable securitization programs and potentially available under our uncommitted trade accounts receivable sale programs and funds provided by operations, will be adequate to fund these capital expenditures, the payment of any declared quarterly dividends, any potential acquisitions and our working capital requirements for the next 12 months.

Our 7.750% Senior Notes of \$312.0 million will mature on July 15, 2016. The proceeds from the sale of the 4.900% Senior Notes are anticipated to be used to repay the 7.750% Senior Notes.

In the fourth quarter of fiscal year 2015, our Board of Directors authorized the repurchase of \$100.0 million of our common shares during the twelve month period following their authorization. During the first quarter of fiscal year 2016, we repurchased 2.8 million shares for approximately \$54.5 million, which utilized the remaining amount outstanding of the \$100.0 million authorized by our Board of Directors.

In June 2016, our Board of Directors authorized the repurchase of up to \$400.0 million of our common shares. The share repurchase program expires on August 31, 2017.

On October 14, 2015, January 21, 2016 and April 21, 2016, our Board of Directors approved payment of a quarterly dividend of \$0.08 per share to shareholders of record as of November 16, 2015, February 16, 2016 and May 16, 2016. Of the total cash dividend declared on October 14, 2015 of \$15.9 million, \$15.2 million was paid on December 1, 2015. The remaining \$0.7 million is related to dividend equivalents on unvested restricted stock units that will be payable at the time the awards vest. Of the total cash dividend declared on January 21, 2016 of \$15.9 million, \$15.3 million was paid on March 1, 2016. The remaining \$0.6 million is related to dividend equivalents on unvested restricted stock units that will be payable at the time the awards vest. Of the total cash dividend declared on April 21, 2016 of \$15.9 million, \$15.3 million was paid on June 1, 2016. The remaining \$0.6 million is related to dividend equivalents on unvested restricted stock units that will be payable at the time the awards vest. We currently expect to continue to declare and pay regular quarterly dividends of an amount similar to our past declarations. However, the declaration and payment of future dividends are discretionary and will be subject to determination by our Board of Directors each quarter following its review of our financial performance.

Our \$200.0 million North American asset-backed securitization program is scheduled to expire on October 20, 2017, and our \$275.0 million foreign asset-backed securitization program, amended to increase the facility limit from \$175.0 million to \$275.0 million, effective May 20, 2016, is scheduled to expire on May 1, 2018. We may be unable to renew either of these programs. The \$650.0 million trade accounts receivable sale agreement is an uncommitted facility that was amended during the first quarter of fiscal year 2016 to increase the uncommitted capacity from \$450.0 million to \$650.0 million and to extend the expiration date to November 1, 2016, although any party may elect to terminate the agreement upon 15 days prior notice. The \$650.0 million trade accounts receivable sale agreement will be automatically extended each year until August 31, 2017, unless any party gives no less than 30 days prior notice that the agreement should not be extended. The \$150.0 million trade accounts receivable sale agreement is an uncommitted facility that is subject to expiration on August 31, 2016. The \$100.0 million trade accounts receivable sale agreement is an uncommitted facility that is scheduled to expire on November 1, 2016 (as the agreement was automatically extended on November 1, 2015), although any party may elect to terminate the agreement upon 15 days prior notice. The \$100.0 million trade accounts receivable sale agreement will be automatically extended each year until November 1, 2018, unless any party gives no less than 30 days prior notice that the agreement should not be extended. We can offer no assurance under the uncommitted sales programs that if we attempt to sell receivables

under such programs in the future that we will receive funding from the associated banks which would require us to utilize other available sources of liquidity, including our revolving credit facilities.

Our working capital requirements and capital expenditures could continue to increase in order to support future expansions of our operations through construction of greenfield operations or acquisitions. It is possible that future expansions may be significant and may require the payment of cash. Future liquidity needs will also depend on fluctuations in levels of inventory and shipments, changes in customer order volumes and timing of expenditures for new equipment.

Should we desire to consummate significant additional acquisition opportunities or undertake significant additional expansion activities, our capital needs would increase and could possibly result in our need to increase available borrowings under our revolving credit facilities or access public or private debt and equity markets. There can be no assurance, however, that we would be successful in raising additional debt or equity on terms that we would consider acceptable. See Risk Factors Our amount of debt could significantly increase in the future.

### ***Contractual Obligations***

Our contractual obligations for short and long-term debt arrangements and capital lease obligations; future interest on notes payable, long-term debt and capital lease obligations; future minimum lease payments under non-cancelable operating lease

**Table of Contents**

arrangements; non-cancelable purchase order obligations for property, plant and equipment; pension and postretirement contributions and payments and capital commitments as of May 31, 2016 are summarized below. While, as disclosed below, we have certain non-cancelable purchase order obligations for property, plant and equipment, we generally do not enter into non-cancelable purchase orders for materials until we receive a corresponding purchase commitment from our customer. Non-cancelable purchase orders do not typically extend beyond the normal lead time of several weeks at most. Purchase orders beyond this time frame are typically cancelable.

	Payments due by period (in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Notes payable, long-term debt and capital lease obligations <sup>(a)</sup>	\$ 2,150,616	\$ 359,588	\$ 489,868	\$ 778,257	\$ 522,903
Future interest on notes payable, long-term debt and capital lease obligations <sup>(b)</sup>	379,075	95,374	145,658	97,377	40,666
Operating lease obligations	576,976	112,704	159,408	114,752	190,112
Non-cancelable purchase order obligations <sup>(c)</sup>	217,408	204,888	12,520		
Pension and postretirement contributions and payments <sup>(d)</sup>	9,683	3,994	908	1,393	3,388
Total contractual cash obligations <sup>(e)</sup>	\$ 3,333,758	\$ 776,548	\$ 808,362	\$ 991,779	\$ 757,069

- (a) The above table excludes a \$0.3 million fair value adjustment related to the former interest rate swap on the 7.750% Senior Notes.
- (b) Certain of our notes payable and long-term debt pay interest at variable rates. In the contractual obligations table above, we have elected to apply estimated interest rates based on May 31, 2016 interest rates to determine the value of these expected future interest payments.
- (c) Consists of purchase commitments entered into as of May 31, 2016 for property, plant and equipment pursuant to legally enforceable and binding agreements.
- (d) Includes the estimated company contributions to funded pension plans for the annualized three month period following the third quarter of fiscal year 2016 and the expected benefit payments for unfunded pension and postretirement plans through 2025. These future payments are not recorded on the Condensed Consolidated Balance Sheets but will be recorded when paid.
- (e) At May 31, 2016, we have \$2.5 million and \$91.1 million recorded as a current and a long-term liability, respectively, for uncertain tax positions. We are not able to reasonably estimate the timing of payments, or the amount by which our liability for these uncertain tax positions will increase or decrease over time, and accordingly, this liability has been excluded from the above table.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Foreign Currency Exchange Risks

We transact business in various foreign countries and are, therefore, subject to risk of foreign currency exchange rate fluctuations. We enter into forward contracts to economically hedge transactional exposure associated with

commitments arising from trade accounts receivable, trade accounts payable, intercompany transactions and fixed purchase obligations denominated in a currency other than the functional currency of the respective operating entity. We do not, and do not intend to use derivative financial instruments for speculative purposes. All derivative instruments are recorded on our Condensed Consolidated Balance Sheets at their respective fair values. At May 31, 2016, except for certain foreign currency contracts with a notional amount outstanding of \$245.1 million and a fair value of \$1.4 million recorded in prepaid expenses and other current assets and \$4.9 million recorded in accrued expenses, the forward contracts have not been designated as accounting hedges and, therefore, changes in fair value are recorded within our Condensed Consolidated Statements of Operations.

The aggregate notional amount of outstanding contracts at May 31, 2016 that are not designated as accounting hedges was \$1.3 billion. The fair values of these contracts amounted to a \$3.9 million asset recorded in prepaid expenses and other current assets and a \$10.4 million liability recorded to accrued expenses on our Condensed Consolidated Balance Sheets.

The forward contracts (both those that are designated as accounting hedging instruments and those that are not) will generally expire in less than three months, with six months being the maximum term of the contracts outstanding at May 31, 2016. The change in fair value related to contracts designated as accounting hedging instruments will be reflected in the revenue or expense line in which the underlying transaction occurs within our Condensed Consolidated Statements of Operations. The change in fair value related to contracts not designated as accounting hedging instruments will be reflected in cost of revenue within our Condensed Consolidated Statements of Operations. The forward contracts are denominated in Brazilian reais, British pounds, Chinese yuan renminbi, Euros, Hungarian forints, Indian rupees, Israeli shekel, Japanese yen, Malaysian ringgits, Mexican pesos, Polish zlotys, Russian rubles, South African rand, Swedish krona, Swiss francs, Taiwan dollars and U.S. dollars.



## **Table of Contents**

Based on our overall currency rate exposures as of May 31, 2016, including the derivative financial instruments intended to hedge the nonfunctional currency-denominated monetary assets and liabilities, an immediate 10% hypothetical change of foreign currency exchange rates would not have a material effect on our Condensed Consolidated Financial Statements.

## **Interest Rate Risk**

A portion of our exposure to market risk for changes in interest rates relates to our domestic investment portfolio. We do not, and do not intend to, use derivative financial instruments for speculative purposes. We place cash and cash equivalents with various major financial institutions. We protect our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate these risks by generally investing in investment grade securities and by frequently positioning the portfolio to try to respond appropriately to a reduction in credit rating of any investment issuer, guarantor or depository to levels below the credit ratings dictated by our investment policy. The portfolio typically includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. At May 31, 2016, there were no significant outstanding investments.

During the second quarter of fiscal year 2011, we entered into a series of interest rate swaps with an aggregate notional amount of \$200.0 million designated as fair value hedges of a portion of our 7.750% Senior Notes. Under these interest rate swaps, we received fixed rate interest payments and paid interest at a variable rate based on LIBOR plus a spread. The effect of these swaps was to convert fixed rate interest expense on a portion of the 7.750% Senior Notes to floating rate interest expense. Gains and losses related to changes in the fair value of the interest rate swaps were recorded to interest expense and offset changes in the fair value of the hedged portion of the underlying 7.750% Senior Notes.

During the fourth quarter of fiscal year 2011, we terminated the interest rate swaps entered into in connection with the 7.750% Senior Notes with a fair value of \$12.2 million, including accrued interest of \$0.6 million at August 31, 2011. The portion of the fair value that is not accrued interest is recorded as a hedge accounting adjustment to the carrying amount of the 7.750% Senior Notes and is being amortized as a reduction to interest expense over the remaining term of the 7.750% Senior Notes. At May 31, 2016, the hedge accounting adjustment recorded is \$0.3 million in the Condensed Consolidated Balance Sheets.

During the second quarter of fiscal year 2016, we entered into a series of treasury rate lock transactions to hedge the fixed interest rate payments for an anticipated debt issuance. The treasury rate locks had an aggregate notional amount of \$200.0 million and were designated as hedging instruments and accounted for as cash flow hedges. During the third quarter of fiscal year 2016, we settled the treasury rate locks, which resulted in a positive cash settlement amount of approximately \$0.1 million.

We pay interest on several of our outstanding borrowings at interest rates that fluctuate based upon changes in various base interest rates. There were \$487.5 million in borrowings outstanding under these facilities at May 31, 2016. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 7—Notes Payable, Long-Term Debt and Capital Lease Obligations to the Condensed Consolidated Financial Statements for additional information regarding our outstanding debt obligations. The effect of an immediate hypothetical 10% change in variable interest rates would not have a material effect on our Condensed Consolidated Financial Statements.

## **Item 4. Controls and Procedures**

## **Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act (the Evaluation ), under the supervision and with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15 and 15d-15 under the Exchange Act ( Disclosure Controls ) as of May 31, 2016. Based on the Evaluation, our CEO and CFO concluded that the design and operation of our Disclosure Controls were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to our senior management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

## **Changes in Internal Control over Financial Reporting**

For our fiscal quarter ended May 31, 2016, we did not identify any modifications to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Many of the components of our internal controls over financial reporting are evaluated on an ongoing basis by our finance organization to ensure continued compliance with the Exchange Act. The overall goals of these various evaluation activities are to monitor our internal controls over financial reporting and to modify them as necessary. We intend to maintain our internal controls over financial reporting as dynamic processes and procedures that we adjust as circumstances merit, and we have reached our conclusions set forth above, notwithstanding certain improvements and modifications.

**Table of Contents**

**Limitations on the Effectiveness of Controls and Other Matters**

Our management, including our CEO and CFO, does not expect that our Disclosure Controls and internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls may be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Notwithstanding the foregoing limitations on the effectiveness of controls, we have nonetheless reached the conclusions set forth above on our disclosure controls and procedures and our internal control over financial reporting.

**CEO and CFO Certifications**

Exhibits 31.1 and 31.2 are the Certifications of the CEO and the CFO, respectively. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certifications ). This Item of this report, which you are currently reading contains the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

**Table of Contents**

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are party to certain lawsuits in the ordinary course of business. We do not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors**

As referenced, this Quarterly Report on Form 10-Q includes certain forward-looking statements regarding various matters. The ultimate correctness of those forward-looking statements is dependent upon a number of known and unknown risks and events, and is subject to various uncertainties and other factors that may cause our actual results, performance or achievements to be different from those expressed or implied by those statements. Undue reliance should not be placed on those forward-looking statements. The following important factors, among others, as well as those factors set forth in our other Securities and Exchange Commission ( SEC ) filings from time to time, could affect future results and events, causing results and events to differ materially from those expressed or implied in our forward-looking statements.

**Our operating results may fluctuate due to a number of factors, many of which are beyond our control.**

Our annual and quarterly operating results are affected by a number of factors, including:

adverse changes in current macro-economic conditions, both in the U.S. and internationally;

how well we execute on our strategy and operating plans, and the impact of changes in our business model;

the level and timing of customer orders;

the level of capacity utilization of our manufacturing facilities and associated fixed costs, including instances where we maintain manufacturing facilities and associated fixed costs in anticipation of future customer orders and the actual orders never occur, are at lower than anticipated levels and/or occur later than expected;

the composition of the costs of revenue between materials, labor and manufacturing overhead;

price competition;

changes in demand for our products or services, as well as the volatility of these changes;

changes in demand in our customers' end markets, as well as the volatility of these changes;

our exposure to financially troubled customers;

any potential future termination, or substantial winding down, of significant customer relationships;

our level of experience in manufacturing particular products;

the degree of automation used in our assembly process;

the efficiencies achieved in managing inventories and property, plant and equipment;

significant costs incurred in acquisitions and other transactions that are immediately expensed in the quarter in which they occur;

fluctuations in materials costs and availability of materials;

adverse changes in political conditions, both in the U.S. and internationally, including among other things, adverse changes in tax laws and rates (and government interpretations thereof), adverse changes in trade policies and adverse changes in fiscal and monetary policies;

seasonality in customers' product demand;

the timing of expenditures in anticipation of increased sales, customer product delivery requirements and shortages of components or labor;

changes in stock-based compensation expense due to changes in the expected vesting of performance-based equity awards comprising a portion of such stock-based compensation expense; and

failure to comply with foreign laws, which could result in increased costs and/or taxes.

The volume and timing of orders placed by our customers vary due to variation in demand for our customers' products; our customers' attempts to manage their inventory; product design changes; changes in our customers' manufacturing strategies; and acquisitions of or consolidations among our customers. In addition, our sales associated with consumer related products are subject to



---

**Table of Contents**

seasonal influences. We may realize greater revenue during our first fiscal quarter due to higher demand for consumer related products during the holiday selling season. In the past, changes in customer orders that reduce net revenue have had a significant effect on our results of operations as a result of our overhead remaining relatively fixed while our net revenue decreased. Any one or a combination of these factors could adversely affect our annual and quarterly results of operations in the future. See Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

**Because we depend on a limited number of customers, a reduction in sales to any one of those customers could cause a significant decline in our revenue.**

During the nine months ended May 31, 2016, our five largest customers accounted for approximately 51% of our net revenue and 81 customers accounted for approximately 90% of our net revenue. In some instances, particular manufacturing services we provide for such customers represent a significant portion of the overall revenue we receive from that customer. We currently depend, and expect to continue to depend, upon a relatively small number of customers for a significant percentage of our net revenue and upon their growth, viability and financial stability. We have recently experienced increased dependence and expect this dependence to continue. If any of those customers experiences a decline in the demand (anticipated or unanticipated), which has recently occurred and impacted our second fiscal quarter ended February 29, 2016, our third fiscal quarter ended May 31, 2016 and is expected to impact at least the following fiscal quarter, for one or more of its products due to economic or other forces, it may reduce its purchases from us or terminate its relationship with us. Our customers' industries have experienced rapid technological change, shortening of product life cycles, consolidation, pricing and margin pressures, and the emergence of new business models and shifting patterns of demand. Consolidation among our customers may further reduce the number of customers that generate a significant percentage of our net revenue and exposes us to increased risks relating to dependence on a smaller number of customers. A significant reduction in sales to any of our customers or the exercising by certain customers of pricing and margin pressure on us, which reduction or exercise have occurred in certain instances in the past and which are exacerbated for larger customers, could have a material adverse effect on our results of operations. Also, a deterioration in the payment experience with, or credit quality of, any of our significant customers could have a material adverse effect on our results of operations. In the past, we have incurred certain inventory write-offs and equipment write-offs and some of our customers have terminated their manufacturing arrangements with us or have significantly reduced or delayed the volume of design, production or product management services ordered from us, including moving a portion of their manufacturing from us in order to more fully utilize their excess internal manufacturing capacity, which could happen again in the future. In other cases, we have terminated customer manufacturing arrangements. A terminated customer manufacturing arrangement (whether terminated by the customer or by us) or a reduction in manufacturing services ordered from us can result in one or more of the following adverse effects on our business: a decline in revenue; less revenue to absorb fixed costs and overhead; severance costs; charges for bad debts, inventory write-offs, equipment write-offs and lease write-offs; other potential disengagement costs; a decrease in inventory turns; an increase in days that products remain in inventory and an increase in days that accounts receivable remain outstanding. We often, however, have an indemnification remedy which can mitigate some of these adverse effects if the customer has sufficient funds to satisfy any such indemnification obligation. Some of the risks described above may not only exist with respect to a particular customer, but also with respect to manufacturing services with respect to a particular customer product for larger customers where a significant portion of the overall revenue we receive from such customer relates to such services for such product. Accordingly, if any of our customers' products experiences a decline in demand (anticipated or unanticipated), which has recently occurred and impacted our second fiscal quarter ended February 29, 2016, our third fiscal quarter ended May 31, 2016 and is expected to impact at least the following fiscal quarter, the applicable customer may reduce its purchases from us or terminate its relationship with us. This could have a material adverse effect on our results of operations.

During past economic cycles, our revenue declined as consumers and businesses postponed spending in response to tighter credit, negative financial news, declines in income or asset values or general uncertainty about global economic conditions. These economic conditions had a negative impact on our results of operations and similar conditions may exist in the future. We cannot assure you that present or future customers will not terminate their design, production and product management services arrangements with us or significantly change, reduce or delay the amount of services ordered from us. If they do, such termination, change, reduction or delay could have a material adverse effect on our results of operations. In addition, if one or more of our customers were to become insolvent or otherwise were unable to pay for the services provided by us on a timely basis, or at all, our operating results and financial condition could be adversely affected. Also, our operating results and financial condition could be adversely affected by the potential recovery by the bankruptcy estate of amounts previously paid to us by a customer that later became insolvent. Such adverse effects could include one or more of the following: a decline in revenue, less revenue to absorb fixed costs and overhead, a charge for bad debts, a charge for inventory write-offs, a charge for equipment write-offs, a charge for lease write-offs, a decrease in inventory turns, an increase in days that products remain in inventory and an increase in days in which accounts receivable remain outstanding.

Certain of the industries to which we provide services have experienced significant financial difficulty during the recent recession, with some of the participants filing for bankruptcy. Such significant financial difficulty has negatively affected our business



**Table of Contents**

and, if further experienced by one or more of our customers, may further negatively affect our business due to the decreased demand of these financially distressed customers, the potential inability of these companies to make full payment on amounts owed to us, or both. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors. We face certain risks in collecting our trade accounts receivable.

**Our customers face numerous competitive challenges, such as decreasing demand from their customers, rapid technological change and short life cycles for their products, which may materially adversely affect their business, and also ours.**

Factors affecting the industries that utilize our services in general, and our customers specifically, could seriously harm our customers and, as a result, us. These factors include:

recessionary periods in our customers' markets, as well as in the global economy in general;

the inability of our customers to adapt to rapidly changing technology and evolving industry standards, which may contribute to short product life cycles or shifts in our customers' strategies;

the inability of our customers to develop and market their products, some of which are new and untested;

the potential that our customers' products become commoditized or obsolete;

the failure of our customers' products to gain widespread commercial acceptance;

increased competition among our customers and their respective competitors which may result in a loss of business or a reduction in pricing power for our customers;

the emergence of new business models and shifting patterns of demand; and

new product offerings by our customers' competitors may prove to be more successful than our customers' product offerings.

Also, our Diversified Manufacturing Services ( DMS ) segment is highly dependent on the consumer products industry. This business is very competitive (both for us and our customers) and often subject to shorter product lifecycles, shifting end-user preferences, higher revenue volatility and programs that may be shifted among competitors in our industry that may impact customer orders thus reducing net revenue and our ability to cover fixed costs. As a result, these risks heighten our exposure to this end market which could adversely affect our results of operations.

At times our customers have been, and may be in the future, unsuccessful in addressing these competitive challenges, or any others that they may face, and their business has been, and may be in the future, materially adversely affected. As a result, the demand for our services has at times declined and may decline in the future. Even if our customers are

successful in responding to these challenges, their responses may have consequences which affect our business relationships with our customers (and possibly our results of operations) by altering our production cycles and inventory management. During the fiscal quarter ended May 31, 2016, we experienced less than anticipated product demand within our DMS segment, which impacted our third fiscal quarter and is expected to impact at least the following fiscal quarter.

**The success of our business is dependent on both our ability to independently keep pace with technological changes and competitive conditions in our industry, and also our ability to effectively adapt our services in response to our customers keeping pace with technological changes and competitive conditions in their respective industries.**

If we are unable to offer technologically advanced, cost effective, quick response manufacturing services that are differentiated from our competition, demand for our services will decline. In addition, if we are unable to offer services in response to our customers' changing requirements, then demand for our services will also decline. A substantial portion of our net revenue is derived from our offering of complete service solutions for our customers. For example, if we fail to maintain high-quality design and engineering services, our net revenue may significantly decline.

**Consolidation in industries that utilize our services may adversely affect our business.**

Increasing consolidation in industries that utilize our services may occur as companies combine to achieve further economies of scale and other synergies, which could result in an increase in excess manufacturing capacity as companies seek to divest manufacturing operations or eliminate duplicative product lines. Excess manufacturing capacity may increase pricing and competitive pressures for our industry as a whole and for us in particular. Consolidation could also result in an increasing number of very large companies offering products in multiple industries. The significant purchasing power and market power of these large companies could increase pricing and competitive pressures for us. If one of our customers is acquired by another company that does not rely on us to provide services and has its own production facilities or relies on another provider of similar services, we may lose that customer's business. Such consolidation among our customers may further reduce the number of customers that generate a significant percentage of our net revenue and expose us to increased risks relating to dependence on a small number of customers. Any of the foregoing results of industry consolidation could adversely affect our business.

**Table of Contents**

**Most of our customers do not commit to long-term production schedules, which makes it difficult for us to schedule production and capital expenditures, and to maximize the efficiency of our manufacturing capacity.**

The volume and timing of sales to our customers may vary due to:

variation in demand for our customers' products;

our customers' attempts to manage their inventory;

product design changes;

changes in our customers' manufacturing strategy;

customer requirements to relocate our manufacturing operations or to transfer our manufacturing from one facility to another; and

acquisitions of or consolidations among customers.

Due in part to these factors, most of our customers do not commit to firm production schedules for more than one quarter. Our inability to forecast the level of customer orders for a customer's products with certainty makes it difficult to schedule production and maximize utilization of manufacturing capacity. In the past, we have been required to increase staffing and other expenses in order to meet the anticipated demand of our customers or a customer's specific product. Anticipated orders from many of our customers have, in the past, failed to materialize, delivery schedules have been deferred or production has unexpectedly decreased, slowed down or stopped as a result of changes in our customers' business needs, thereby adversely affecting our results of operations. On other occasions, our customers have required rapid increases in production, which have placed an excessive burden on our resources. Such customer order fluctuations and deferrals have had a material adverse effect on us in the past and we may experience such effects in the future. See Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition to our difficulty in forecasting customer orders, we sometimes experience difficulty forecasting the timing of our receipt of revenue and earnings following commencement of providing manufacturing services for an additional product for new or existing customers. The necessary process to begin this commencement of manufacturing can take from several months to more than a year before production begins. Delays in the completion of this process can delay the timing of our sales and related earnings. In addition, because we make capital expenditures during this ramping process and do not typically recognize revenue until after we produce and ship the customer's products, any delays or unanticipated costs in the ramping process may have a significant adverse effect on our cash flows and our results of operations, particularly when our contractual or legal remedies are insufficient to avoid or mitigate such unanticipated costs which can be exacerbated with large customers. These difficulties can be exacerbated when providing services for a specific customer product from which we generate a significant amount of our revenue, and that customer experiences less than anticipated demand such as we believe happened with one of our significant customers during this quarter, which impacted our second and third fiscal quarters and is expected to impact at least the following fiscal quarter. An increasing portion of our revenues have come from our largest customer, and servicing that customer requires an increased level of capital expenditures by us. See Risk Factors Because we depend on a limited number

of customers, a reduction in sales to any one of those customers could cause a significant decline in our revenue.

**Our customers may cancel their orders, change production quantities, delay production or change their sourcing strategy.**

Our industry must provide increasingly rapid product turnaround for its customers. We generally do not obtain firm, long-term purchase commitments from our customers for any of their products and we continue to experience reduced lead-times in customer orders. Customers have previously canceled their orders, changed production quantities, delayed production and changed their sourcing strategy for a number of reasons with respect to one or more of their products, and may take one or more of these actions again in the future. Such changes, delays and cancellations have led to, and may lead in the future to a decline in our production and our possession of excess or obsolete inventory that we may not be able to sell to customers or third parties. This has resulted in, and could result in, future additional write downs of inventories that have become obsolete or exceed anticipated demand or net realizable value. Although we attempt to negotiate contractual language with our customers to avoid or mitigate these risks, they may be exacerbated when the inventory is for a specific product that represents a significant amount of our revenue.

The success of one or more of our customers' products in the market affects our business. Cancellations, reductions, delays or changes in sourcing strategy with respect to one or more significant products by a significant customer or by a group of customers have negatively impacted, and could further negatively impact in the future, our operating results by reducing the number of products that we sell, delaying the payment to us for inventory that we purchased and reducing the use of our manufacturing facilities which have associated fixed costs not dependent on our level of revenue.

In addition, we make significant decisions, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimate of

## **Table of Contents**

customer requirements for one or more of their products. The following factors, among others, reduce our ability to accurately estimate future customer requirements, forecast operating results and make production planning decisions: the short-term nature of our customers' commitments for us to build their products; their uncertainty about, among other things, future economic conditions and other events, such as natural disasters; and the possibility of rapid changes in demand for one or more of their products.

On occasion, customers may require rapid increases in production for one or more of their products, which can stress our resources and reduce operating margins. In addition, because many of our costs and operating expenses are relatively fixed, a reduction in customer demand, particularly a reduction in demand for any particular customer product that represents a significant amount of our revenue, can harm our gross profit and operating results.

**We depend on a limited number of suppliers for components that are critical to our manufacturing processes. A shortage of these components or an increase in their price could interrupt our operations and reduce our profit, increase our inventory carrying costs, increase our risk of exposure to inventory obsolescence and cause us to purchase components of a lesser quality.**

Most of our significant long-term customer contracts permit quarterly or other periodic adjustments to pricing based on decreases and increases in component prices and other factors; however, we typically bear the risk of component price increases that occur between any such re-pricings or, if such re-pricing is not permitted, during the balance of the term of the particular customer contract. Accordingly, certain component price increases could adversely affect our gross profit margins.

Almost all of the products we manufacture require one or more components that are only available from a single source. Some of these components are allocated from time to time in response to supply shortages. In some cases, supply shortages will substantially curtail production of all assemblies using a particular component. A supply shortage can also increase our cost of goods sold, as a result of our having to pay higher prices for components in limited supply, and cause us to have to redesign or reconfigure products to accommodate a substitute component. At various times industry-wide shortages of electronic components have occurred, particularly of semiconductor, relay and capacitor products. We believe these past shortages were due to increased economic activity following recessionary conditions. In addition, natural disasters and global events could cause material shortages. In the past, such circumstances have produced insignificant levels of short-term interruption of our operations, but could have a material adverse effect on our results of operations in the future. Portions of the Dodd-Frank Act require some companies, including ours, to conduct due diligence, make disclosures and file reports regarding the source of certain minerals that may be contained in their products that are originating from the Democratic Republic of Congo ( DRC ) and adjoining countries. These requirements may decrease the supply of such minerals, increase their cost and/or disrupt our supply chain if we decide, or are instructed by our customers, to obtain components from different suppliers.

Our production of a customer's product could be negatively impacted by any quality, reliability or availability issues with any of our component suppliers. The financial condition of our suppliers could affect their ability to supply us with components and their ability to satisfy any warranty obligations they may have, which could have a material adverse effect on our operations.

If a component shortage is threatened or we anticipate one, we may purchase such component early to avoid a delay or interruption in our operations. A possible result of such an early purchase is that we may incur additional inventory carrying costs, for which we may not be compensated, and have a heightened risk of exposure to inventory obsolescence, the cost of which may not be recoverable from our customers. Such costs would adversely affect our gross profit and net income. A component shortage may also require us to look to second tier vendors or to procure

components through brokers with whom we are not familiar. These components may be of lesser quality than those we have historically purchased and could cause us to incur costs to bring such components up to our typical quality levels or to replace defective ones. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Business Components Procurement.

**Introducing new business models or programs requiring implementation of new competencies, such as new process technologies and our development of new products or services for customers, could affect our operations and financial results.**

The introduction of new business models or programs requiring implementation or development of new competencies, such as new process technology within our operations and our independent development of new products or services for customers, presents challenges in addition to opportunities. The success of new business models or programs depends on a number of factors including, but not limited to, a sufficient understanding of the new business or markets, timely and successful product development (by us and/or our customer), market acceptance, our ability to manage the risks associated with new product production ramp-up, the effective management of purchase commitments and inventory levels in line with anticipated product demand, our development or acquisition of appropriate intellectual property, the availability of supplies in adequate quantities and at appropriate costs to meet anticipated demand, and the risk that new products may have quality or other defects in the early stages of introduction. Accordingly, we cannot determine in advance the ultimate result of new business models or programs.

---

**Table of Contents**

As a result, we must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our assumptions will accurately reflect customer demand for our services. After the development of a new business model or program, we must be able to manufacture appropriate volumes quickly and at low cost. To accomplish this, we endeavor to accurately forecast volumes, mixes of products and configurations that meet customer requirements; however, we may not succeed at doing so. Any delay in development or production could harm our competitive position. We may not meet our customers' expectations or otherwise execute properly, timely, or in a cost-efficient manner, which could damage our customer relationships and result in remedial costs or the loss of our invested capital and anticipated revenues and profits. In addition, the early stages of these types of new business models or programs can be less efficient, and less profitable, than those of mature programs and/or programs developed in collaboration with customers who have experience with outsourcing. Also, restrictions imposed by certain customers prevent us from fully pursuing other business in such customers' industries or other business that would compete with such customers' products or technologies.

While we attempt to negotiate contractual terms to avoid or mitigate some of these potential costs or losses, we are not always successful. Also, in certain instances, a customer contract does not exist or its language does not cover a particular situation, so we have to rely on non-contractual legal remedies. In these situations, we must negotiate a manner to address the situation as costs or losses occur which carries with it the potential risk to lose customers and/or revenue. In addition, as we have experienced on occasion, there are risks of market acceptance and product performance that could result in less demand than anticipated and our having excess capacity, which could lead to significant unrecovered costs for us. The failure to ensure that our agreed terms appropriately reflect the anticipated costs, risks, and rewards of such an opportunity could adversely affect our profitability.

**Customer relationships with emerging companies may present more risks than with established companies.**

Customer relationships with emerging companies, an area of increasing activity for us, present special risks because such companies do not have an extensive product history. As a result, there is less demonstration of market acceptance of their products making it harder for us to anticipate needs and requirements than with established customers. In addition, due to their relatively recent entrance into the commercial market, additional funding for such companies may be more difficult to obtain and these customer relationships may not continue or materialize to the extent we planned or we previously experienced. As a result of many start-up customers' lack of prior operations and unproven product markets, our credit risk, especially in trade accounts receivable and inventories, and the risk that these customers will be unable to fulfill their potentially significant obligation to indemnify us from various liabilities are potentially increased. We sometimes offer these customers extended payment terms, loans, services and other support that may increase our financial exposure. These risks are also heightened by the tightening of financing for start-up customers. Although we perform ongoing credit evaluations of our customers and adjust our allowance for doubtful accounts receivable for all customers, including start-up customers, based on the information available for review, these allowances may not be adequate. This risk may exist for any new emerging company customers in the future. Also, as a result of, among other things, these emerging companies tending to be smaller and less financially secure, we have faced and may face in the future increased litigation risk from these companies.

In addition, we have been investing directly in certain of these emerging company customers which, along with extended payment terms, loans, other financial accommodations such as not requiring customers to cover certain costs that we typically require customers to pay, for services and other support we may provide, may exacerbate the risks described in this Risk Factor. Risks related to these investments may also include one or more of the following: substantial selling, general and administrative expenses; substantial capital expenses or investments; losses or impairments that may be reflected in our net income item of our Statement of Operations; and an inability to recover a partial or full amount of any investments we make in these smaller, emerging companies.

**We compete with numerous other diversified manufacturing service providers, electronic manufacturing services and design providers and others.**

Our business is highly competitive. We compete against numerous domestic and foreign electronic manufacturing service providers and design providers, including Benchmark Electronics, Inc., Celestica Inc., Flextronics International Ltd., Hon-Hai Precision Industry Co., Ltd., Plexus Corp. and Sanmina Corporation. Our diversified manufacturing services segment competes against numerous domestic and foreign providers, including AptarGroup, Inc., Berry Plastics Group, Inc., Catcher Technology Co., Ltd., Gerresheimer AG, Quanta Computer, Inc. and Zeniya Aluminum Engineering, Ltd. In addition, past consolidation in our industry has resulted in larger and more geographically diverse competitors who have significant combined resources with which to compete against us. Also, we may in the future encounter competition from other large electronic manufacturers, and manufacturers that are focused solely on design and manufacturing services, that are selling, or may begin to sell diversified manufacturing services or electronic manufacturing services. Most of our competitors have international operations and significant financial resources and some have substantially greater manufacturing, research and development (R&D) and marketing resources than we have. These competitors may:

respond more quickly to new or emerging technologies;



**Table of Contents**

have technological expertise, engineering capabilities and/or manufacturing processes that are greater than ours;

have greater name recognition, critical mass and geographic market presence;

be better able to take advantage of acquisition opportunities;

adapt more quickly to changes in customer requirements;

devote greater resources to the development, promotion and sale of their services;

be better positioned to compete on price for their services, as a result of any combination of lower labor costs, lower components costs, lower facilities costs, lower operating costs or lower taxes; and

have excess capacity, and be better able to utilize such excess capacity, which may reduce the cost of their product or service.

We also face competition from the manufacturing operations of our current and potential customers, who are continually evaluating the merits of manufacturing products internally against the advantages of outsourcing. In the past, some of our customers moved a portion of their manufacturing from us in order to more fully utilize their excess internal manufacturing capacity.

We may be operating at a cost disadvantage compared to competitors who (a) have greater direct buying power from component suppliers, distributors and raw material suppliers, (b) have lower cost structures as a result of their geographic location or the services they provide, (c) are willing to make sales or provide services at lower margins than we do (including relationships where our competitors are willing to accept a lower margin from certain of their customers for whom they perform other higher margin business) or (d) have increased their vertical capabilities, thereby potentially providing them greater cost savings. As a result, competitors may procure a competitive advantage and obtain business from our customers. Our manufacturing processes are generally not subject to significant proprietary protection. In addition, companies with greater resources or a greater market presence may enter our market or increase their competition with us. We also expect our competitors to continue to improve the performance of their current products or services, to reduce the sales prices of their current products or services and to introduce new products or services that may offer greater performance and improved pricing. In addition, due to the price sensitive nature of our industry, business that we acquire or maintain may have lower margins than our historical or target margins. Any of these developments could cause a decline in our sales, loss of market acceptance of our products or services, compression of our profits or loss of our market share.

**The financial markets have experienced significant turmoil, which may adversely affect financial arrangements we may need to enter into, refinance or repay.**

Credit market turmoil could negatively impact the counterparties to our forward foreign exchange contracts and trade accounts receivable securitization and sale programs; the lenders under Jabil Circuit, Inc.'s (the Company's) five year unsecured credit facility amended as of July 6, 2015 which provides for a revolving credit facility (the Revolving Credit Facility) and a five year delayed draw term loan facility (the Term Loan Facility) and, together with the Revolving Credit Facility, the Credit Facility); and the lenders under various of our foreign subsidiary credit facilities. These potential negative impacts could potentially limit our ability to borrow under these financing agreements, contracts, facilities and programs. In addition, if we do not comply with the covenants under our credit agreement, our ability to borrow under the Revolving Credit Facility would be adversely affected. In addition, if we attempt to obtain future additional financing, such as renewing or refinancing our \$200.0 million North American asset-backed securitization program expiring on October 20, 2017, our \$275.0 million foreign asset-backed securitization program (amended to increase the facility limit from \$175.0 million to \$275.0 million, effective May 20, 2016) expiring on May 1, 2018, our \$650.0 million uncommitted trade accounts receivable sale program expiring on November 1, 2016 (though either party can elect to terminate the agreement upon 15 days prior notice and the agreement will be automatically extended each year through August 31, 2017 unless any party gives no less than 30 days prior notice that the agreement should not be extended), our \$150.0 million uncommitted trade accounts receivable sale program subject to expiration on August 31, 2016, our \$100.0 million uncommitted trade accounts receivable program expiring on November 1, 2016 (though either party can elect to cancel the agreement by giving prior written notification to the other party of no less than 15 days and the agreement may be automatically extended each year through November 1, 2018, unless any party gives no less than 30 days prior notice that the agreement should not be extended), the effects of the credit market turmoil could negatively impact our ability to renew or obtain such financing. Finally, credit market turmoil has negatively impacted certain of our customers and certain of their respective customers. These impacts could have several consequences which could have a negative effect on our results of operations, including one or more of the following: a negative impact on our liquidity, including potentially insufficient cash flows to support our operations; a decrease in demand for our services; a decrease in demand for our customers' products; and bad debt charges or inventory write-offs.

**Our business could be adversely affected by any delays, or increased costs, resulting from issues that our common carriers are dealing with in transporting our materials, our products, or both.**

We rely on a variety of common carriers to transport our materials from our suppliers to us, and to transport our products from us to our customers. Problems suffered by any of these common carriers, whether due to a natural disaster, labor problem, increased

---

**Table of Contents**

energy prices, criminal activity or some other issue, could result in shipping delays in both our products and receiving delays of raw materials, increased costs, or other supply chain disruptions, and could therefore have a negative impact on our ability to deliver products to customers on a competitive and timely basis and a material adverse effect on our operations.

**We derive a majority of our revenue from our international operations, which may be subject to a number of risks and often require more management time and expense to achieve profitability than our domestic operations.**

We derived 90.4% and 91.0% of net revenue from international operations during the three months and nine months ended May 31, 2016, respectively, compared to 86.6% and 87.1% during the three months and nine months ended May 31, 2015, respectively. At May 31, 2016, we operate outside the U.S. in Vienna, Austria; Hasselt, Belgium; Belo Horizonte and Manaus, Brazil; Ottawa, Canada; Beijing, Chengdu, Hong Kong, Huangpu, Huizhou, Nanjing, Shanghai, Shenzhen, Suzhou, Tianjin, Wuhan, Wuxi, Yantai and Zhejiang, China; Kankaanpaa and Tampere, Finland; Brest and Chartres, France; Jena and Knittlingen, Germany; Nagyigmánd, Szombathely and Tiszaujvaros, Hungary; Mumbai, Pune and Ranjangaon, India; Bray and Waterford, Ireland; Misgav, Tel Aviv and Yokneam, Israel; Marcianise, Italy; Gotemba and Hachioji, Japan; Penang, Malaysia; Chihuahua, Guadalajara and Tijuana, Mexico; Kwidzyn, Poland; Moscow and Tver, Russia; Ayr and Livingston, Scotland; Tampines, Singapore; Johannesburg, South Africa; Seoul, South Korea; Tortosa, Spain; Changhua, Hsinchu, Taichung City and Taipei, Taiwan; Venray, The Netherlands; Uzhgorod, Ukraine; and Ho Chi Minh City, Vietnam. We continually consider additional opportunities to make foreign acquisitions and construct and open new foreign facilities. Our international operations are, have been and may be subject to a number of risks, including:

difficulties in staffing and managing foreign operations and attempting to ensure they comply with our policies, procedures, and applicable local laws;

less flexible employee relationships that can be difficult and expensive to terminate due to, among other potential reasons, burdensome labor laws and regulations;

rising labor costs (including the introduction or expansion of certain social programs), in particular within the lower-cost regions in which we operate, due to, among other things, demographic changes and economic development in those regions, which we may be unable to recover in our pricing to our customers;

labor unrest and dissatisfaction, including potential labor strikes or claims;

increased scrutiny by the media and other third parties of labor practices within our industry (including but not limited to working conditions, compliance with employment and labor laws and compensation) which may result in allegations of violations, more stringent and burdensome labor laws and regulations, increased strictness and inconsistency in the enforcement and interpretation of such laws and regulations, higher labor costs, and/or loss of revenues if our customers become dissatisfied with our labor practices and diminish or terminate their relationship with us;

burdens of complying with a wide variety of foreign laws, including those relating to export and import duties, domestic and foreign import and export controls (including the International Traffic in Arms Regulations and the Export Administration Regulations (EAR)), regulation by the United States Department of Commerce's Bureau of Industry and Security under the EAR), trade barriers (including tariffs and quotas), environmental policies and privacy issues, and local statutory corporate governance related to conducting business in foreign jurisdictions;

less favorable, or relatively undefined, intellectual property laws;

unexpected changes in regulatory requirements and laws or government or judicial interpretations of such regulatory requirements and laws and adverse trade policies, and adverse changes to any of the policies of either the U.S. or any of the foreign jurisdictions in which we operate;

adverse changes in tax rates and the manner in which the U.S. and other countries tax multinational companies or interpret their tax laws (see Risk Factors We are subject to the risk of increased taxes );

inability to utilize net operating losses incurred by our foreign operations against future income in the same jurisdiction;

political and economic instability and unsafe working conditions (including acts of terrorism, widespread criminal activities, outbreaks of war and regime or political leadership changes that may be detrimental to business in general or our industry in particular);

risk of governmental expropriation of our property;

inadequate infrastructure for our operations (e.g., lack of adequate power, water, transportation and raw materials);

legal or political constraints on our ability to maintain or increase prices;

governmental restrictions on the transfer of funds to us from our operations outside the U.S.;

health concerns and related government actions;

coordinating our communications and logistics across geographic distances and multiple time zones;

---

**Table of Contents**

longer customer payment cycles and difficulty collecting trade accounts receivable;

fluctuations in currency exchange rates, which could affect local payroll and other expenses (see Risk Factors – We are subject to risks of currency fluctuations and related hedging operations ); and

economies that are emerging or developing or that may be subject to greater currency volatility, negative growth, high inflation, limited availability of foreign exchange and other risks.

These factors may harm our results of operations. Also, any measures that we may implement to reduce risks of our international operations may not be effective, may increase our expenses, and may require significant management time and effort. In our experience, entry into new international markets requires considerable management time as well as start-up expenses for market development, hiring and establishing facilities before any significant revenue is generated. As a result, initial operations in a new market may operate at low margins or may be unprofitable.

Another significant legal risk resulting from our international operations is the risk of non-compliance with the U.S. Foreign Corrupt Practices Act (the FCPA ) and the United Kingdom Bribery Act (the ACT ). In many foreign countries, particularly in those with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA, the ACT or other U.S. or foreign laws and regulations. Although we have implemented policies and procedures designed to cause compliance with the FCPA, the ACT and similar laws, there can be no assurance that all of our employees and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our operations.

**If we do not manage our growth effectively, our profitability could decline.**

Areas of our business at times experience periods of rapid growth which can place considerable additional demands upon our management team and our operational, financial and management information systems. Our ability to manage growth effectively requires us to continue to implement and improve these systems; avoid cost overruns; maintain customer, supplier and other favorable business relationships during possible transition periods; efficiently and effectively dedicate resources to existing customers; acquire or construct additional facilities; occasionally transfer operations to different facilities; acquire equipment in anticipation of demand; continue to develop the management skills of our managers and supervisors; adapt relatively quickly to new markets or technologies and continue to train, motivate and manage our employees. Our failure to effectively manage growth, as well as our failure to realize the anticipated benefits of the actions we take to try to manage our growth, could have a material adverse effect on our results of operations. See Management’s Discussion and Analysis of Financial Condition and Results of Operations.

**We have on occasion not achieved, and may not in the future achieve, expected profitability from our acquisitions; and some divestitures may adversely affect our financial condition, results of operations or cash flows.**

We cannot assure you that we will be able to successfully integrate the operations and management of our recent acquisitions. Similarly, we cannot assure you that we will be able to (1) identify future strategic acquisitions and adequately conduct due diligence, (2) consummate these potential acquisitions on favorable terms, if at all, or (3) if consummated, successfully integrate the operations and management of future acquisitions. Acquisitions involve significant risks, which could have a material adverse effect on us including:

Financial risks, such as (1) the payment of a purchase price that exceeds the future value that we may realize from the acquired operations and businesses; (2) an increase in our expenses and working capital requirements, which could reduce our return on invested capital; (3) potential known and unknown liabilities of the acquired businesses, as well as contractually-based time and monetary limitations on a seller's obligation to indemnify us for such liabilities; (4) costs associated with integrating acquired operations and businesses; (5) the dilutive effect of the issuance of any additional equity securities we issue as consideration for, or to finance, the acquisition; (6) the incurrence of additional debt; (7) the financial impact of incorrectly valuing goodwill and other intangible assets involved in any acquisitions, potential future impairment write-downs of goodwill and indefinite life intangibles and the amortization of other intangible assets; (8) possible adverse tax and accounting effects; and (9) the risk that we spend substantial amounts purchasing these manufacturing facilities and assume significant contractual and other obligations with no guaranteed levels of revenue or that we may have to close or sell acquired facilities at our cost, which may include substantial employee severance costs and asset write-offs, which have resulted, and may result, in our incurring significant losses.

Operating risks, such as (1) the diversion of management's attention and resources to the assimilation of the acquired businesses and their employees and to the management of expanding operations; (2) the risk that the acquired businesses will fail to maintain the quality of services that we have historically provided; (3) the need to implement financial and other systems and add management resources; (4) the need to maintain customer, supplier or other favorable business relationships of acquired operations and restructure or terminate unfavorable relationships; (5) the potential for deficiencies in internal controls of the acquired operations; (6) the inability to attract and retain the employees necessary to support the

**Table of Contents**

acquired businesses; (7) potential inexperience in a line of business that is either new to us or that has become materially more significant to us as a result of the transaction; (8) unforeseen difficulties (including any unanticipated liabilities) in the acquired operations; (9) the impact on us of any unionized work force we may acquire or any labor disruptions that might occur; (10) the possibility that the acquired business's past transactions or practices before our acquisition may lead to future commercial or regulatory risks; and (11) the difficulty of presenting a unified corporate image.

Although we conduct what we believe to be a prudent level of due diligence regarding the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual condition of these businesses. Until we actually assume operating control of such businesses and their assets and operations, we may not be able to ascertain the actual value or understand the potential liabilities of the acquired entities and their operations.

In addition, divestitures involve significant risks (some of which were present in the sale of our Aftermarket Services (AMS) business on April 1, 2014), which could have a material adverse effect on us including: we may not be able to identify acceptable buyers; we may divest a business at a price or on terms that are different than anticipated; we may lose key employees; divestitures could adversely affect our profitability and, under certain circumstances, require us to record impairment charges or a loss as a result of the transaction; completing divestitures requires expenses and management effort; we may become subject to indemnity obligations and/or remain liable or contingently liable for obligations related to the divested business or operations; a delay or failure to close for any reason, including a failure to obtain the necessary third party consents and regulatory approvals; the retention of certain continuing liabilities under contracts; financing for the transaction not occurring as anticipated; equity consideration proving to have a value substantially less than the stated or expected value or not being transferable to a third party on attractive terms; covenants not to compete (such as we entered into in connection with the sale of our AMS business) could impair our ability to attract and retain customers; business arrangements with the buyers could negatively impact our business with common customers; and we may face difficulties in the separation of the divested operations, services, products and personnel.

Most of our acquisitions involve operations outside of the U.S. which are subject to various risks including those described in Risk Factors. We derive a majority of our revenue from our international operations, which may be subject to a number of risks and often require more management time and expense to achieve profitability than our domestic operations.

We have acquired and may continue to pursue the acquisition of manufacturing and supply chain management operations from our customers (or potential customers). In these acquisitions, the divesting company will typically enter into a supply arrangement with the acquirer. Therefore, our competitors often also pursue these acquisitions. In addition, certain divesting companies may choose not to offer to sell their operations to us because of our current supply arrangements with other companies or may require terms and conditions that may impact our profitability. If we are unable to attract and consummate some of these acquisition opportunities at favorable terms, our growth and profitability could be adversely impacted.

In addition to those risks listed above, arrangements entered into with these divesting companies typically involve certain other risks, including the following:

the integration into our business of the acquired assets and facilities may be time-consuming and costly;

we, rather than the divesting company, may bear the risk of excess capacity;

we may not achieve anticipated cost reductions and efficiencies;

we may be unable to meet the expectations of the divesting company as to volume, product quality, timeliness, pricing requirements and cost reductions; and

if demand for the divesting company's products declines, it may reduce its volume of purchases and we may not be able to sufficiently reduce the expenses of operating the facility we acquired from it or use such facility to provide services to other customers.

In addition, when acquiring manufacturing operations, we may receive limited commitments to firm production schedules. Accordingly, in these circumstances, we may spend substantial amounts purchasing these manufacturing facilities and assume significant contractual and other obligations with no or insufficient guaranteed levels of revenue. We may also not achieve expected profitability from these arrangements. As a result of these and other risks, these outsourcing opportunities may not be profitable.

We have expanded the primary scope of our acquisitions strategy beyond focusing on acquisition opportunities presented by companies divesting internal manufacturing operations. The more recent acquisitions focus on pursuing opportunities to acquire businesses that are focused on certain of our key growth areas which include specialized manufacturing, design operations and other acquisition opportunities complementary to our services offerings. The primary goals of our acquisition strategy are to complement our current capabilities, diversify our business into new industry sectors and with new customers and expand the scope of the services we can offer to our customers. The amount and scope of the risks associated with acquisitions of this type extend beyond those that we have traditionally faced in making acquisitions. These extended risks include greater uncertainties in the financial benefits and potential liabilities associated with this expanded base of acquisitions.



**Table of Contents**

**We face risks arising from the restructuring of our operations.**

Over the past few years, we have undertaken initiatives to restructure our business operations with the intention of improving utilization and realizing cost savings in the future. These initiatives have included changing the number and location of our production facilities, largely to align our capacity and infrastructure with current and anticipated customer demand. This alignment includes transferring programs from higher cost geographies to lower cost geographies. The process of restructuring entails, among other activities, moving production between facilities, closing facilities, reducing the level of staff, realigning our business processes and reorganizing our management.

We continuously evaluate our operations and cost structure relative to general economic conditions, market and customer demands, tax rates, cost competitiveness and our geographic footprint as it relates to our customers production requirements. As a result of this ongoing evaluation, we initiated restructuring plans approved by our Board of Directors in fiscal year 2014 (the 2014 Restructuring Plan ) and in fiscal year 2013 (the 2013 Restructuring Plan ). See Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations The Three Months And Nine Months Ended May 31, 2016 Compared to the Three Months And Nine Months Ended May 31, 2015 and Note 13 Restructuring and Related Charges to the Condensed Consolidated Financial Statements for further details. In addition, we could initiate future restructuring plans. If we incur restructuring charges related to the 2013 Restructuring Plan, or in connection with any potential future restructuring program, in addition to those charges that we currently expect to incur, our financial condition and results of operations may suffer.

Restructurings present significant potential risks of events occurring that could adversely affect us, including a decrease in employee morale, delays encountered in finalizing the scope of, and implementing, the restructurings (including extensive consultations concerning potential workforce reductions and obtaining agreements from our affected customers for the relocation of our facilities in certain instances), the failure to achieve targeted cost savings, the failure to meet operational targets and customer requirements due to the loss of employees and any work stoppages that might occur and the strain placed on our financial and management control systems and resources. These risks are further complicated by our extensive international operations, which subject us to different legal and regulatory requirements that govern the extent and speed of our ability to reduce our manufacturing capacity and workforce. In addition, the current global economic conditions may change how governments regulate restructuring as the recent global recession has impacted local economies. Finally, we may have to obtain agreements from our affected customers for the relocation of our facilities in certain instances. Obtaining these agreements, along with the volatility in our customers' demand, can further delay restructuring activities.

**We may not be able to maintain our engineering, technological and manufacturing process expertise.**

Many of the markets for our manufacturing and engineering services are characterized by rapidly changing technology and evolving process development. The continued success of our business will depend upon our ability to:

hire, retain and expand our qualified engineering and technical personnel;

maintain and continually improve our technological expertise;

develop and market manufacturing services that meet changing customer needs; and

successfully anticipate or respond to technological changes in manufacturing processes on a cost-effective and timely basis.

Although we believe that our operations use the assembly and testing technologies, equipment and processes that are currently required by our customers, we cannot be certain that we will maintain or develop the capabilities required by our customers in the future. The emergence of new technology, industry standards or customer requirements may render our equipment, inventory or processes obsolete or noncompetitive. In addition, we may have to acquire new assembly and testing technologies and equipment to remain competitive. The acquisition and implementation of new technologies and equipment and the offering of new or additional services to our customers may require significant expense or capital investment, which could reduce our operating margins and our operating results. In facilities that we establish or acquire, we may not be able to establish and maintain our engineering, technological and manufacturing process expertise. Our failure to anticipate and adapt to our customers' changing technological needs and requirements or to hire and retain a sufficient number of engineers and maintain our engineering, technological and manufacturing expertise could have a material adverse effect on our operations.

---

**Table of Contents**

**We and our customers are subject to increasingly extensive government regulations and industry standards; a failure to comply with current and future regulations and standards could have an adverse effect on our business, customer relationships, reputation and profitability.**

We are subject to extensive government regulation and industry standards relating to the products we design and manufacture as well as how we conduct our business, including regulations and standards relating to labor and employment practices, workplace health and safety, the environment, sourcing and import/export practices, the market sectors we support and many other facets of our operations. The regulatory climate in the U.S. and other countries has become increasingly complex and fragmented, and regulatory activity has increased in recent periods. Failure or noncompliance with such regulations or standards could have an adverse effect on our reputation, customer relationships, profitability and results of operations.

Our customers are also required to comply with various government regulations, legal requirements and industry standards, including many of the industry-specific regulations discussed above. Our customers' failure to comply could affect their businesses, which in turn would affect our sales to them. In addition, if our customers are required by regulation or other requirements to make changes in their product lines, these changes could significantly disrupt particular programs for these customers and create inefficiencies in our business.

In addition to quality management standards, there are several other U.S. regulations that we are also required to follow, including the Federal Acquisition Regulations ( FAR ), which provides uniform policies and procedures for acquisition; the Defense Federal Acquisition Regulation Supplement, a Department of Defense ( DOD ) agency supplement to the FAR that provides DOD-specific acquisition regulations that DOD government acquisition officials, and those contractors doing business with DOD, must follow in the procurement process for goods and services; and the Truth in Negotiations Act, which is a law enacted for the purpose of providing for full and fair disclosure by contractors in the conduct of negotiations with the government.

We have addressed several other specific laws and regulations within various risk factors elsewhere in this section.

**If our manufacturing sites, processes and services do not comply with applicable statutory and regulatory requirements, or if we manufacture products containing design or manufacturing defects, demand for our services may decline, our reputation may be damaged and we may be subject to liability claims.**

We manufacture and design products to our customers' specifications, and, in some cases, our manufacturing sites, processes or facilities may need to comply with applicable statutory and regulatory requirements as well as certain customer-driven standards. For example, medical devices that we manufacture or design, as well as the facilities and manufacturing processes that we use to produce them, are regulated by the U.S. Food and Drug Administration ( FDA ) and non-U.S. counterparts of this agency. Similarly, items we manufacture for customers in the defense and aerospace industries, as well as the processes we use to produce them, are regulated by the DOD and the Federal Aviation Authority. If we do not conduct our business at those facilities at which this business is conducted in accordance with applicable laws, we may be subject to civil or criminal penalties and administrative sanctions by either the government, the customer or third parties. Also, we may be subject to standards established by certain customers, industry groups or other third party organizations (e.g., certain standards relating to labor practices). In addition, our customers' products and the manufacturing processes and design services that we use to produce them often are highly complex. As a result, products that we manufacture or design may at times contain manufacturing or design defects, and our processes may be subject to errors or not be in compliance with applicable statutory and regulatory requirements. Defects in the products we manufacture or design, whether caused by a design, manufacturing or component failure or error, or deficiencies in our manufacturing processes, may result in delayed shipments to customers or reduced or canceled customer orders. If these defects or deficiencies are significant, our business

reputation may also be damaged. The failure of the products that we manufacture or of our manufacturing processes or facilities to comply with applicable statutory and regulatory requirements may subject us to regulatory enforcement, legal fines or penalties and, in some cases, require us to shut down, temporarily halt operations or incur considerable expense to correct a manufacturing process or facility. In addition, these defects may result in liability claims against us, expose us to liability to pay for the recall or remanufacture of a product or adversely affect product sales or our reputation. The magnitude of such claims may increase as we expand our medical and aerospace and defense manufacturing services, as defects in medical devices and aerospace and defense systems could cause death or seriously harm users of these products and others. Even if our customers are responsible for the defects or defective specifications, they may not, or may not have resources to, assume responsibility for any costs or liabilities arising from these defects, which could expose us to additional liability claims. Any of these actions could increase our expenses, reduce our revenue or damage our reputation as a supplier to these customers.

**We may face heightened liability risks specific to our medical device business as a result of additional healthcare regulatory related compliance requirements and the potential severe consequences that could result from manufacturing defects or malfunctions (e.g., death or serious injury) of the medical devices we manufacture or design.**

As a manufacturer and designer of medical devices for our customers, we have compliance requirements in addition to those relating to other areas of our business. We are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulation ( QSR ) and current Good Manufacturing Practices (cGMP) requirements, which require manufacturers of medical devices to adhere to certain regulations and to implement design and process manufacturing

---

**Table of Contents**

controls, quality control, labeling, handling and documentation procedures. The FDA, through periodic inspections and product field monitoring, continually reviews and rigorously monitors compliance with these QSR requirements and other applicable regulatory requirements. If any FDA inspection reveals noncompliance, and we do not address the FDA's concerns to its satisfaction, the FDA may take action against us, including issuing a form noting the FDA's inspection observations, a notice of violation or a warning letter, imposing fines, bringing an action against the Company and its officers, requiring a recall of the products we manufactured for our customers, issuing an import detention on products entering the U.S. from an offshore facility or temporarily halting operations at or shutting down a manufacturing facility. Beyond the FDA, our medical device business is subject to additional state and foreign regulatory requirements which may also impact our ability to continue operations if these entities were to allege noncompliance and take action against us. If any of these were to occur, our reputation and business could suffer.

In addition, any defects or malfunctions in medical devices we manufacture or in our manufacturing processes and facilities may result in liability claims against us, expose us to liability to pay for the recall or remanufacture of a product, or otherwise adversely affect product sales or our reputation. The magnitude of such claims could be particularly severe as defects in medical devices could cause severe harm or injuries, including death, to users of these products and others.

**Our manufacturing processes and services may result in exposure to intellectual property infringement and other claims.**

Providing manufacturing services can expose us to potential claims that products, designs or manufacturing processes we use infringe third party intellectual property rights. Even though many of our manufacturing services contracts generally require our customers to indemnify us for infringement claims relating to their products, including associated product specifications and designs, a particular customer may not, or may not have the resources to, assume responsibility for such claims. In addition, we may be responsible for claims that our manufacturing processes or components used in manufacturing infringe third party intellectual property rights. Infringement claims could subject us to significant liability for damages, potential injunctive action, or hamper our normal operations such as by interfering with the availability of components and, regardless of merits, could be time-consuming and expensive to resolve, and have a material adverse effect on our results of operations and financial position. In the event of such a claim, we may spend significant amounts of money and effort to develop non-infringing alternatives or obtain and maintain licenses. We may not be successful in developing such alternatives or obtaining and maintaining such licenses on reasonable terms or at all. Our customers may be required to or decide to discontinue products which are alleged to be infringing rather than face continued costs of defending infringement claims, and such discontinuance may result in a significant decrease in our business and/or could have a material adverse effect on our results of operations and financial position. The risks described in this Risk Factor may be heightened in connection with our customer relationships with emerging companies.

**Our design services and turnkey solutions offerings may result in additional exposure to product liability, intellectual property infringement and other claims, in addition to the business risk of being unable to produce the revenues necessary to profit from these services.**

We continue our efforts to offer certain design services, primarily relating to products that we manufacture for our customers. We also offer turnkey solutions that include the design and manufacture of end-user products, and product components, as well as related services. Providing such turnkey solutions or other design solutions can expose us to different or greater potential liabilities than those we face when providing just manufacturing services, including an increase in exposure to potential product liability claims resulting from injuries caused by defects in products we design, as well as potential claims that products we design or supply, or materials or components we use, infringe third party intellectual property rights. Such claims could subject us to significant liability for damages, subject the

infringing portion of our business to injunction and, regardless of their merits, could be time-consuming and expensive to resolve. We also may have greater potential exposure from warranty claims and from product recalls due to problems caused by product design. Costs associated with possible product liability claims, intellectual property infringement claims and product recalls could have a material adverse effect on our results of operations and financial position. In the event of such a claim, we may spend significant amounts of money and effort to develop non-infringing alternatives or obtain and maintain licenses. We may not be successful in developing such alternatives or obtaining and maintaining such a license on reasonable terms or at all. When providing turnkey solutions or other design solutions, we may not be guaranteed revenue needed to recoup or profit from the investment in the resources necessary to design and develop products or provide services. No revenue may be generated from these efforts, particularly if our customers do not approve the designs in a timely manner or at all, or if they do not then purchase anticipated levels of products. Furthermore, contracts may allow the customer to delay or cancel deliveries and may not obligate the customer to any volume of purchases, or may provide for penalties or cancellation of orders if we are late in delivering designs or products. We may also have the responsibility to ensure that products we design or offer satisfy certain standards, like safety and regulatory standards, and to obtain any necessary certifications. Failure to timely obtain the necessary approvals or certifications could prevent us from selling these products, which in turn could harm our sales, profitability and reputation and could have a material adverse effect on our results of operations and financial position.

In our contracts with turnkey solutions customers, we generally provide them with a warranty against defects in our designs. If a turnkey solutions product or component that we design is found to be defective in its design, this may lead to increased warranty

## **Table of Contents**

claims. Warranty claims may also extend to defects caused by components or materials used in the products, including components and materials provided to us by our suppliers. Although we have product liability insurance coverage, it may not be adequate or may not continue to be available on acceptable terms, in sufficient amounts, or at all. A successful product liability claim in excess of our insurance coverage or any material claim for which insurance coverage was denied or limited and for which we are not ultimately indemnified for, could have a material adverse effect on our results of operations and financial position. Moreover, even if the claim relates to a defect caused by a supplier, we may not be able to get an adequate remedy from the supplier.

### **The success of certain aspects of our business depends in part on our ability to obtain, protect and leverage intellectual property rights.**

In certain circumstances, we strive to obtain and protect certain intellectual property rights related to solutions, designs, processes and products that we create. We believe that obtaining a significant level of protected proprietary technology may give us a competitive advantage. However, we cannot be certain that the measures that we employ will result in protected intellectual property rights or will result in the prevention of unauthorized use of our technology. If we are unable to obtain and protect intellectual property rights embodied within our solutions, designs, processes and products, this could reduce or eliminate competitive advantages of our proprietary technology, which would harm our business and could have a material adverse effect on our results of operations and financial position.

In addition to selectively relying on patent rights, we rely on unpatented proprietary know-how and trade secrets, and employ various methods, including non-disclosure agreements with our customers, employees, and suppliers and our internal security systems, policies and procedures to protect our know-how and trade secrets. However, these mechanisms may not afford complete, or sufficient protection, and misappropriation may still occur. Further, there can be no assurance that we will, or will be able to, acquire or enforce our patent or other rights, if any, and that others will not independently develop similar know-how and trade secrets, or develop better production methods than us. We have not historically sought patent protection for many of our proprietary processes, designs or other patentable intellectual property. Further, we may not be able to prevent current and former employees, contractors and other parties from breaching non-disclosure agreements and misappropriating proprietary information and it is possible that third parties may copy or otherwise obtain and use our information and proprietary technology without authorization or otherwise infringe on our intellectual property rights. If any of the foregoing occur, it could impair our ability to compete with others in our industry.

### **Intellectual property infringement claims against our customers, our suppliers or us could harm our business.**

Products we manufacture and/or services we provide may infringe the intellectual property rights of third parties, some of who may hold key intellectual property rights in areas in which we operate. Some of these third parties may compete with us, our suppliers or our customers. Some of these third parties may not actively provide competing products or services. Patent clearance or licensing activities, if any, may be inadequate to anticipate and avoid third party claims. As a result, in addition to the risk that we could become subject to claims of intellectual property infringement, our customers or suppliers could become subject to infringement claims. Additionally, customers for our turnkey solutions or design services in which we have significant technology contributions, typically require that we indemnify them against the risk of intellectual property infringement. If any claims are brought against our customers, our suppliers or us for such infringement, regardless of their merits, we could be required to expend significant resources in the defense or settlement of such claims, or in the defense or settlement of related indemnification claims. In the event of a claim, we may be required to spend significant amounts of money and effort to develop non-infringing alternatives or obtain and maintain licenses. We may not be successful in developing such alternatives or obtaining or maintaining such licenses on reasonable terms or at all. We, our suppliers or our customers may be required to or decide to discontinue products which are alleged to be infringing rather than face continued

costs of defending the infringement claims, and such discontinuance may result in a significant decrease in our business, and could have a material adverse effect on our results of operations and financial position.

**We depend on attracting and retaining officers, managers and skilled personnel and on their compliance with company strategies and confidentiality policies and procedures.**

Our success depends to a large extent upon the continued services of our officers, managers and skilled personnel. Generally our employees are not bound by employment or non-competition agreements, and we cannot assure you that we will retain our officers, managers and skilled personnel. We could be seriously harmed by the loss of any of our executive officers or multiple managers or skilled personnel. To aid in managing our growth and strengthening our management and skilled personnel, we will need to internally develop, recruit and retain additional skilled management personnel. If we are not able to do so, our business and our ability to continue to grow could be harmed.

We establish strategic goals and ethical conduct policies. We are subject to risks if our officers and managers act inconsistently with our strategic goals or violate such ethical conduct policies. We are also subject to the risk that current and former officers, managers and skilled personnel could violate the terms of our confidentiality policies and procedures or proprietary information agreements with us which require them to keep confidential and not to use for their benefit information obtained in the course of their employment with us. Should a key current or former employee use or disclose such information, including information concerning our customers, pricing, capabilities or strategy, our ability to obtain new customers and to compete could be adversely impacted. In addition, our adoption of certain third-party standards could adversely affect our ability to attract and retain employees in jurisdictions where these standards vary from prevailing local customs and practices.



## **Table of Contents**

### **Any delay in the implementation of our information systems could disrupt our operations and cause unanticipated increases in our costs.**

We have completed the installation of an enterprise resource planning system in most of our manufacturing sites and in our corporate location. We are currently in the process of installing this system in certain of our remaining facilities which will replace the existing planning and financial information systems. Any delay in the implementation of these information systems could result in material adverse consequences, including disruption of operations, loss of information and unanticipated increases in costs.

### **Disruptions to our information systems, including security breaches, losses of data or outages, and other security issues, could adversely affect our operations.**

We rely on information systems, some of which are owned and operated by third parties, to store, process and transmit confidential information, including financial reporting, inventory management, procurement, invoicing and electronic communications, belonging to our customers, our suppliers, our employees and/or us. We attempt to monitor and mitigate our exposure and modify our systems when warranted and we have implemented certain business continuity items including data backups at alternative sites. Nevertheless, these systems are vulnerable to, and at times have suffered from, among other things, damage from power loss or natural disasters, computer system and network failures, loss of telecommunication services, physical and electronic loss of data, terrorist attacks, security breaches and computer viruses. We regularly face attempts by others to access our information systems in an unauthorized manner, to introduce malicious software to such systems or both. The increased use of mobile technologies can heighten these and other operational risks. If we, or the third parties who own and operate certain of our information systems, are unable to prevent such breaches, losses of data and outages, our operations could be disrupted. In addition, any production inefficiencies or delays could negatively affect our ability to fill customer orders, resulting in a delay or reduction in our revenues. Also, the time and funds spent on monitoring and mitigating our exposure and responding to breaches, including the training of employees, the purchase of protective technologies and the hiring of additional employees and consultants to assist in these efforts could adversely affect our financial results. Finally, any theft or misuse of information resulting from a security breach could result in, among other things, loss of significant and/or sensitive information, litigation by affected parties, financial obligations resulting from such theft or misuse, higher insurance premiums, governmental investigations, negative reactions from current and potential future customers (including potential negative financial ramifications under certain customer contract provisions) and poor publicity and any of these could adversely affect our financial results.

### **Compliance or the failure to comply with current and future environmental, health and safety, product stewardship and producer responsibility laws or regulations could cause us significant expense.**

We are subject to a variety of federal, state, local and foreign environmental, health and safety, product stewardship and producer responsibility laws and regulations, including those relating to the use, storage, discharge and disposal of hazardous chemicals used during our manufacturing process, those governing worker health and safety, those requiring design changes, supply chain investigation or conformity assessments or those relating to the recycling or reuse of products we manufacture. If we fail to comply with any present or future regulations or timely obtain any needed permits, we could become subject to liabilities, and we could face fines or penalties, the suspension of production, or prohibitions on sales of products we manufacture. At times, we have been unable to timely obtain certain permits, although we have been able to address those circumstances without any material adverse impact. There can be no assurance, however, that any future inability to timely obtain permits would not materially adversely affect us. In addition, such regulations could restrict our ability to expand our facilities or could require us to acquire costly equipment, or to incur other significant expenses, including expenses associated with the recall of any non-compliant product or with changes in our operational, procurement and inventory management activities.

While we have not been required historically to make significant capital expenditures in order to comply with applicable environmental laws and regulations, we cannot predict with any certainty our future capital expenditure requirements because of continually changing compliance standards and environmental technology.

Certain environmental laws impose liability for the costs of investigation, removal and remediation of hazardous or toxic substances on an owner, occupier or operator of real estate, or on parties who arranged for hazardous substance treatment or disposal, even if such person or company was unaware of, or not responsible for, contamination at the affected site. Soil and groundwater contamination may have occurred at or near, or may have arisen from, some of our facilities. From time to time we investigate, remediate and monitor soil and groundwater contamination at certain of our operating sites. In certain instances where contamination existed prior to our ownership or occupation of a site, landlords or former owners have retained some contractual responsibility for contamination and remediation. However, failure of such persons to perform those obligations could result in us being required to address such contamination. As a result, we may incur clean-up costs in such potential removal or remediation efforts. In other instances, we may be responsible for clean-up costs and other liabilities, including the possibility of claims due to health risks by both employees and non-employees, as well as other third-party claims in connection with contaminated sites.

## **Table of Contents**

From time to time new regulations are enacted, or existing requirements are changed, and it is difficult to anticipate how such regulations and changes will be implemented and enforced. We continue to evaluate the necessary steps for compliance with regulations as they are enacted.

As an example, under the Dodd-Frank Act, some companies, including ours, are subject to new due diligence, disclosure and reporting requirements for manufacturing products that include components containing certain minerals originating from the DRC or adjoining countries. These regulations may result in a decrease in the supply of such minerals, an increase in their cost and/or a disruption to our supply chain. In addition, if our due diligence process to verify the origin of minerals contained in components of our customers' products or from our suppliers is not completed timely or results in findings that such minerals are sourced from restricted countries, our reputation may be adversely affected, which in turn may adversely affect our operations and financial results. Compliance with the applicable SEC requirements has been both relatively time consuming and costly.

Our failure to comply with any applicable regulatory requirements or with related contractual obligations could result in our being directly or indirectly liable for costs (including product recall and/or replacement costs), fines or penalties and third party claims, and could jeopardize our ability to conduct business in the jurisdictions implementing them.

In addition, there is an increasing governmental focus around the world on global warming and environmental impact issues, which may result in new environmental, health and safety regulations that may affect us, our suppliers and our customers. This could cause us to incur additional direct costs for compliance, as well as increased indirect costs resulting from our customers, suppliers or both incurring additional compliance costs that get passed on to us. These costs may adversely impact our operations and financial condition.

We and our customers are increasingly concerned with environmental issues, such as waste management (including recycling) and climate change (including reducing carbon outputs). We expect these concerns to grow and require increased investments of time and resources.

We have limited insurance coverage for potential environmental liabilities associated with current operations and we do not anticipate increasing such coverage in the future.

### **We are subject to the risk of increased taxes.**

We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. Our tax position, however, is subject to review and possible challenge by taxing authorities and to possible changes in law (including adverse changes to the manner in which the U.S. and other countries tax multinational companies or interpret their tax laws). We cannot determine in advance the extent to which some jurisdictions may assess additional tax or interest and penalties on such additional taxes. In addition, our effective tax rate may be increased by the generation of higher income in countries with higher tax rates, changes in the valuation of deferred tax assets and liabilities, changes in our cash management strategies, changes in local tax rates or countries adopting more aggressive interpretations of tax laws.

Refer to Note 11 – Commitments and Contingencies to the Condensed Consolidated Financial Statements for details of the field examination completed by the Internal Revenue Service ( IRS ) of our tax returns for the fiscal years 2009 through 2011 which resulted in proposed adjustments. While we currently believe that the resolution of these issues will not have a material adverse effect on our financial position, results of operations or cash flows, an unfavorable resolution, particularly if the IRS successfully asserts similar claims for later years, could have a material adverse effect on our results of operations and financial condition.

Several countries in which we are located allow for tax incentives to attract and retain business. We have obtained incentives where available and practicable. Our taxes could increase if certain tax incentives are retracted (such as occurred with our calendar year 2011 Shanghai tax incentive), which could occur if we are unable to satisfy the conditions on which such incentives are based, if they are not renewed upon expiration, or if tax rates applicable to us in such jurisdictions otherwise increase. It is not anticipated that any tax incentives will expire within the next year. However, due to the possibility of changes in existing tax law and our operations, we are unable to predict how any expirations will impact us in the future. In addition, acquisitions may cause our effective tax rate to increase, depending on the jurisdictions in which the acquired operations are located.

Certain of our subsidiaries provide financing, products and services to, and may undertake certain significant transactions with, other subsidiaries in different jurisdictions. Moreover, several jurisdictions in which we operate have tax laws with detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles, and that contemporaneous documentation must exist to support such pricing. There is a risk that the taxing authorities may not deem our transfer pricing documentation acceptable. The Organization for Economic Cooperation and Development ( OECD ) released guidance related to Base Erosion and Profit Shifting ( BEPS ) which may result in legislative changes that could impact our effective tax rate.

---

**Table of Contents****Energy price increases may negatively impact our results of operations.**

Certain of the components that we use in our manufacturing activities are petroleum-based. In addition, we, along with our suppliers and customers, rely on various energy sources (including oil) in our facilities and transportation activities. An increase in energy prices, which have been volatile over the past few years, could cause an increase to our raw material costs and transportation costs. The risk of an increase in energy prices may be particularly heightened given their current low levels. Such prices may return to more typical historical levels quickly, which could have a negative effect on energy markets in general which would impact our business. In addition, increased transportation costs of certain of our suppliers and customers could be passed along to us. We may not be able to increase our product prices enough to offset these increased costs. In addition, any increase in our product prices may reduce our future customer orders and profitability.

**Our credit rating may be downgraded.**

Our credit is rated by credit rating agencies. Our 7.750% Senior Notes, our 8.250% Senior Notes, our 5.625% Senior Notes and our 4.700% Senior Notes are currently rated BBB- by Fitch Ratings ( Fitch ) and Standard and Poor's Ratings Service ( S&P ) and Ba1 by Moody's Investors Service ( Moody's ), and are considered to be below investment grade by Moody's and investment grade debt by Fitch and S&P. Any potential future negative change in our credit rating may make it more expensive for us to raise additional capital in the future on terms that are acceptable to us, if at all; negatively impact the price of our common stock; increase our interest payments under existing debt agreements; and have other negative implications on our business, many of which are beyond our control. In addition, the interest rate payable on the 8.250% Senior Notes and under the Credit Facility is subject to adjustment from time to time if our credit ratings change. Thus, any potential future negative change in our credit rating may increase the interest rate payable on the 8.250% Senior Notes, the Credit Facility and certain of our other borrowings.

**Our amount of debt could significantly increase in the future.**

As of May 31, 2016, our debt obligations consisted of \$312.0 million under our 7.750% Senior Notes, \$400.0 million under our 8.250% Senior Notes, \$400.0 million under our 5.625% Senior Notes, \$500.0 million under our 4.700% Senior Notes and \$500.0 million under the Term Loan Facility. As of May 31, 2016, there was \$52.1 million outstanding under various bank loans to certain of our foreign subsidiaries and under various other debt obligations. On May 19, 2016, we entered into a note purchase agreement with certain third parties which we anticipate closing on July 14, 2016 for a private placement of \$300.0 million of senior unsecured notes maturing on July 14, 2023 with an interest rate of 4.9% (the 4.900% Senior Notes ). The proceeds from the sale of the notes are anticipated to be used to repay our \$312.0 million 7.750% Senior Notes due July 15, 2016. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Note 7 Notes Payable, Long-Term Debt and Capital Lease Obligations to the Condensed Consolidated Financial Statements for further details.

We have the ability to borrow up to \$1.5 billion under the Revolving Credit Facility. In addition, the Revolving Credit Facility contemplates a potential increase of up to an additional \$500.0 million, if we and the lenders later agree to such increase. We could incur additional indebtedness in the future in the form of bank loans, notes or convertible securities.

Should we desire to consummate significant additional acquisition opportunities, undertake significant additional expansion activities, make substantial investments in our infrastructure or enter into a stock repurchase program, our capital needs would increase and could possibly result in our need to increase available borrowings under our revolving credit facilities or access public or private debt and equity markets. There can be no assurance, however,

that we would be successful in raising additional debt or equity on terms that we would consider acceptable. An increase in the level of our indebtedness, among other things, could:

make it difficult for us to obtain any necessary financing in the future for other acquisitions, working capital, capital expenditures, debt service requirements or other purposes;

limit our flexibility in planning for, or reacting to changes in, our business;

make us more vulnerable in the event of a downturn in our business; and

impact certain financial covenants that we are subject to in connection with our debt and asset-backed securitization programs, including, among others, the maximum ratio of debt to consolidated EBITDA (as defined in our debt agreements and securitization programs).

There can be no assurance that we will be able to meet future debt service obligations.

**Table of Contents**

**We are subject to risks of currency fluctuations and related hedging operations.**

A significant number of our operations are located outside the United States, however the majority of our business is conducted in U.S. dollar. Changes in exchange rates among other currencies and the U.S. dollar will affect our net revenue, cost of sales, operating margins and net income. We cannot predict the impact of future exchange rate fluctuations. We use financial instruments, primarily forward contracts, to economically hedge U.S. dollar and other currency commitments arising from trade accounts receivable, trade accounts payable, fixed purchase obligations and other foreign currency obligations. Based on our calculations and current forecasts, we believe that our hedging activities enable us to largely protect ourselves from future exchange rate fluctuations. If, however, these hedging activities are not successful or if we change or reduce these hedging activities in the future, we may experience significant unexpected expenses from fluctuations in exchange rates.

**An adverse change in the interest rates for our borrowings could adversely affect our financial condition.**

We pay interest on outstanding borrowings under our revolving credit facilities and certain other long term debt obligations at interest rates that fluctuate based upon changes in various base interest rates. An adverse change in the base rates upon which our interest rates are determined could have a material adverse effect on our financial position, results of operations and cash flows. If certain economic or fiscal issues occur, interest rates could rise which would increase our interest costs and reduce our net income. Also, increased interest rates could make any future, fixed interest rate debt obligations more expensive.

**We are exposed to intangible asset risk.**

We have recorded intangible assets, including goodwill, which are attributable to business acquisitions. We are required to perform goodwill and intangible asset impairment tests at least on an annual basis and whenever events or circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. As a result of our annual and other periodic evaluations, we may determine that the intangible asset values need to be written down to their fair values, which could result in material charges that could be adverse to our operating results and financial position.

**We face certain risks in collecting our trade accounts receivable.**

Most of our customer sales are paid for after the goods and services have been delivered. If any of our customers has any liquidity issues (the risk of which could be relatively high, relative to historical conditions, due to current economic conditions), then we could encounter delays or defaults in payments owed to us which could have a significant adverse impact on our financial condition and results of operations. While these risks can be exacerbated in connection with emerging companies, the amount of potential loss can be greater in connection with larger customers.

**Our stock price may be volatile.**

Our common stock is traded on the New York Stock Exchange (the NYSE ). The market price of our common stock has fluctuated substantially in the past and could fluctuate substantially in the future, based on a variety of factors, including future announcements covering us or our key customers or competitors, government regulations, litigation, changes in earnings estimates by analysts, fluctuations in quarterly operating results, or general conditions in our industry and the automotive, capital equipment, consumer lifestyles and wearable technologies, computing and storage, defense and aerospace, digital home, emerging growth, healthcare, industrial and energy, mobility, networking and telecommunications, packaging, point of sale, and printing industries. Furthermore, stock prices for many companies and high technology companies in particular, fluctuate widely for reasons that may be unrelated to

their operating results. Those fluctuations and general economic, political and market conditions, such as recessions or international currency fluctuations and demand for our services, may adversely affect the market price of our common stock.

**Provisions in our charter documents and state law may make it harder for others to obtain control of us even though some shareholders might consider such a development to be favorable.**

Provisions in our amended certificate of incorporation, bylaws and the Delaware General Corporation Law from time to time may delay, inhibit or prevent someone from gaining control of us through a tender offer, business combination, proxy contest or some other method. These provisions may adversely impact our shareholders because they may decrease the possibility of a transaction in which our shareholders receive an amount of consideration in exchange for their shares that is at a significant premium to the then current market price of our shares. These provisions include:

a restriction in our bylaws on the ability of shareholders to take action by less than unanimous written consent; and

a statutory restriction on business combinations with some types of interested shareholders.

In addition, for ten years we had a poison pill shareholder rights plan that our Board of Directors allowed to expire in October 2011 without extension. In doing that, our Board considered various relevant issues, including the fact that if needed and appropriate it can, under the Delaware General Corporation Law, implement a new shareholders rights plan reasonably quickly and without stockholder approval. Our Board regularly considers this topic, even in the absence of specific circumstances or takeover proposals, to facilitate its ability in the future to act expeditiously and appropriately should the need arise.



---

**Table of Contents**

**Changes in the securities laws and regulations have increased, and may continue to increase, our costs; and any future changes would likely increase our costs.**

The Sarbanes-Oxley Act of 2002, as well as related rules promulgated by the SEC (including the Dodd-Frank Act) and the NYSE, required changes in some of our corporate governance, securities disclosure and compliance practices. Compliance with these rules increased our legal and financial accounting costs for several years following the announcement and effectiveness of these new rules. While these costs are no longer increasing, they may in fact increase in the future. In addition, due, at least in part, to the turmoil over the past several years in the securities and credit markets, as well as the global economy, many U.S. and international governmental, regulatory and supervisory authorities including, but not limited to, the SEC and the NYSE, have enacted additional changes in their laws, regulations and rules and may be contemplating additional changes. These changes, and any such future changes, may cause our legal and financial accounting costs to increase.

**Due to inherent limitations, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors, theft and fraud, or in informing management of all material information in a timely manner.**

Our Board management, including our CEO and CFO, do not expect that our disclosure controls and internal controls and procedures will prevent all errors, theft and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system reflects that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur simply because of error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

**If we receive other than an unqualified opinion on the adequacy of our internal control over financial reporting as of August 31, 2016 or any future year-ends, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of your shares.**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, larger public companies like us are required to include an annual report on internal control over financial reporting in their annual reports on Form 10-K that contains an assessment by management of the effectiveness of the company's internal control over financial reporting. Our independent registered certified public accounting firm, Ernst & Young LLP, issued an unqualified opinion on the effectiveness of our internal control over financial reporting as of August 31, 2015. While we continuously conduct a rigorous review of our internal control over financial reporting in order to try to assure compliance with the Section 404 requirements, if our independent registered certified public accounting firm interprets the Section 404 requirements and the related rules and regulations differently from us or if our independent registered certified public accounting firm is not satisfied with our internal control over financial reporting or with the level at which it is documented, operated or reviewed, they may issue an adverse opinion. An adverse opinion could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our Consolidated Financial Statements.

In addition, we have spent a significant amount of resources, and will likely continue to for the foreseeable future, in complying with Section 404's requirements, particularly given the changes recently introduced by the Committee of Sponsoring Organizations ( COSO ) to the manner in which internal controls over financial reporting must be administered.

**There are inherent uncertainties involved in estimates, judgments and assumptions used in the preparation of financial statements in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ). Any changes in U.S. GAAP or in estimates, judgments and assumptions could have a material adverse effect on our financial position and results of operations.**

The Condensed Consolidated Financial Statements included in the periodic reports we file with the SEC are prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets, liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities and related reserves, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operations. In addition, the principles of U.S. GAAP are

**Table of Contents**

subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the SEC and various bodies formed to create appropriate accounting policies, and interpret such policies. A change in those policies can have a significant effect on our accounting methods. For example, although not yet currently required, the SEC could require us to adopt the International Financial Reporting Standards in the next few years, which could have a significant effect on certain of our accounting methods. As another example, significant changes to the revenue recognition rules have been enacted and will apply to us beginning in fiscal year 2019.

**We are subject to risks associated with natural disasters, climate change and global events.**

Our operations and those of our customers and suppliers may be subject to natural disasters, climate change related events, or other business disruptions, which could seriously harm our results of operation and increase our costs and expenses. We are susceptible to losses and interruptions caused by hurricanes (including in Florida, where our headquarters are located), earthquakes, power shortages, telecommunications failures, water or other natural resource shortages, tsunamis, floods, typhoons, drought, fire, extreme weather conditions, rising sea level, geopolitical events such as direct or indirect terrorist acts or acts of war, international boycotts and sanctions, or widespread criminal activities and other natural or manmade disasters. Such events could make it difficult or impossible to manufacture or to deliver products to our customers, receive production materials from our suppliers, or perform critical functions, which could adversely affect our business globally or in certain regions. While we maintain similar manufacturing capacities at different locations and coordinate multi-source supplier programs on many of our materials which would better enable us to respond to these types of events, we cannot be sure that our plans will fully protect us from all such disruptions. Our insurance coverage with respect to natural disasters is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate, or may not continue to be available at commercially reasonable rates and terms.

While we manufacture our products in a large number of diversified facilities and maintain insurance covering our facilities, including business interruption insurance, a catastrophic loss of the use of all or a portion of one of our key manufacturing facilities due to accident, labor issues, weather conditions, natural disaster or otherwise, whether short or long-term, could have a material adverse effect on us.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information relating to our repurchase of common stock during the three months ended May 31, 2016:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program <sup>(2)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
				(in thousands)
March 1, 2016 – March 31, 2016		\$		\$
April 1, 2016 – April 30, 2016	8,629	\$ 18.13		\$
May 1, 2016 – May 31, 2016	303	\$ 17.36		\$

<b>Total</b>	8,932	\$	18.11	\$
--------------	-------	----	-------	----

- (1) The purchases include amounts that are attributable to shares surrendered to us by employees to satisfy, in connection with the vesting of restricted stock awards and the exercise of stock options and stock appreciation rights, their tax withholding obligations.
- (2) In July 2015, our Board of Directors authorized the repurchase of up to \$100.0 million of our common shares during the twelve month period following their authorization. During the first quarter of fiscal year 2016, we repurchased 2.8 million shares for approximately \$54.5 million, which utilized the remaining amount outstanding of the \$100.0 million authorized by our Board of Directors.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Table of Contents****Item 6. Exhibits****Exhibit**

<b>No.</b>	<b>Description</b>
3.1(1)	Registrant's Certificate of Incorporation, as amended.
3.2(2)	Registrant's Bylaws, as amended.
4.1(3)	Form of Certificate for Shares of the Registrant's Common Stock.
4.2(4)	Indenture, dated January 16, 2008, with respect to Senior Debt Securities of the Registrant, between the Registrant and The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), as trustee.
4.3(5)	Form of 8.250% Registered Senior Notes issued on July 18, 2008.
4.4(6)	Form of 7.750% Registered Senior Notes issued on August 11, 2009.
4.5(7)	Form of 5.625% Registered Senior Notes issued on November 2, 2010.
4.6(8)	Form of 4.700% Registered Senior Notes issued on August 3, 2012.
4.7(6)	Officers' Certificate of the Registrant pursuant to the Indenture, dated August 11, 2009.
4.8(7)	Officers' Certificate of the Registrant pursuant to the Indenture, dated November 2, 2010.
4.9(8)	Officers' Certificate of the Registrant pursuant to the Indenture, dated August 3, 2012.
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer of the Registrant.
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer of the Registrant.
32.1	Section 1350 Certification by the Chief Executive Officer of the Registrant.
32.2	Section 1350 Certification by the Chief Financial Officer of the Registrant.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.

- (1) Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 001-14063) for the fiscal year ended August 31, 2011.
- (2) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (File No. 001-14063) for the fiscal quarter ended May 31, 2015.
- (3) Incorporated by reference to exhibit Amendment No. 1 to the Registration Statement on Form S-1 (File No. 33-58974) filed by the Registrant on March 17, 1993.
- (4)

## Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

- Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 001-14063) filed by the Registrant on January 17, 2008.
- (5) Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 001-14063) for the fiscal year ended August 31, 2008.
  - (6) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 001-14063) filed by the Registrant on August 12, 2009.
  - (7) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 001-14063) filed by the Registrant on November 2, 2010.
  - (8) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 001-14063) filed by the Registrant on August 6, 2012.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JABIL CIRCUIT, INC.

Registrant

Date: June 30, 2016

By: /s/ MARK T. MONDELLO  
**Mark T. Mondello**

**Chief Executive Officer**

Date: June 30, 2016

By: /s/ FORBES I.J. ALEXANDER  
**Forbes I.J. Alexander**

**Chief Financial Officer**

---

**Table of Contents****Exhibit Index**

<b>Exhibit</b>	
<b>No.</b>	<b>Description</b>
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer of the Registrant.
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer of the Registrant.
32.1	Section 1350 Certification by the Chief Executive Officer of the Registrant.
32.2	Section 1350 Certification by the Chief Financial Officer of the Registrant.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.