JABIL CIRCUIT INC
Form 10-Q
June 30, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 31, 2014

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	**38-1886260**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

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)

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 x 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 x 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 x	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 x

As of June 21, 2014, there were 199,829,648 shares of the registrant s Common Stock outstanding.

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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, 2014 (Unaudited)	August 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,322,266	$ 1,011,373
Accounts receivable, net of allowance for doubtful accounts of $15,778 at May 31, 2014 and $2,574 at August 31, 2013	998,420	1,168,954
Inventories	1,861,235	2,118,716
Prepaid expenses and other current assets	862,804	1,141,919
Income taxes receivable	32,692	12,269
Deferred income taxes	56,743	45,650
Assets of discontinued operations	22,998	321,364
Total current assets	5,157,158	5,820,245
Property, plant and equipment, net of accumulated depreciation of $1,908,860 at May 31, 2014 and $1,703,635 at August 31, 2013	2,212,908	2,309,320
Goodwill	367,943	349,011
Intangible assets, net of accumulated amortization of $165,825 at May 31, 2014 and $147,692 at August 31, 2013	249,675	260,434
Deferred income taxes	89,451	91,383
Other assets	144,195	100,801
Non-current assets of discontinued operations		222,587
Total assets	$ 8,221,330	$ 9,153,781
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of notes payable, long-term debt and capital lease obligations	$ 69,886	$ 215,448
Accounts payable	2,697,598	3,191,328
Accrued expenses	1,101,221	1,217,088
Income taxes payable	8,712	38,323
Deferred income taxes	3,560	6,004
Liabilities of discontinued operations	7,181	196,243
Total current liabilities	3,888,158	4,864,434

Notes payable, long-term debt and capital lease obligations, less current installments	1,672,521	1,690,418
Other liabilities	80,139	77,145
Income tax liabilities	89,220	76,315
Deferred income taxes	61,013	58,047
Non-current liabilities of discontinued operations		31,855
Total liabilities	5,791,051	6,798,214
Commitments and contingencies		
Equity:		
Jabil Circuit, Inc. stockholders equity:		
Preferred stock, $0.001 par value, authorized 10,000,000 shares; no shares issued and outstanding		
Common stock, $0.001 par value, authorized 500,000,000 shares; 243,276,566 and 237,732,562 shares issued and 199,821,030 and 203,164,870 shares outstanding at May 31, 2014 and August 31, 2013, respectively	243	238
Additional paid-in capital	1,867,204	1,853,409
Retained earnings	1,288,029	1,071,175
Accumulated other comprehensive income	87,741	81,248
Treasury stock at cost, 43,455,536 and 34,567,692 shares at May 31, 2014 and August 31, 2013	(834,008)	(670,783)
Total Jabil Circuit, Inc. stockholders equity	2,409,209	2,335,287
Noncontrolling interests	21,070	20,280
Total equity	2,430,279	2,355,567
Total liabilities and equity	8,221,330	$ 9,153,781

See accompanying notes to Condensed Consolidated Financial Statements.

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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, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Net revenue	$ 3,785,875	$ 4,196,224	$ 11,705,901	$ 12,735,799
Cost of revenue	3,569,925	3,898,652	10,942,550	11,837,451
Gross profit	215,950	297,572	763,351	898,348
Operating expenses:				
Selling, general and administrative	190,804	146,969	497,796	441,782
Research and development	5,729	6,475	21,387	21,337
Amortization of intangibles	5,679	2,221	18,180	6,591
Restructuring and related charges	12,446	23,182	65,652	23,182
Loss on disposal of subsidiaries	2,905		2,905	
Impairment of notes receivable and related charges		25,597		25,597
Operating (loss) income	(1,613)	93,128	157,431	379,859
Other expense	1,520	1,422	4,547	4,545
Interest income	(1,060)	(381)	(2,109)	(1,263)
Interest expense	32,107	30,709	97,270	89,464
(Loss) income from continuing operations before tax	(34,180)	61,378	57,723	287,113
Income tax expense	18,708	22,129	40,923	81,317
(Loss) income from continuing operations, net of tax	(52,888)	39,249	16,800	205,796
Discontinued operations:				
Income from discontinued operations, net of tax	2,699	10,379	21,515	37,505
Gain on sale of discontinued operations, net of tax	238,497		229,542	
Discontinued operations, net of tax	241,196	10,379	251,057	37,505
Net income	188,308	49,628	267,857	243,301
Net income (loss) attributable to noncontrolling interests, net of tax	53	(455)	347	(1,162)
Net income attributable to Jabil Circuit, Inc.	$ 188,255	$ 50,083	$ 267,510	$ 244,463

(Loss) earnings per share attributable to the stockholders of Jabil Circuit, Inc.:				
Basic:				
(Loss) income from continuing operations, net of tax	$ (0.26)	$ 0.20	$ 0.08	$ 1.02
Discontinued operations, net of tax	$ 1.19	$ 0.05	$ 1.23	$ 0.18
Net income	$ 0.93	$ 0.25	$ 1.31	$ 1.20
Diluted:				
(Loss) income from continuing operations, net of tax	$ (0.26)	$ 0.19	$ 0.08	$ 1.00
Discontinued operations, net of tax	$ 1.19	$ 0.05	$ 1.22	$ 0.18
Net income	$ 0.93	$ 0.24	$ 1.30	$ 1.18
Weighted average shares outstanding:				
Basic	202,008	202,648	203,995	203,142
Diluted	202,008	207,569	205,699	207,540
Cash dividends declared per common share	$ 0.08	$ 0.08	$ 0.24	$ 0.24

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three months ended		Nine months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Net income	$ 188,308	$ 49,628	$ 267,857	$ 243,301
Other comprehensive income:				
Foreign currency translation adjustment, net of tax	(7,538)	(22,758)	3,709	(12,280)
Change in fair value of derivative instruments, net of tax	(1,445)	3,355	(2,939)	3,864
Reclassification of net losses (gains) realized and included in net income related to derivative instruments, net of tax	2,716	(605)	6,286	(224)
Actuarial (loss) gains, net of tax	(563)		(563)	981
Total other comprehensive (loss) income	(6,830)	(20,008)	6,493	(7,659)
Comprehensive income	$ 181,478	29,620	274,350	235,642
Comprehensive income (loss) attributable to noncontrolling interests	53	(455)	347	(1,162)
Comprehensive income attributable to Jabil Circuit, Inc.	$ 181,425	$ 30,075	$ 274,003	$ 236,804

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except for share data)

(Unaudited)

	Jabil Circuit, Inc. Stockholders Equity							
	Common Stock							
	Shares Outstanding	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at August 31, 2013	203,164,870	$ 238	$ 1,853,409	$ 1,071,175	$ 81,248	$ (670,783)	$ 20,280	$ 2,355,567
Shares issued upon exercise of stock options	1,251							
Shares issued under employee stock purchase plan	518,771	5	7,697					7,702
Vesting of restricted stock awards	5,023,982							
Purchases of treasury stock under employee stock plans	(1,561,171)					(34,162)		(34,162)
Treasury shares purchased	(7,326,673)					(129,063)		(129,063)
Recognition of stock-based compensation			6,129					6,129
Excess tax benefit of stock awards			716					716
Declared dividends				(50,656)				(50,656)
Comprehensive income				267,510	6,493		347	274,350
							5,689	5,689

Adjustment of noncontrolling interests								
Purchase of noncontrolling interests			(747)				(973)	(1,720)
Sale of noncontrolling interest							(4,278)	(4,278)
Foreign currency adjustments attributable to noncontrolling interests							5	5
Balance at May 31, 2014	199,821,030	$ 243	$ 1,867,204	$ 1,288,029	$ 87,741	$ (834,008)	$ 21,070	$ 2,430,279

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine months ended	
	May 31, 2014	**May 31, 2013**
Cash flows from operating activities:		
Net income	$ 267,857	$ 243,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	366,622	295,710
Gain on sale of discontinued operations	(239,320)	
Restructuring and related charges	30,015	
Deferred income taxes	(25,115)	(28,635)
Provision for allowance for doubtful accounts	15,078	
Recognition of stock-based compensation expense and related charges	8,257	52,201
Loss on disposal of subsidiaries	2,905	
Excess tax benefits related to stock awards	(1,544)	(330)
Impairment of notes receivable and related charges		25,597
Other, net	3,611	7,038
Changes in operating assets and liabilities, exclusive of net assets acquired:		
Accounts receivable	102,708	113,134
Inventories	315,254	(85,855)
Prepaid expenses and other current assets	269,871	(59,259)
Other assets	(28,288)	(1,497)
Accounts payable and accrued expenses	(666,786)	239,209
Income taxes	(11,737)	9,067
Net cash provided by operating activities	409,388	809,681
Cash flows from investing activities:		
Proceeds from sale of discontinued operations, net of cash	544,495	
Acquisition of property, plant and equipment	(414,729)	(452,993)
Proceeds from sale of property, plant and equipment	141,082	11,274
Cash paid for business and intangible asset acquisitions, net of cash acquired		(9,662)
Investments in non-marketable equity securities		(2,942)
Net cash provided by (used in) investing activities	270,848	(454,323)
Cash flows from financing activities:		
Payments towards debt agreements	(5,336,697)	(3,184,810)
Borrowings under debt agreements	5,171,880	3,169,401

Payments to acquire treasury stock	(129,063)	(129,262)
Dividends paid to stockholders	(52,162)	(51,743)
Treasury stock minimum tax withholding related to vesting of restricted stock	(34,162)	(20,268)
Net proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan	7,697	10,899
Sale of noncontrolling interest, net of cash	(1,783)	
Cash paid to purchase noncontrolling interest	(1,720)	
Excess tax benefit related to stock awards	1,544	330
Capital contribution to noncontrolling interest		316
Net cash used in financing activities	(374,466)	(205,137)
Effect of exchange rate changes on cash and cash equivalents	5,123	(15,751)
Net increase in cash and cash equivalents	310,893	134,470
Cash and cash equivalents at beginning of period	1,011,373	1,217,256
Cash and cash equivalents at end of period	$ 1,322,266	$ 1,351,726

See accompanying notes to Condensed Consolidated Financial Statements.

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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 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, 2013. Results for the nine month period ended May 31, 2014 are not necessarily an indication of the results that may be expected for the full fiscal year ending August 31, 2014. We have made certain reclassification adjustments to conform prior period amounts to the current presentation, including adjustments related to discontinued operations, see Note 2 Discontinued Operations and Note 6 Concentration of Risk and Segment Data for further details.

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 final purchase price was reduced by $90.5 million for cash, indebtedness, taxes, interest and certain working capital accounts of the Company s AMS business, and this adjustment is subject to a future reconciliation and potential adjustment. 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 due to certain regulatory approvals that are still pending in that jurisdiction. As a result, $20.0 million associated with the Malaysian operations was included in escrow until the closing of the Malaysian operations, which is anticipated to occur once such approvals are obtained. 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. This agreement is not material and the continuing cash flows are not significant. As of May 31, 2014, the Malaysian operations meet the criteria for classification as held for sale reporting and AMS meets the criteria for discontinued operations reporting because the Company does not have any significant continuing involvement in the operations of AMS after the disposal transaction and the operations and cash flows of AMS have been eliminated from the ongoing operations of the Company as a result of the disposal transaction.

The Company recognized a gain on sale of discontinued operations, net of tax, of approximately $238.5 million and $229.5 million for the three months and nine months ended May 31, 2014, respectively. The Company incurred direct transaction costs in connection with the sale of approximately $7.4 million and $16.4 million during the three months and nine months ended May 31, 2014, respectively, which is included in gain on sale of discontinued operations, net of tax. The income tax expense recognized on the gain on sale of discontinued operations during the three and nine months ended May 31, 2014 was significantly reduced to $9.8 million primarily due to the utilization of net operating losses with corresponding valuation allowances. At April 1, 2014, the fair value of the Senior Non-Convertible Cumulative Preferred Stock was approximately $33.2 million, which is included in gain on sale of discontinued operations, net of tax, and is valued using unobservable inputs (Level 3 inputs) based on an interest rate lattice model.

For all periods presented, the operating results associated with this business have been reclassified into income from 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):

	Three months ended		Nine months ended	
	May 31, 2014	**May 31, 2013**	**May 31, 2014**	**May 31, 2013**
Net revenue	$ 82,821	$ 271,543	$ 575,592	$ 786,237
Income from discontinued operations, before tax	$ 3,378	$ 10,518	$ 27,164	$ 43,128
Income tax expense	679	139	5,649	5,623
Income from discontinued operations, net of tax	$ 2,699	$ 10,379	$ 21,515	$ 37,505
Gain on sale of discontinued operations, before tax	$ 248,275	$	$ 239,320	$
Income tax expense	9,778		9,778	
Gain on sale of discontinued operations, net of tax	$ 238,497	$	$ 229,542	$
Discontinued operations, net of tax	$ 241,196	$ 10,379	$ 251,057	$ 37,505

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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):

	Three months ended		Nine months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Numerator:				
(Loss) income from continuing operations, net of tax	$ (52,888)	$ 39,249	$ 16,800	$ 205,796
Net income (loss) attributable to noncontrolling interests, net of tax	53	(455)	347	(1,162)
(Loss) income from continuing operations attributable to Jabil Circuit, Inc., net of tax	$ (52,941)	$ 39,704	$ 16,453	$ 206,958
Discontinued operations attributable to Jabil Circuit, Inc., net of tax	$ 241,196	$ 10,379	$ 251,057	$ 37,505
Net income attributable to Jabil Circuit, Inc.	$ 188,255	$ 50,083	$ 267,510	$ 244,463
Denominator for basic and diluted earnings per share:				
Denominator for basic earnings per share	202,008	202,648	203,995	203,142
Dilutive common shares issuable under the employee stock purchase plan and upon exercise of stock options and stock appreciation rights		6	96	28
Dilutive unvested restricted stock awards		4,915	1,608	4,370
Denominator for diluted earnings per share	202,008	207,569	205,699	207,540
(Loss) earnings per share attributable to the stockholders of Jabil Circuit, Inc.:				
Basic:				
(Loss) income from continuing operations, net of tax	$ (0.26)	$ 0.20	$ 0.08	$ 1.02
Discontinued operations, net of tax	$ 1.19	$ 0.05	$ 1.23	$ 0.18

Net income	$	0.93	$	0.25	$	1.31	$	1.20
Diluted:								
(Loss) income from continuing operations, net of tax	$	(0.26)	$	0.19	$	0.08	$	1.00
Discontinued operations, net of tax	$	1.19	$	0.05	$	1.22	$	0.18
Net income	$	0.93	$	0.24	$	1.30	$	1.18

No potential common shares relating to outstanding stock awards have been included in the computation of diluted earnings per share as a result of the loss from continuing operations attributable to Jabil Circuit, Inc., net of tax, for the three months ended May 31, 2014. The Company accordingly excluded from the computation of diluted earnings per share 3,445,503 restricted stock awards, options to purchase 1,603,274 shares of common stock and 3,899,167 stock appreciation rights for the three months ended May 31, 2014. For the nine months ended May 31, 2014 options to purchase 1,971,901 shares of common stock and 4,112,812 stock appreciation rights 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, 2013 options to purchase 3,635,940 and 3,690,457 shares of common stock, respectively, and 4,462,101 and 4,537,415 stock appreciation rights, respectively, were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive.

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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, 2014 and 2013 (in thousands, except for per share data):

	Dividend Declaration Date	Dividend per Share	Total Cash Dividends Declared	Date of Record for Dividend Payment	Dividend Cash Payment Date
Fiscal year 2014:	October 17, 2013	$ 0.08	$ 17,221	November 15, 2013	December 2, 2013
	January 22, 2014	$ 0.08	$ 16,976	February 14, 2014	March 3, 2014
	April 17, 2014	$ 0.08	$ 16,686	May 15, 2014	June 2, 2014
Fiscal year 2013:	October 16, 2012	$ 0.08	$ 16,962	November 15, 2012	December 3, 2012
	January 23, 2013	$ 0.08	$ 16,990	February 15, 2013	March 1, 2013
	April 15, 2013	$ 0.08	$ 16,994	May 15, 2013	June 3, 2013

4. Inventories

Inventories consist of the following (in thousands):

	May 31, 2014	August 31, 2013
Raw materials	$ 1,058,748	$ 1,274,588
Work in process	458,519	526,476
Finished goods	343,968	317,652
	$ 1,861,235	$ 2,118,716

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 $14.6 million and $6.6 million of stock-based compensation expense gross of tax benefits, which is included in selling, general and administrative expenses within the Condensed Consolidated Statements of Operations during the three months and nine months ended May 31, 2014, respectively. During the nine months ended May 31, 2014, the Company recorded a $38.4 million reversal to stock-based compensation expense due to decreased expectations for the vesting of certain restricted stock awards. The Company recorded tax benefits related to the stock-based compensation expense of $0.3 million and $0.7 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, 2014, respectively. The Company recorded $14.4 million and $47.6 million of stock-based compensation expense gross of tax benefits, which is included in selling, general and administrative expenses within the Condensed Consolidated Statements of Operations during the three months and nine months ended May 31, 2013, respectively. The Company recorded a tax (expense) benefit related to the stock-based compensation expense of $(0.4) million and $0.1 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, 2013, respectively.

The following table summarizes shares available for grant and stock option and stock appreciation right activity from August 31, 2013 through May 31, 2014:

	Shares Available for Grant	Options Outstanding	Aggregate Intrinsic Value (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)
Balance at August 31, 2013	12,011,073	7,857,127	$ 1,927	$ 26.31	1.95
Options canceled	2,312,274	(2,312,274)		$ 26.37	
Restricted stock awards granted [1]	(3,615,405)				
Options exercised		(26,703)		$ 19.25	
Balance at May 31, 2014	10,707,942	5,518,150	$ 286	$ 26.33	1.78
Exercisable at May 31, 2014		5,518,150	$ 286	$ 26.33	1.78

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

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The following table summarizes restricted stock activity from August 31, 2013 through May 31, 2014:

	Shares	Weighted - Average Grant-Date Fair Value
Unvested balance at August 31, 2013	11,335,192	$ 17.15
Changes during the period		
Shares granted (1)	4,277,679	$ 21.85
Shares vested	(5,023,982)	$ 15.35
Shares forfeited	(662,275)	$ 19.97
Unvested balance at May 31, 2014	9,926,614	$ 19.90

(1) 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 and performance-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. During the nine months ended May 31, 2014 and 2013, the Company awarded approximately 1.9 million and 2.0 million time-based restricted stock units, respectively, and 1.6 million and 1.7 million performance-based restricted stock units, respectively.

In connection with the sale of the AMS business, the vesting was accelerated for certain outstanding time-based restricted stock awards previously granted to AMS employees. As a result, 0.2 million awards vested during the three months ended May 31, 2014, which accelerated approximately $2.4 million of stock-based compensation expense, which is included in income from discontinued operations, net of tax, within the Condensed Consolidated Statements of Operations for the nine months ended May 31, 2014.

At May 31, 2014, there was $56.1 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, 2014, the Company s five largest customers accounted for approximately 45% of its net revenue and 67 customers accounted for approximately 90% of its net revenue. Sales to these customers were reported in the Diversified Manufacturing Services (DMS), Enterprise & Infrastructure (E&I) and High Velocity Systems (HVS) 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 and HVS segments 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 and HVS segments 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.

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 three segments DMS, E&I and HVS.

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The DMS segment is composed of dedicated resources to manage higher complexity global products in regulated and other industries and introduce materials and process technologies including design services to global customers. The E&I and HVS segments offer integrated global manufacturing and supply chain solutions designed to provide cost effective solutions for certain customer groups. The E&I segment is focused on customers primarily in the computing, storage, networking and telecommunication sectors. The HVS segment is focused on the particular needs of the consumer products industry, including mobility, display, set-top boxes and peripheral products such as printers and point of sale terminals.

On April 1, 2014, the Company completed the sale of the AMS business (except for the Malaysian operations due to certain regulatory approvals that are still pending in that jurisdiction), which was included in the DMS segment. Accordingly, for all periods presented, the results of operations of this business are classified as discontinued operations. 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 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 arm s length.

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

	Three months ended		Nine months ended	
	May 31, 2014	**May 31, 2013**	**May 31, 2014**	**May 31, 2013**
Net revenue				
DMS	$ 1,610,293	$ 1,522,034	$ 5,154,712	$ 5,250,433
E&I	1,335,197	1,375,626	3,906,365	4,155,076
HVS	840,385	1,298,564	2,644,824	3,330,290
	$ 3,785,875	$ 4,196,224	$ 11,705,901	$ 12,735,799

	Three months ended		Nine months ended	
	May 31, 2014	**May 31, 2013**	**May 31, 2014**	**May 31, 2013**
Segment income and reconciliation of income before income tax				
DMS	$ 17,885	$ 85,955	$ 144,950	$ 290,982

E&I	26,011	30,844	95,206	96,883
HVS	1,453	41,762	25,752	94,984
Total segment income	45,349	158,561	265,908	482,849
Reconciling items:				
Amortization of intangibles	5,679	2,221	18,180	6,591
Stock-based compensation expense and related charges	14,561	14,433	6,627	47,620
Restructuring and related charges	12,446	23,182	65,652	23,182
Distressed customer charges	11,371		15,113	
Loss on disposal of subsidiaries	2,905		2,905	
Impairment of notes receivable and related charges		25,597		25,597
Other expense	1,520	1,422	4,547	4,545
Interest income	(1,060)	(381)	(2,109)	(1,263)
Interest expense	32,107	30,709	97,270	89,464
(Loss) income from continuing operations before tax	$ (34,180)	$ 61,378	$ 57,723	$ 287,113

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	May 31, 2014	August 31, 2013
Total assets		
DMS	$ 3,380,999	$ 3,580,133
E&I	1,011,219	1,118,347
HVS	802,992	1,031,911
Other non-allocated assets	3,003,122	2,879,439
Assets of discontinued operations	22,998	543,951
	$ 8,221,330	$ 9,153,781

As of May 31, 2014, the Company operates in 24 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 83.7% and 84.3% of net revenue during the three months and nine months ended May 31, 2014, respectively, compared to 86.1% and 86.5% of net revenue during the three months and nine months ended May 31, 2013, respectively.

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

Notes payable, long-term debt and capital lease obligations outstanding at May 31, 2014 and August 31, 2013, are summarized below (in thousands):

	May 31, 2014	August 31, 2013
7.750% Senior Notes due 2016	$ 308,229	$ 306,940
8.250% Senior Notes due 2018	398,570	398,284
5.625% Senior Notes due 2020	400,000	400,000
4.700% Senior Notes due 2022	500,000	500,000
Borrowings under credit facilities (a)	55,007	200,000
Borrowings under loans (b)	44,041	58,447
Capital lease obligations	31,517	35,372
Fair value adjustment related to terminated interest rate swaps on the 7.750% Senior Notes	5,043	6,823
Total notes payable, long-term debt and capital lease obligations	1,742,407	1,905,866
Less current installments of notes payable, long-term debt and capital lease obligations	69,886	215,448
Notes payable, long-term debt and capital lease obligations, less current installments	$ 1,672,521	$ 1,690,418

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 $352.8 million, $476.8 million, $433.1 million and $499.4 million, respectively, at May 31, 2014. The fair value estimates are based upon observable market data (Level 2 criteria).

(a) During the second quarter of fiscal year 2014, a foreign subsidiary of the Company entered into an uncommitted credit facility to finance its growth and any corresponding working capital needs. The credit facility provides for a revolving credit facility in the amount of up to $100.0 million with interest charged at a rate of LIBOR plus 1.7%.

(b) 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

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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, 2014, the VIE had approximately $40.0 million of total assets, of which approximately $39.1 million was comprised of a note receivable due from the Company, and approximately $39.3 million of total liabilities, of which approximately $39.2 million were debt obligations to the third-party creditors (as the VIE has utilized approximately $39.2 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.

8. Trade Accounts Receivable Securitization and Sale Programs

The Company regularly sells designated pools of trade accounts receivable under two asset-backed securitization programs, a factoring agreement, a committed trade accounts receivable sale program 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, 2014 and 2013, 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.

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 21, 2014, and its foreign asset-backed securitization program, currently scheduled to expire on May 15, 2015, (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 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 for the North American asset-backed securitization program are available at any one time. The Company decreased its facility limit from $300.0 million to $200.0 million during the first quarter of fiscal year 2014. In connection with the AMS transaction, on January 31, 2014, certain subsidiaries of the Company terminated their sale of receivables under the North American asset-backed securitization program. Net cash proceeds of up to a maximum of $200.0 million for the foreign asset-backed securitization program are available at any one time.

In connection with the asset-backed securitization programs, the Company sold $1.8 billion and $6.1 billion of eligible trade accounts receivable during the three months and nine months ended May 31, 2014, respectively. In exchange, the Company received cash proceeds of $1.4 billion and $5.7 billion during the three months and nine months ended May 31, 2014, respectively, (which represented proceeds from collections reinvested in revolving-period transfers as there were no new transfers during these periods) and a deferred purchase price receivable. The Company sold $2.2 billion and $6.4 billion of eligible trade accounts receivable during the three months and nine months ended May 31, 2013, respectively. In exchange, the Company received cash proceeds of $1.7 billion and $5.9 billion during the three months and nine months ended May 31, 2013, respectively, (of which approximately $38.9 million represented new transfers and the remainder represented proceeds from collections reinvested in revolving-period transfers), and a deferred purchase price receivable. At May 31, 2014 and 2013, the net deferred purchase price receivables recorded in connection with the asset-backed securitization programs totaled approximately $409.3 million and $524.5 million, respectively.

The Company recognized pretax losses on the sales of receivables under the asset-backed securitization programs of approximately $0.9 million and $2.8 million during the three months and nine months ended May 31, 2014, respectively, and approximately $1.1 million and $3.2 million during the three months and nine months ended May 31, 2013, 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 Factoring Agreement

In connection with a factoring agreement, the Company transfers ownership of eligible trade accounts receivable of a foreign subsidiary without recourse to a third party purchaser in exchange for cash. Proceeds from the transfer reflect the face value of the account less a discount. The discount is recorded as a loss to other expense within the Condensed Consolidated Statements of Operations in the period of the sale. In April 2014, the factoring agreement was extended through September 30, 2014, at which time it is expected to automatically renew for an additional six-month period.

During the three months ended May 31, 2014, the Company sold no trade accounts receivable and received no cash proceeds, compared to $8.5 million trade accounts receivable sold and $8.5 million cash proceeds received during the three months ended May 31, 2013. During the nine months ended May 31, 2014, the Company sold $1.1 million of trade accounts receivable and received cash proceeds of $1.1 million, compared to $31.2 million trade accounts receivable sold and $31.2 million cash proceeds received during the nine months ended May 31, 2013. The resulting losses on the sales of trade accounts receivables sold under this factoring agreement during the three months and nine months ended May 31, 2014 and 2013 were not material.

c. Trade Accounts Receivable Sale Programs

In connection with four separate trade accounts receivable sale agreements with unaffiliated financial institutions, the Company may elect to sell, at a discount, on an ongoing basis, up to a maximum of $200.0 million, $150.0 million, $150.0 million and $100.0 million, respectively, of specific trade accounts receivable at any one time. The $200.0 million trade accounts receivable sale agreement is a committed facility that was renewed during the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014. One $150.0 million trade accounts receivable sale agreement is an uncommitted facility that was renewed during the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014. The other $150.0 million trade accounts receivable sale agreement is an uncommitted facility that was entered into during the second quarter of fiscal year 2014 and is subject to expiration on August 31, 2014. The $100.0 million trade accounts receivable sale agreement is an uncommitted facility that was entered into during the first quarter of fiscal year 2014 and is scheduled to expire on November 1, 2014, although any party may elect to terminate the agreement upon 15 days prior notice. The agreement will be automatically extended each year for additional 365 day periods until November 1, 2018, unless any party gives no less than 30 days prior notice that the agreement should not be extended. A $40.0 million uncommitted trade accounts receivable sale agreement, which the Company was previously party to, was terminated effective March 19, 2014.

During the three months and nine months ended May 31, 2014, the Company sold $0.4 billion and $1.3 billion of trade accounts receivable under these programs, respectively, compared to $0.5 billion and $1.9 billion during the three months and nine months ended May 31, 2013, respectively. In exchange, the Company received cash proceeds of $0.4 billion and $1.3 billion during the three months and nine months ended May 31, 2014, respectively, compared to $0.5 billion and $1.9 billion during the three months and nine months ended May 31, 2013, respectively. The resulting losses on the sales of trade accounts receivable during the three months and nine months ended May 31, 2014 and 2013 were not material.

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, 2013 to May 31, 2014 (in thousands):

	Foreign currency translation adjustment	Derivative instruments	Actuarial loss	Prior service cost	Total
Balance at August 31, 2013	$ 125,594	$ (5,050)	$ (40,258)	$ 962	$ 81,248
Other comprehensive income before reclassifications	14,544	(2,939)			11,605
Amounts reclassified from accumulated other comprehensive income	(10,835)	6,286	(563)		(5,112)
Other comprehensive income	3,709	3,347	(563)		6,493
Balance at May 31, 2014	$ 129,303	$ (1,703)	$ (40,821)	$ 962	$ 87,741

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The following table sets forth the amounts reclassified out of AOCI, net of tax, during the three months and nine months ended May 31, 2014 (in thousands):

Details about AOCI Components	Amounts Reclassified from AOCI during the three months ended May 31, 2014	Amounts Reclassified from AOCI during the nine months ended May 31, 2014	Affected Line Item in the Condensed Consolidated Statement of Operations
Gains (losses) on derivative instruments:			
Forward foreign exchange contracts	$ (939)	$ (3,938)	Net revenue
Forward foreign exchange contracts	(655)	1,468	Cost of revenue
Forward foreign exchange contracts	(22)	(276)	Selling, general and administrative
Forward foreign exchange contracts	(90)	(577)	Income from discontinued operations, net of tax
Interest rate swap	(1,010)	(2,963)	Interest expense
Total loss on derivative instruments	$ (2,716)	$ (6,286)	
Foreign currency translation adjustments	10,835	10,835	Gain on sale of discontinued operations, net of tax
Actuarial gain	563	563	Gain on sale of discontinued operations, net of tax
Total reclassified	$ 8,682	$ 5,112	

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, Japan, The Netherlands, Poland, and Taiwan and 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, 2014 and 2013 (in thousands):

	Three months ended		Nine months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Service cost	$ 314	$ 420	$ 935	$ 1,299
Interest cost	1,726	1,462	5,094	4,505
Expected long-term return on plan assets	(1,562)	(1,262)	(4,600)	(3,896)

Amortization of prior service cost	(62)	(6)	(185)	(19)
Recognized actuarial loss	666	612	1,975	1,861
Net periodic benefit cost	$ 1,082	$ 1,226	$ 3,219	$ 3,750

During the nine months ended May 31, 2014, the Company made contributions of approximately $3.1 million to its defined benefit pension plans. The Company expects to make total cash contributions of between $3.6 million and $4.4 million to its funded pension plans during fiscal year 2014.

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.

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

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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 anticipated foreign currency denominated revenues and expenses. A hedging relationship existed with an aggregate notional amount outstanding of $429.4 million and $565.0 million at May 31, 2014 and August 31, 2013, 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, 2014 and February 28, 2015.

In addition to derivatives that are designated 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, 2014 and August 31, 2013 was $899.0 million and $1.2 billion, respectively.

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, 2014, aggregated by the level in the fair-value hierarchy in which those measurements are classified (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Forward foreign exchange contracts	$	$ 3,034	$	$ 3,034
Liabilities:				
Forward foreign exchange contracts		(6,702)		(6,702)
Total	$	$ (3,668)	$	$ (3,668)

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.

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The following tables present 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, 2014 and August 31, 2013 (in thousands):

	Fair Values of Derivative Instrument At May 31, 2014			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Forward foreign exchange contracts	Prepaid expenses and other current assets	$ 1,247	Accrued expenses	$ 3,077
Derivatives not designated as hedging instruments:				
Forward foreign ex				