

JABIL CIRCUIT INC  
Form 10-Q  
January 09, 2017  
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 November 30, 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**

**38-1886260**  
**(I.R.S. Employer**  
**Identification No.)**

**(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 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 December 26, 2016, there were 182,230,937 shares of the registrant's Common Stock outstanding.

**Table of Contents****JABIL CIRCUIT, INC. AND SUBSIDIARIES INDEX**

Part I	Financial Information	
Item 1.	Financial Statements	
	<u>Condensed Consolidated Balance Sheets at November 30, 2016 and August 31, 2016</u>	1
	<u>Condensed Consolidated Statements of Operations for the three months ended November 30, 2016 and 2015</u>	2
	<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended November 30, 2016 and 2015</u>	3
	<u>Condensed Consolidated Statements of Stockholders' Equity at November 30, 2016 and August 31, 2016</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended November 30, 2016 and 2015</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
Item 4.	<u>Controls and Procedures</u>	33
Part II	Other Information	
Item 1.	<u>Legal Proceedings</u>	35
Item 1A.	<u>Risk Factors</u>	35
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
Item 3.	<u>Defaults Upon Senior Securities</u>	35
Item 4.	<u>Mine Safety Disclosures</u>	35
Item 5.	<u>Other Information</u>	35
Item 6.	<u>Exhibits</u>	36
	<u>Signatures</u>	38

**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)**

	<b>November 30, 2016 (Unaudited)</b>	<b>August 31, 2016</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 747,415	\$ 912,059
Accounts receivable, net of allowance for doubtful accounts of \$12,874 at November 30, 2016 and \$11,094 at August 31, 2016	1,519,651	1,359,610
Inventories	2,506,199	2,456,612
Prepaid expenses and other current assets	1,310,151	1,120,100
<b>Total current assets</b>	<b>6,083,416</b>	<b>5,848,381</b>
Property, plant and equipment, net of accumulated depreciation of \$2,841,360 at November 30, 2016 and \$2,721,972 at August 31, 2016	3,279,844	3,331,879
Goodwill	590,935	594,773
Intangible assets, net of accumulated amortization of \$240,576 at November 30, 2016 and \$232,618 at August 31, 2016	287,268	296,954
Deferred income taxes	165,102	148,859
Other assets	137,281	101,831
<b>Total assets</b>	<b>\$ 10,543,846</b>	<b>\$ 10,322,677</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current installments of notes payable, long-term debt and capital lease obligations	\$ 43,198	\$ 45,810
Accounts payable	3,867,345	3,593,195
Accrued expenses	1,946,554	1,929,051
<b>Total current liabilities</b>	<b>5,857,097</b>	<b>5,568,056</b>
Notes payable, long-term debt and capital lease obligations, less current installments	2,067,712	2,074,012
Other liabilities	85,054	78,018
Income tax liabilities	89,174	90,804
Deferred income taxes	52,847	54,290
<b>Total liabilities</b>	<b>8,151,884</b>	<b>7,865,180</b>

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; 251,577,000 and 249,763,699 shares issued and 183,102,940 and 186,998,472 shares outstanding at November 30, 2016 and August 31, 2016, respectively	252	250
Additional paid-in capital	2,034,232	2,034,525
Retained earnings	1,733,208	1,660,820
Accumulated other comprehensive loss	(52,915)	(39,877)
Treasury stock at cost, 68,474,060 and 62,765,227 shares at November 30, 2016 and August 31, 2016, respectively	(1,340,832)	(1,217,547)
Total Jabil Circuit, Inc. stockholders equity	2,373,945	2,438,171
Noncontrolling interests	18,017	19,326
Total equity	2,391,962	2,457,497
Total liabilities and equity	\$ 10,543,846	\$ 10,322,677

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)

	<b>Three months ended</b>	
	<b>November 30, 2016</b>	<b>November 30, 2015</b>
Net revenue	\$ 5,104,898	\$ 5,207,977
Cost of revenue	4,673,392	4,724,442
Gross profit	431,506	483,535
Operating expenses:		
Selling, general and administrative	214,052	251,547
Research and development	7,623	8,292
Amortization of intangibles	8,322	7,840
Restructuring and related charges	35,902	1,353
Operating income	165,607	214,503
Other expense	4,680	1,765
Interest income	(2,455)	(2,064)
Interest expense	32,844	33,035
Income before income tax	130,538	181,767
Income tax expense	43,837	49,852
Net income	86,701	131,915
Net (loss) income attributable to noncontrolling interests, net of tax	(1,326)	30
Net income attributable to Jabil Circuit, Inc.	\$ 88,027	\$ 131,885
Earnings per share attributable to the stockholders of Jabil Circuit, Inc.:		
Basic	\$ 0.48	\$ 0.69
Diluted	\$ 0.47	\$ 0.68
Weighted average shares outstanding:		
Basic	185,292	190,355
Diluted	187,856	193,243
Cash dividends declared per common share	\$ 0.08	\$ 0.08

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

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>November 30, 2016</b>	<b>November 30, 2015</b>
Net income	\$ 86,701	\$ 131,915
Other comprehensive income:		
Foreign currency translation adjustment	(23,619)	(20,542)
Changes in fair value of derivative instruments, net of tax	8,234	(909)
Reclassification of net losses realized and included in net income related to derivative instruments, net of tax	3,597	11,064
Unrealized (loss) gain on available for sale securities	(1,250)	1,709
<b>Total other comprehensive loss</b>	<b>(13,038)</b>	<b>(8,678)</b>
Comprehensive income	\$ 73,663	\$ 123,237
Comprehensive (loss) income attributable to noncontrolling interests	(1,326)	30
Comprehensive income attributable to Jabil Circuit, Inc.	\$ 74,989	\$ 123,207

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		Jabil Circuit, Inc. Stockholders Equity					Total Equity
	Shares Outstanding	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	
Balance at August 31, 2016	186,998,472	\$ 250	\$ 2,034,525	\$ 1,660,820	\$ (39,877)	\$ (1,217,547)	\$ 19,326	\$ 2,457,497
Shares issued upon exercise of stock options	1,133							
Vesting of restricted stock awards	1,812,168	2	(2)					
Purchases of treasury stock under employee stock plans	(428,623)					(9,121)		(9,121)
Treasury shares purchased	(5,280,210)					(114,164)		(114,164)
Recognition of stock-based compensation			(291)					(291)
Declared dividends				(15,639)				(15,639)
Comprehensive income				88,027	(13,038)		(1,326)	73,663
Foreign currency adjustments attributable to noncontrolling interests							17	17
	183,102,940	252	\$ 2,034,232	\$ 1,733,208	\$ (52,915)	\$ (1,340,832)	\$ 18,017	\$ 2,391,962

Balance at  
November 30,  
2016

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>Three months ended</b>	
	<b>November 30, 2016</b>	<b>November 30, 2015</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 86,701	\$ 131,915
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	188,901	161,363
Restructuring and related charges	12,640	
Recognition of stock-based compensation expense and related charges	(291)	24,792
Deferred income taxes	(16,495)	(13,533)
Other, net	4,421	4,307
<b>Change in operating assets and liabilities, exclusive of net assets acquired:</b>		
Accounts receivable	(170,932)	(205,916)
Inventories	(32,520)	11,719
Prepaid expenses and other current assets	(218,379)	(84,182)
Other assets	(34,987)	2,434
Accounts payable, accrued expenses and other liabilities	332,881	112,592
<b>Net cash provided by operating activities</b>	<b>151,940</b>	<b>145,491</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment	(163,866)	(252,098)
Proceeds from sale of property, plant and equipment	1,472	3,027
Cash paid for business and intangible asset acquisitions, net of cash		(67,311)
Issuance of notes receivable		(27,500)
Other, net	(2,033)	(250)
<b>Net cash used in investing activities</b>	<b>(164,427)</b>	<b>(344,132)</b>
<b>Cash flows from financing activities:</b>		
Borrowings under debt agreements	1,676,000	1,975,231
Payments toward debt agreements	(1,685,151)	(1,478,213)
Payments to acquire treasury stock	(114,165)	(54,567)
Dividends paid to stockholders	(16,059)	(16,541)
Treasury stock minimum tax withholding related to vesting of restricted stock	(9,119)	(10,282)
Other, net		(1,500)

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Net cash (used in) provided by financing activities	(148,494)	414,128
Effect of exchange rate changes on cash and cash equivalents	(3,663)	894
Net (decrease) increase in cash and cash equivalents	(164,644)	216,381
Cash and cash equivalents at beginning of period	912,059	913,963
Cash and cash equivalents at end of period	\$ 747,415	\$ 1,130,344

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, 2016. Results for the three months ended November 30, 2016 are not necessarily an indication of the results that may be expected for the full fiscal year ending August 31, 2017.

**2. 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>November 30,</b>	<b>November 30,</b>
	<b>2016</b>	<b>2015</b>
<b>Numerator:</b>		
Net income attributable to Jabil Circuit, Inc.	\$ 88,027	\$ 131,885
<b>Denominator for basic and diluted earnings per share:</b>		
Denominator for basic earnings per share	185,292	190,355
<b>Dilutive common shares issuable under the employee stock purchase plan and upon exercise of stock options and stock appreciation rights</b>		
	178	155
Dilutive unvested restricted stock awards	2,386	2,733

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Denominator for diluted earnings per share	187,856	193,243
Earnings per share attributable to the stockholders of Jabil Circuit, Inc.:		
Basic	\$ 0.48	\$ 0.69
Diluted	\$ 0.47	\$ 0.68

For the three months ended November 30, 2016 and 2015, options to purchase 1,406,490 and 2,019,750 stock appreciation rights, respectively, were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive.

**Table of Contents****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 three months ended November 30, 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 2017:</b>	October 20, 2016	\$ 0.08	\$ 15,248	November 15, 2016	December 1, 2016
<b>Fiscal Year 2016:</b>	October 14, 2015	\$ 0.08	\$ 15,906	November 16, 2015	December 1, 2015

**3. Inventories**

Inventories consist of the following (in thousands):

	<b>November 30, 2016</b>	<b>August 31, 2016</b>
Raw materials	\$ 1,415,787	\$ 1,302,481
Work in process	636,757	675,867
Finished goods	494,711	510,485
Reserve for inventory obsolescence	(41,056)	(32,221)
<b>Total inventories, net</b>	<b>\$ 2,506,199</b>	<b>\$ 2,456,612</b>

**4. 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 \$(0.3) million and \$24.8 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 during the three months ended November 30, 2016 and 2015, respectively. During the three months ended November 30, 2016, the Company recorded a \$21.0 million reversal to stock-based compensation expense due to decreased expectations for the vesting of certain performance-based restricted stock awards. The Company recorded tax benefits related to the stock-based compensation expense of \$0.1 million and \$0.3 million, which is included in income tax expense within the Condensed Consolidated Statements of Operations for the three months ended November 30, 2016 and 2015, respectively.

The following table summarizes shares available for grant and stock appreciation rights (SARS) activity from August 31, 2016 through November 30, 2016:

<b>Shares Available for Grant</b>	<b>SARS Outstanding</b>	<b>Average Intrinsic Value (in</b>	<b>Weighted-Average Exercise</b>	<b>Weighted-Average Remaining</b>
-----------------------------------	-------------------------	------------------------------------	----------------------------------	-----------------------------------

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

			thousands)	Price	Contractual Life (years)
Balance at August 31, 2016	4,898,739	2,439,066	\$ 1,066	\$ 25.32	1.13
SARS canceled	1,331,769	(1,331,769)		\$ 29.27	
Restricted stock awards granted, net of forfeitures <sup>(a)</sup>	1,231,137				
SARS exercised		(28,818)		\$ 22.52	
Balance at November 30, 2016	7,461,645	1,078,479	\$ 1,052	\$ 20.55	2.08
Exercisable at November 30, 2016		1,078,479	\$ 1,052	\$ 20.55	2.08

<sup>(a)</sup> 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, 2016 through November 30, 2016:

	<b>Shares</b>	<b>Weighted-Average Grant-Date Fair Value</b>
Unvested balance at August 31, 2016	14,777,178	\$ 21.09
Changes during the period		
Shares granted <sup>(a)</sup>	2,705,180	\$ 23.57
Shares vested	(1,812,168)	\$ 21.25
Shares forfeited	(3,936,317)	\$ 20.79
Unvested balance at November 30, 2016	11,733,873	\$ 21.74

<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 restricted awards generally vest on a cliff vesting schedule over three years and provide a range of vesting possibilities of up to a maximum of 200%. 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 three months ended November 30, 2016 and 2015, the Company awarded approximately 1.0 million and 2.5 million time-based restricted stock units, respectively, 0.6 million and 1.3 million performance-based restricted stock units, respectively and 0.4 million and 0.4 million market-based stock units, respectively.

At November 30, 2016, there was \$74.6 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.

## 5. Concentration of Risk and Segment Data

### *a. Concentration of Risk*

Sales of the Company's products are concentrated among specific customers. During the three months ended November 30, 2016, the Company's five largest customers accounted for approximately 51% of its net revenue and 70 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.

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>November 30, 2016</b>	<b>November 30, 2015</b>
<b>Net revenue</b>		
EMS	\$ 2,703,290	\$ 2,724,414
DMS	2,401,608	2,483,563
	\$ 5,104,898	\$ 5,207,977
<b>Segment income and reconciliation of income before income tax</b>		
EMS	\$ 89,546	\$ 83,266
DMS	119,994	165,222
<i>Total segment income</i>	\$ 209,540	\$ 248,488
<b>Reconciling items:</b>		
Amortization of intangibles	8,322	7,840
Stock-based compensation expense and related charges	(291)	24,792
Restructuring and related charges	35,902	1,353
Other expense	4,680	1,765
Interest income	(2,455)	(2,064)
Interest expense	32,844	33,035
Income before income tax	\$ 130,538	\$ 181,767
	<b>November 30, 2016</b>	<b>August 31, 2016</b>
<b>Total assets</b>		
EMS	\$ 2,768,080	\$ 2,615,237
DMS	5,010,360	5,012,798
Other non-allocated assets	2,765,406	2,694,642
	\$ 10,543,846	\$ 10,322,677

As of November 30, 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 92.3% and 92.1% of net revenue during the three months ended November 30, 2016 and 2015, respectively.

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

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Notes payable, long-term debt and capital lease obligations outstanding at November 30, 2016 and August 31, 2016 are summarized below (in thousands):

	<b>November 30, 2016</b>	<b>August 31, 2016</b>
8.250% Senior Notes due 2018	\$ 398,791	\$ 398,552
5.625% Senior Notes due 2020	396,435	396,212
4.700% Senior Notes due 2022	496,205	496,041
4.900% Senior Notes due 2023	298,389	298,329
<b>Borrowings under credit facilities</b>		
Borrowings under loans	493,234	502,210
Capital lease obligations	27,856	28,478
Total notes payable, long-term debt and capital lease obligations	2,110,910	2,119,822
Less current installments of notes payable, long-term debt and capital lease obligations	43,198	45,810
Notes payable, long-term debt and capital lease obligations, less current installments	\$ 2,067,712	\$ 2,074,012

---

**Table of Contents**

The \$400.0 million of 8.250% senior unsecured notes, \$400.0 million of 5.625% senior unsecured notes, \$500.0 million of 4.700% senior unsecured notes and \$300.0 million of 4.900% senior unsecured notes outstanding are carried at the principal amount of each note, less any unamortized discount. The estimated fair values of the Company's publicly traded debt, including the 8.250%, 5.625% and 4.700% senior notes, were approximately \$431.4 million, \$433.3 million and \$514.5 million respectively, at November 30, 2016. The fair value estimates are based upon observable market data (Level 2 criteria). The estimated fair value of the Company's private debt, the 4.900% senior notes, was approximately \$306.1 million, at November 30, 2016. This fair value estimate is based on the Company's indicative borrowing cost derived from discounted cash flows (Level 3 criteria). The carrying amounts of borrowings under credit facilities and under loans approximates fair value as interest rates on these instruments approximates current market rates.

**7. 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 ended November 30, 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.

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.

In connection with the asset-backed securitization programs, the Company sold \$2.3 billion and \$1.9 billion of eligible trade accounts receivable during the three months ended November 30, 2016 and 2015, respectively. In exchange, the Company received cash proceeds of \$1.6 billion and \$1.5 billion during the three months ended November 30, 2016 and 2015, 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. At November 30, 2016 and 2015, the deferred purchase price receivables recorded in connection with the asset-backed securitization programs totaled approximately \$765.6 million and \$451.6 million, respectively.

The Company recognized pretax losses on the sales of receivables under the asset-backed securitization programs of approximately \$1.8 million and \$1.0 million during the three months ended November 30, 2016 and 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.

**Table of Contents*****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 is scheduled to expire on August 31, 2017 (as the agreement was automatically extended on October 31, 2016), although any party may elect to terminate the agreement upon 15 days prior notice. The \$150.0 million trade accounts receivable sale program is an uncommitted facility that is subject to expiration on August 31, 2017. The \$100.0 million trade accounts receivable sale program is an uncommitted facility that is scheduled to expire on October 31, 2017 (as the agreement was automatically extended on October 31, 2016), 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.

During the three months ended November 30, 2016 and 2015, the Company sold \$0.9 billion and \$1.4 billion of trade accounts receivable under these programs, respectively. In exchange, the Company received cash proceeds of \$0.9 billion and \$1.4 billion during the three months ended November 30, 2016 and 2015, respectively. The resulting losses on the sales of trade accounts receivable during the three months ended November 30, 2016 and 2015 were approximately \$1.2 million and \$1.0 million, respectively, and were recorded to other expense within the Condensed Consolidated Statements of Operations.

**8. 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, 2016 to November 30, 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, 2016	\$ 16,338	\$ 7,784	\$ (43,587)	\$ 941	\$ (21,353)	\$ (39,877)
Other comprehensive income (loss) before reclassifications	(23,619)	8,234			(1,250)	(16,635)
Amounts reclassified from AOCI		3,597				3,597
Other comprehensive (loss) income	(23,619)	11,831			(1,250)	(13,038)
Balance at November 30, 2016	\$ (7,281)	\$ 19,615	\$ (43,587)	\$ 941	\$ (22,603)	\$ (52,915)

The portion of AOCI reclassified into earnings during the three months ended November 30, 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 ended November 30, 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 ended November 30, 2016.



## 9. 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 ended November 30, 2016 and 2015 (in thousands):

	<b>Three months ended</b>	
	<b>November 30, 2016</b>	<b>November 30, 2015</b>
Service cost	\$ 259	\$ 222
Interest cost	746	1,268
Expected long-term return on plan assets	(1,129)	(1,463)
Recognized actuarial loss	476	266
Amortization of prior service cost	(34)	(35)
Net periodic benefit cost	\$ 318	\$ 258

During the three months ended November 30, 2016, the Company made contributions of approximately \$0.7 million to its defined benefit pension plans. The Company expects to make total cash contributions of between \$2.6 million and \$3.4 million to its funded pension plans during the fiscal year ended August 31, 2017.

---

**Table of Contents**

**10. 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, which was updated on June 22, 2016, 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 \$28.6 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.

**11. 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 \$261.3 million and \$323.3 million at November 30, 2016 and August 31, 2016, 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 December 1, 2016 and August 31, 2017.

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 November 30, 2016 and August 31, 2016, was \$1.7 billion and \$1.7 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 November 30, 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	\$	14,218		\$ 14,218
<b>Liabilities:</b>				
Forward foreign exchange contracts		(35,919)		(35,919)
<b>Total</b>	\$	(21,701)		\$ (21,701)

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 November 30, 2016 and August 31, 2016 (in thousands):

<b>Fair Values of Derivative Instruments</b>					
<b>Asset Derivatives</b>			<b>Liability Derivatives</b>		
<b>Balance Sheet</b>	<b>Fair</b>		<b>Fair</b>		
	<b>Value at</b>	<b>Fair Value at</b>	<b>Value at</b>	<b>Fair Value at</b>	
<b>Location</b>	<b>November 30,</b>	<b>August 31,</b>	<b>Balance Sheet</b>	<b>November 30,</b>	<b>August 31,</b>
	<b>2016</b>	<b>2016</b>	<b>Location</b>	<b>2016</b>	<b>2016</b>
<b>Derivatives designated as hedging instruments:</b>					
Forward foreign exchange contracts	Prepaid expenses and other current assets	\$ 1,015	\$ 420	Accrued expenses	\$ 9,214 \$ 1,986
<b>Derivatives not designated as hedging instruments:</b>					
Forward foreign exchange contracts	Prepaid expenses and other current assets	\$ 13,203	\$ 3,850	Accrued expenses	\$ 26,705 \$ 10,801

As of November 30, 2016 and August 31, 2016, 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 ended November 30, 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.

*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

## **Table of Contents**

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 ended November 30, 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 fourth quarter of fiscal year 2016, the Company entered into forward starting swap transactions to hedge the fixed interest rate payments for an anticipated debt issuance. The forward starting swaps have an aggregate notional amount of \$200.0 million and have been designated as hedging instruments and accounted for as cash flow hedges. The forward starting swaps are scheduled to expire on March 15, 2018. If the anticipated debt issuance occurs before March 15, 2018, the contracts will be terminated simultaneously with the debt issuance. The contracts will be settled with the respective counterparties on a net basis at the time of termination or expiration. Changes in the fair value of the forward starting swap transactions are recorded on the Company's Condensed Consolidated Balance Sheets as a component of AOCI.

During the fourth quarter of fiscal year 2016, the Company entered into interest rate swap transactions to hedge the variable interest rate payments for the Term Loan Facility. In connection with this transaction, the Company will pay interest based upon a fixed rate as agreed upon with the respective counterparties and receive variable rate interest payments based on the one-month LIBOR. The interest rate swaps have an aggregate notional amount of \$200.0 million and have been designated as hedging instruments and accounted for as cash flow hedges. The interest rate swaps are effective on September 30, 2016 and scheduled to expire on June 30, 2019. The contracts will be settled with the respective counterparties on a net basis at each settlement date. Changes in the fair value of the interest rate swap transactions are recorded on the Company's Condensed Consolidated Balance Sheets as a component of AOCI.

## **12. Restructuring and Related Charges**

### ***2017 Restructuring Plan***

In conjunction with the restructuring plan that was approved by the Company's Board of Directors on September 15, 2016 (the 2017 Restructuring Plan), the Company charged \$34.1 million of restructuring and related charges to the Condensed Consolidated Statement of Operations during the three months ended November 30, 2016. The 2017 Restructuring Plan is intended to better align the Company's global capacity and administrative support infrastructure in order to further optimize organizational effectiveness. This action includes headcount reductions across the Company's Selling, General and Administrative cost base and capacity realignment in higher cost locations. The restructuring and related charges during the three months ended November 30, 2016 include cash costs of \$17.9 million related to employee severance and benefit costs, \$3.3 million related to lease costs and \$0.2 million of other related costs, as well as non-cash costs of \$12.7 million related to asset write-off costs.

**Table of Contents**

The Company currently expects to recognize approximately \$195.0 million in pre-tax restructuring and other related costs over the course of the Company's fiscal years 2017 and 2018. Since the inception of the 2017 Restructuring Plan, a total of \$34.1 million of restructuring and related costs have been recognized. Of the \$34.1 million recognized to date, \$5.5 million was allocated to the EMS segment, \$11.5 million was allocated to the DMS segment and \$17.1 million was not allocated to a segment. The charges related to the 2017 Restructuring Plan, excluding asset write-off costs, are currently expected to result in net cash expenditures of approximately \$50.0 million that have been or will be payable over the course of the Company's fiscal years 2017 and 2018. The remaining \$160.9 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 table below set forth the significant components and activity in the 2017 Restructuring Plan during the three months ended November 30, 2016 (in thousands):

**2017 Restructuring Plan Three Months Ended November 30, 2016**

	<b>Liability Balance at August 31, 2016</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 November 30, 2016</b>
Employee severance and benefit costs	\$	\$ 17,896	\$ (15)	\$ (7,987)	\$ 9,894
Lease costs		3,291		(767)	2,524
Asset write-off costs		12,640	(12,640)		
Other related costs		235		(146)	89
<b>Total</b>	<b>\$</b>	<b>\$ 34,062</b>	<b>\$ (12,655)</b>	<b>\$ (8,900)</b>	<b>\$ 12,507</b>

**Table of Contents**

The tables below set forth the significant components and activity in the 2017 Restructuring Plan by reportable segment during the three months ended November 30, 2016 (in thousands):

**2017 Restructuring Plan Three Months Ended November 30, 2016**

	<b>Liability Balance at August 31, 2016</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 November 30, 2016</b>
EMS	\$	\$ 5,521	\$ (5,070)	\$ (326)	\$ 125
DMS		11,504	(7,577)	(1,144)	2,783
Other		17,037	(8)	(7,430)	9,599
Total	\$	\$ 34,062	\$ (12,655)	\$ (8,900)	\$ 12,507

**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 \$1.8 million and \$1.4 million of restructuring and related charges to the Condensed Consolidated Statement of Operations during the three months ended November 30, 2016 and 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. The restructuring and related charges during the three months ended November 30, 2016 and 2015 include cash costs of \$1.5 million and \$1.1 million related to employee severance and benefit costs, respectively, and \$0.3 million and \$0.3 million of other related costs, respectively.

The Company currently expects to recognize approximately \$179.0 million 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 \$163.7 million of restructuring and related costs have been recognized. Of the \$163.7 million recognized to date, \$126.0 million was allocated to the EMS segment, \$28.8 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 \$15.3 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 ended November 30, 2016 and 2015 (in thousands):

**2013 Restructuring Plan Three Months Ended November 30, 2016**



	<b>Liability Balance at</b>	<b>Restructuring</b>	<b>Asset</b>	<b>Write-off</b>	<b>Cash</b>	<b>Liability Balance at</b>
	<b>August 31,</b>	<b>Related</b>	<b>Charge and Other</b>	<b>Non-Cash Activity</b>	<b>Payments</b>	<b>November</b>
	<b>2016</b>	<b>Charges</b>	<b>Non-Cash Activity</b>			<b>30, 2016</b>
Employee severance and benefit costs	\$ 17,266	\$ 1,490	\$ (669)	\$ (2,883)		\$ 15,204
Lease costs	21					21
Other related costs	740	350	(32)	(338)		720
<b>Total</b>	<b>\$ 18,027</b>	<b>\$ 1,840</b>	<b>\$ (701)</b>	<b>\$ (3,221)</b>		<b>\$ 15,945</b>

**2013 Restructuring Plan Three Months Ended November 30, 2015**

	<b>Liability Balance at</b>	<b>Restructuring</b>	<b>Asset</b>	<b>Write-off</b>	<b>Cash</b>	<b>Liability Balance at</b>
	<b>August 31,</b>	<b>Related</b>	<b>Charge and Other</b>	<b>Non-Cash Activity</b>	<b>Payments</b>	<b>November</b>
	<b>2015</b>	<b>Charges</b>	<b>Non-Cash Activity</b>			<b>30, 2015</b>
Employee severance and benefit costs	\$ 30,047	\$ 1,078	\$ (1,396)	\$ (8,954)		\$ 20,775
Lease costs	64					64
Other related costs	846	275	(49)	(216)		856
<b>Total</b>	<b>\$ 30,957</b>	<b>\$ 1,353</b>	<b>\$ (1,445)</b>	<b>\$ (9,170)</b>		<b>\$ 21,695</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 ended November 30, 2016 and 2015 (in thousands):

**2013 Restructuring Plan Three Months Ended November 30, 2016**

	Liability Balance at Restructuring August 31, 2016	Related Charges	Asset Write-off Charge and Other Non-Cash Activity	Cash Payments	Liability Balance at November 30, 2016
EMS	\$ 17,338	\$ 1,840	\$ (689)	\$ (3,101)	\$ 15,388
DMS	689		(12)	(120)	557
Other					
Total	\$ 18,027	\$ 1,840	\$ (701)	\$ (3,221)	\$ 15,945

**2013 Restructuring Plan Three Months Ended November 30, 2015**

	Liability Balance at Restructuring August 31, 2015	Related Charges	Asset Write-off Charge and Other Non-Cash Activity	Cash Payments	Liability Balance at November 30, 2015
EMS	\$ 28,834	\$ 1,236	\$ (1,426)	\$ (8,565)	\$ 20,079
DMS	1,960	236	(19)	(561)	1,616
Other	163	(119)		(44)	
Total	\$ 30,957	\$ 1,353	\$ (1,445)	\$ (9,170)	\$ 21,695

**13. 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 Consolidated Statement of Cash Flows as a component of cash flows from operating activities), with the exception of the real property, which closed on July 7, 2016, for approximately \$33.3 million. Hanson is engaged in the business of manufacturing certain parts for customers in the DMS segment.

The acquisition of certain Hanson assets has been accounted for as a business combination using the acquisition method of accounting. Assets acquired of \$406.4 million, including \$276.8 million in property, plant and equipment, \$129.6 million in goodwill and intangible assets assigned to customer relationships, liabilities assumed of \$230.0 million and \$3.9 million of deferred tax liabilities were recorded at their estimated fair values as of the acquisition date. 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 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 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.

---

**Table of Contents****14. New Accounting Guidance*****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 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 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 condensed consolidated balance sheet. The Company is currently assessing any other impacts this new standard will have on its Condensed Consolidated Financial Statements.

During the fourth quarter of fiscal year 2016, the FASB issued an accounting standard, which replaces the existing incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This guidance is effective for the Company beginning in the first quarter of fiscal year 2021 and early adoption is permitted beginning in the first quarter of fiscal year 2020. This guidance must be applied using a modified retrospective or prospective transition method, depending on the area covered by this accounting standard. The Company is currently assessing the impact this new standard may have on its Condensed Consolidated Financial Statements.

During the fourth quarter of fiscal year 2016, the FASB issued a new accounting standard to address the presentation of certain transactions within the statement of cash flows with the objective of reducing the existing diversity in practice. This guidance is effective for the Company beginning in the first quarter of fiscal year 2019 and early adoption is permitted. The Company is currently assessing the impact this new standard may have on its Condensed Consolidated Financial Statements.

During the first quarter of fiscal year 2017, the FASB issued a new accounting standard to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new standard eliminates the exception for an intra-entity transfer of an asset other than inventory and requires an entity to recognize the income tax consequences when the transfer occurs. This guidance is effective for the Company beginning in the first quarter of fiscal year 2019 and early adoption is permitted. This guidance should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently assessing the impact this new standard may have on its Condensed Consolidated Financial Statements.

## **15. Income Taxes**

The effective tax rate differed from the U.S. federal statutory rate of 35% during the three months ended November 30, 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, Singapore and Vietnam; and (c) losses in tax jurisdictions with existing valuation allowances. 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.

**Table of Contents**

**16. Subsequent Events**

The Company has evaluated subsequent events that occurred through the date of the filing of the Company's first quarter of fiscal year 2017 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*

*Management's Discussion and Analysis of Financial Condition and Results of Operations section contained in this document, as well as the Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations sections contained in our Annual Report on Form 10-K for the fiscal year ended August 31, 2016, 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.*

## **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 three months ended November 30, 2016, our largest customers include Apple, Inc., Cisco Systems, Inc., GoPro, Inc., Hewlett-Packard Company, Ingenico S.A., LM Ericsson Telephone Company, NetApp, Inc., Sony Mobile Communications, Inc., Valeo S.A. and Zebra Technologies Corporation. For the three months ended November 30, 2016, we had net revenues of approximately \$5.1 billion and net income attributable to Jabil Circuit, Inc. of approximately \$88.0 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.

**Table of Contents**

Our reportable operating segments consist of 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.

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 try to respond appropriately as circumstances continue to change.

*Summary of Results*

The following table sets forth, for the three months ended November 30, 2016 and 2015, certain key operating results and other financial information (in thousands, except per share data):

	<b>Three months ended</b>	
	<b>November 30, 2016</b>	<b>November 30, 2015</b>
Net revenue	\$ 5,104,898	\$ 5,207,977
Gross profit	\$ 431,506	\$ 483,535
Operating income	\$ 165,607	\$ 214,503
Net income attributable to Jabil Circuit, Inc.	\$ 88,027	\$ 131,885
Net earnings per share basic	\$ 0.48	\$ 0.69
Net earnings per share diluted	\$ 0.47	\$ 0.68
Cash dividend per share declared	\$ 0.08	\$ 0.08

*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:

	<b>Three Months Ended</b>			
	<b>November 30, 2016</b>	<b>August 31, 2016</b>	<b>May 31, 2016</b>	<b>February 29, 2016</b>
Sales cycle	1 day	3 days	7 days	13 days
Inventory turns (annualized)	7 turns	7 turns	7 turns	7 turns
Days in accounts receivable	27 days	28 days	27 days	30 days
Days in inventory	48 days	54 days	52 days	51 days
Days in accounts payable	74 days	79 days	72 days	68 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 November 30, 2016, days in accounts receivable decreased 1 day 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 November 30, 2016, days in inventory decreased 6 days as compared to the prior sequential quarter due to increased sales activity during the quarter. During the three months ended November 30, 2016, days in accounts payable decreased 5 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 November 30, 2016, inventory turns, on an annualized basis, remained consistent with the prior sequential quarter. The changes in the sales cycle during the three months ended November 30, 2016, are due to the changes in accounts receivable, accounts payable and inventory that are discussed above.

### **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

**Table of Contents**

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, 2016.

**Recent Accounting Pronouncements**

See Note 14 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 ended November 30, 2016 and 2015, certain statements of operations data expressed as a percentage of net revenue:

	<b>Three months ended</b>	
	<b>November 30,</b>	<b>November 30,</b>
	<b>2016</b>	<b>2015</b>
Net revenue	100.0%	100.0%
Cost of revenue	91.5	90.7
Gross profit	8.5	9.3
Operating expenses:		
Selling, general and administrative	4.2	4.8
Research and development	0.2	0.2
Amortization of intangibles	0.2	0.2
Restructuring and related charges	0.7	0.0
Operating income	3.2	4.1
Other expense	0.1	0.0
Interest income	(0.1)	(0.0)
Interest expense	0.6	0.6
Income before income tax	2.6	3.5
Income tax expense	0.9	1.0
Net income	1.7	2.5
Net income attributable to noncontrolling interests, net of tax	(0.0)	0.0
Net income attributable to Jabil Circuit, Inc.	1.7%	2.5%

**The Three Months Ended November 30, 2016 Compared to the Three Months Ended November 30, 2015**

**Net Revenue.** Net revenue decreased 2.0% to \$5.1 billion during the three months ended November 30, 2016, compared to \$5.2 billion during the three months ended November 30, 2015. Specifically, the DMS segment revenues decreased 3% due to a 10% decrease in revenues from customers within our mobility business due to weakened end user product demand, partially offset by a 5% increase in revenues due to new business from existing customers in our consumer lifestyles and wearable technologies business and a 2% increase in revenues due to new business from existing customers in our healthcare business. EMS segment revenues decreased 1% due to a mix of increases and decreases spread across various 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 the less than anticipated product demand that we experienced within our DMS segment that impacted our prior year second, third and fourth fiscal quarters; 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.

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

	<b>Three months ended</b>	
	<b>November 30,</b>	<b>November 30,</b>
	<b>2016</b>	<b>2015</b>
<b>EMS</b>	<b>53%</b>	<b>52%</b>
<b>DMS</b>	<b>47%</b>	<b>48%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>

Foreign source revenue represented 92.3% of our net revenue for the three months ended November 30, 2016 and 92.1% of net revenue for the three months ended November 30, 2015. We currently expect our foreign source revenue to decrease slightly as compared to current levels over the course of the next 12 months.

---

**Table of Contents**

**Gross Profit.** Gross profit decreased to \$431.5 million (8.5% of net revenue) during the three months ended November 30, 2016, compared to \$483.5 million (9.3% of net revenue) during the three months ended November 30, 2015 primarily due to revenues from existing customers in our DMS segment within the mobility business decreasing at a higher rate than certain of our fixed costs.

**Selling, General and Administrative.** Selling, general and administrative expenses decreased to \$214.1 million (4.2% of net revenue) during the three months ended November 30, 2016, compared to \$251.5 million (4.8% of net revenue) during the three months ended November 30, 2015. Selling, general and administrative expenses decreased during the three months ended November 30, 2016 as compared to the three months ended November 30, 2015 primarily as a result of a \$21.0 million reversal to stock-based compensation expense due to decreased expectations for the vesting of certain performance-based restricted stock awards. The remaining decrease was primarily driven by salary and salary related expenses and other costs.

**Research and Development.** Research and development expenses remained relatively consistent at \$7.6 million (0.2% of net revenue) during the three months ended November 30, 2016, compared to \$8.3 million (0.2% of net revenue) during the three months ended November 30, 2015.

**Amortization of Intangibles.** Amortization of intangibles remained relatively consistent at \$8.3 million during the three months ended November 30, 2016, compared to \$7.8 million during the three months ended November 30, 2015.

**Restructuring and Related Charges.**

*2017 Restructuring Plan*

In conjunction with the 2017 Restructuring Plan, we charged \$34.1 million of restructuring and related charges to the Condensed Consolidated Statements of Operations during the three months ended November 30, 2016. The restructuring and related charges during the three months ended November 30, 2016 include cash costs of \$17.9 million related to employee severance and benefit costs, \$3.3 million related to lease costs and \$0.2 million of other related costs, respectively, as well as non-cash costs of \$12.7 million related to asset write-off costs.

Upon its completion, the 2017 Restructuring Plan is expected to yield annualized cost savings in the range of \$70.0 million to \$90.0 million. The annual cost savings is expected to be reflected as a reduction in cost of revenue as well as a reduction of selling, general and administrative expense. We currently expect to begin to realize a portion of these costs savings in the second quarter of fiscal year 2017, and we are still evaluating any cost savings offsets.

*2013 Restructuring Plan*

In conjunction with the 2013 Restructuring Plan, we charged \$1.8 million of restructuring and related charges to the Condensed Consolidated Statements of Operations during the three months ended November 30, 2016 compared to \$1.4 million during the three months ended November 30, 2015. The restructuring and related charges during the three months ended November 30, 2016 and 2015 include cash costs of \$1.5 million and \$1.1 million related to employee severance and benefit costs, respectively and \$0.3 million and \$0.3 million of other related costs, respectively.

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.

For further discussion of restructuring and related charges related to the 2017 and 2013 Restructuring Plan, refer to Note 12 Restructuring and Related Charges to the Condensed Consolidated Financial Statements.

**Interest Income.** Interest income remained relatively consistent at \$2.5 million during the three months ended November 30, 2016, compared to \$2.1 million during the three months ended November 30, 2015.

---

**Table of Contents**

**Interest Expense.** Interest expense remained relatively consistent at \$32.8 million during the three months ended November 30, 2016, compared to \$33.0 million during the three months ended November 30, 2015.

**Other Expense.** Other expense increased to \$4.7 million for the three months ended November 30, 2016 compared to \$1.8 million for the three months ended November 30, 2015. The increase is primarily due to an increase in fees associated with the asset-backed securitization programs and a loss associated with a cost method investment.

**Income Tax Expense.** Income tax expense reflects an effective tax rate of 33.6% for the three months ended November 30, 2016, compared to an effective tax rate of 27.4% for the three months ended November 30, 2015.

The effective tax rate for the three months ended November 30, 2016 increased from the effective tax rate for the three months ended November 30, 2015 primarily due to the decrease in income in low tax-rate jurisdictions and the increase in losses in tax jurisdictions with existing valuation allowances during fiscal year 2017.

**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 to make operating decisions, assess business performance and as a factor in determining certain employee performance when determining incentive compensation.

We determine the tax effect of the items excluded from core earnings and core basic and diluted earnings per share based upon evaluation of the statutory tax treatment and the applicable tax rate of the jurisdiction in which the pre-tax items were incurred, and for which realization of the resulting tax benefit, if any, is expected. In certain jurisdictions where we do not expect to realize a tax benefit (due to a history of operating losses or other factors resulting in a valuation allowance related to deferred tax assets), a 0% tax rate is applied.

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>November 30, 2016</b>	<b>November 30, 2015</b>
<b>Operating income (U.S. GAAP)</b>	\$ 165,607	\$ 214,503
Amortization of intangibles	8,322	7,840
Stock-based compensation expense and related charges	(291)	24,792
Restructuring and related charges	35,902	1,353
<b>Core operating income (Non-U.S. GAAP)</b>	<b>\$ 209,540</b>	<b>\$ 248,488</b>
<b>Net income attributable to Jabil Circuit, Inc. (U.S. GAAP)</b>	<b>\$ 88,027</b>	<b>\$ 131,885</b>
Amortization of intangibles	8,322	7,840
Stock-based compensation expense and related charges	(291)	24,792
Restructuring and related charges	35,902	1,353
Adjustments for taxes	(2,325)	(987)
<b>Core earnings (Non-U.S. GAAP)</b>	<b>\$ 129,635</b>	<b>\$ 164,883</b>
<b>Earnings per share (U.S. GAAP):</b>		
Basic	\$ 0.48	\$ 0.69
Diluted	\$ 0.47	\$ 0.68
<b>Core earnings per share (Non-U.S. GAAP):</b>		
Basic	\$ 0.70	\$ 0.87
Diluted	\$ 0.69	\$ 0.85
<b>Weighted average shares outstanding used in the calculations of earnings per share (U.S. GAAP &amp; Non-U.S. GAAP):</b>		
Basic	185,292	190,355
Diluted	187,856	193,243

Core operating income decreased 15.7% to \$209.5 million during the three months ended November 30, 2016, compared to \$248.5 million during the three months ended November 30, 2015. Core earnings decreased 21.4% to \$129.6 million during the three months ended November 30, 2016, compared to \$164.9 million during the three months ended November 30, 2015. 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 Ended November 30, 2016 Compared to the Three Months Ended November 30, 2015.

### **Acquisitions and Expansion**

As discussed in Note 13 – Business Acquisitions to the Condensed Consolidated Financial Statements, we completed three acquisitions during the fiscal year ended August 31, 2016. 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.

### **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.

### **Liquidity and Capital Resources**

At November 30, 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.

**Table of Contents****Cash Flows**

The following table sets forth selected consolidated cash flow information during the three months ended November 30, 2016 and 2015 (in thousands):

	<b>Three months ended</b>	
	<b>November 30,</b>	<b>November 30,</b>
	<b>2016</b>	<b>2015</b>
Net cash provided by operating activities	\$ 151,940	\$ 145,491
Net cash used in investing activities	(164,427)	(344,132)
Net cash (used in) provided by financing activities	(148,494)	414,128
Effect of exchange rate changes on cash and cash equivalents	(3,663)	894
Net (decrease) increase in cash and cash equivalents	\$ (164,644)	\$ 216,381

Net cash provided by operating activities during the three months ended November 30, 2016 was approximately \$151.9 million. This resulted primarily from net income of \$86.7 million, \$188.9 million in non-cash depreciation and amortization expense, a \$170.9 million increase in accounts receivable, \$32.5 million increase in inventories and \$(0.3) million of recognized stock-based compensation expense and related charges; coupled with a \$218.4 million increase in prepaid expenses and other current assets and a \$332.9 million increase in accounts payable, accrued expenses and other liabilities. The increase in accounts receivable is primarily driven by the timing of sales and collections activity coupled with higher sales. The increase in inventories was primarily to support expected revenue levels in the second quarter of fiscal year 2017. 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 and the timing of cash collections, partially offset by a decrease in the value added tax receivables. The increase in accounts payable, accrued expenses and other liabilities was primarily driven by the timing of purchases and cash payments and fluctuations in materials purchases across multiple segments and divisions.

Net cash used in investing activities during the three months ended November 30, 2016 was \$164.4 million. This consisted primarily of capital expenditures of \$163.9 million principally to support ongoing business in the DMS and EMS segments.

Net cash used in financing activities during the three months ended November 30, 2016 was \$148.5 million. This resulted from our receipt of approximately \$1.7 billion of proceeds from borrowings under existing debt agreements, which primarily included an aggregate of \$1.5 billion of borrowings under the Revolving Credit Facility and \$173.0 million under credit facilities with foreign subsidiaries. This was offset by repayments in an aggregate amount of approximately \$1.7 billion, which primarily included an aggregate of \$1.5 billion of repayments under the Revolving Credit Facility and \$173.0 million under credit facilities with foreign subsidiaries. In addition, during the three months ended November 30, 2016 we paid \$114.2 million, including commissions, to repurchase 5,280,210 of our common shares, we paid \$16.1 million in dividends to stockholders and we paid \$9.1 million (the equivalent of 428,623 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 \$9.1 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 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 7 Trade Accounts Receivable Securitization and Sale Programs to the Condensed Consolidated Financial Statements for further details on the programs.

**Table of Contents*****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.

In connection with our asset-backed securitization programs, at November 30, 2016, we sold \$1.2 billion 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 \$456.7 million and a deferred purchase price receivable. At November 30, 2016, the deferred purchase price receivable in connection with the asset-backed securitization programs totaled \$765.6 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 is scheduled to expire August 31, 2017 (as the agreement was automatically extended on October 31, 2016), although any party may elect to terminate the agreement upon 15 days prior notice. The \$150.0 million trade accounts receivable sale program is an uncommitted facility that is subject to expiration on August 31, 2017. The \$100.0 million trade accounts receivable sale program is an uncommitted facility that is scheduled to expire on October 31, 2017 (as the agreement was automatically extended on October 31, 2016), 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.

During the three months ended November 30, 2016, we sold \$0.9 billion of trade accounts receivable under these programs and we received cash proceeds of \$0.9 billion.

Notes payable, long-term debt and capital lease obligations outstanding at November 30, 2016 and August 31, 2016 are summarized below (in thousands):

	<b>November 30, 2016</b>	<b>August 31, 2016</b>
8.250% Senior Notes due 2018	398,791	398,552
5.625% Senior Notes due 2020	396,435	396,212
4.700% Senior Notes due 2022	496,205	496,041
4.900% Senior Notes due 2023	298,389	298,329



Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Borrowings under credit facilities		
Borrowings under loans	493,234	502,210
Capital lease obligations	27,856	28,478
Total notes payable, long-term debt and capital lease obligations	2,110,910	2,119,822
Less current installments of notes payable, long-term debt and capital lease obligations	43,198	45,810
Notes payable, long-term debt and capital lease obligations, less current installments	\$ 2,067,712	\$ 2,074,012

At November 30, 2016 and August 31, 2016, we were in compliance with all covenants under our debt agreements and our asset-backed securitization programs.

## Table of Contents

### *Uses*

At November 30, 2016, we had approximately \$747.4 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 \$589.7 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 \$600.0 million, principally to support ongoing business in the DMS and EMS segments. 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.

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. During the fourth quarter of fiscal year 2016, we repurchased 4.9 million shares, which utilized \$93.7 million of the \$400.0 million authorized by our Board of Directors. During the first quarter of fiscal year 2017, we repurchased 5.3 million shares, utilizing a total of \$114.1 million of the \$400.0 million authorized by our Board of Directors.

On October 20, 2016, our Board of Directors approved payment of a quarterly dividend of \$0.08 per share to shareholders of record as of November 15, 2016. Of the total cash dividend declared on October 20, 2016 of \$15.2 million, \$14.7 million was paid on December 1, 2016. The remaining \$0.5 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 is scheduled to expire on May 1, 2018. We may be unable to renew either of these programs. We can offer no assurance under the \$650.0 million, \$150.0 million or the \$100.0 million 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.

***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 arrangements; non-cancelable purchase order obligations for property, plant and equipment; and pension and postretirement contributions and payments as of November 30, 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.

**Table of Contents**

	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	\$ 2,110,910	\$ 43,198	\$ 501,632	\$ 749,730	\$ 816,350
Future interest on notes payable, long-term debt and capital lease obligations <sup>(a)</sup>	423,970	106,328	155,914	109,752	51,976
Operating lease obligations	540,869	102,611	155,332	111,685	171,241
Non-cancelable purchase order obligations <sup>(b)</sup>	102,492	90,366	12,126		
Pension and postretirement contributions and payments <sup>(c)</sup>	9,094	3,523	856	1,188	3,527
Total contractual cash obligations <sup>(d)</sup>	\$ 3,187,335	\$ 346,026	\$ 825,860	\$ 972,355	\$ 1,043,094

(a) 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 to determine the value of these expected future interest payments.

(b) Consists of purchase commitments entered into as of November 30, 2016 for property, plant and equipment pursuant to legally enforceable and binding agreements.

(c) Includes the estimated company contributions to funded pension plans for the annualized nine month period following the first quarter of fiscal year 2017 and the expected benefit payments for unfunded pension and postretirement plans through 2026. These future payments are not recorded on the Condensed Consolidated Balance Sheets but will be recorded when paid.

(d) At November 30, 2016, we have \$2.4 million and \$89.2 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 November 30, 2016, except for certain foreign currency contracts with a notional amount outstanding of \$261.3 million and a fair value of \$1.0 million recorded in prepaid expenses and other current assets and \$9.2 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 November 30, 2016 that are not designated as accounting hedges was \$1.7 billion. The fair values of these contracts amounted to a \$13.2 million asset recorded in prepaid expenses and other current assets and a \$26.7 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 nine months being the maximum term of the contracts outstanding at November 30, 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, Japanese yen, Malaysian ringgits, Mexican pesos, Polish zlotys, Russian rubles, Singapore dollars, South African rand, Swedish krona, Swiss francs, Taiwan dollars and U.S. dollars.

Based on our overall currency rate exposures as of November 30, 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.

---

**Table of Contents****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 November 30, 2016, there were no significant outstanding investments.

During the fourth quarter of fiscal year 2016, we entered into forward starting swap transactions to hedge the fixed interest rate payments for an anticipated debt issuance. The forward starting swaps have an aggregate notional amount of \$200.0 million and have been designated as hedging instruments and accounted for as cash flow hedges. The forward starting swaps are scheduled to expire on March 15, 2018. If the anticipated debt issuance occurs before March 15, 2018, the contracts will be terminated simultaneously with the debt issuance. The contracts will be settled with the respective counterparties on a net basis at the time of termination or expiration. Changes in the fair value of the forward starting swap transactions are recorded on our Condensed Consolidated Balance Sheets as a component of accumulated other comprehensive income ( AOCI ).

During the fourth quarter of fiscal year 2016, we entered into interest rate swap transactions to hedge the variable interest rate payments for the Term Loan Facility. In connection with this transaction, we will pay interest based upon a fixed rate as agreed upon with the respective counterparties and receive variable rate interest payments based on the one-month LIBOR. The interest rate swaps have an aggregate notional amount of \$200.0 million and have been designated as hedging instruments and accounted for as cash flow hedges. The interest rate swaps are effective on September 30, 2016 and scheduled to expire on June 30, 2019. The contracts will be settled with the respective counterparties on a net basis at each settlement date. Changes in the fair value of the interest rate swap transactions are recorded on our Condensed Consolidated Balance Sheets as a component of AOCI.

We pay interest on several of our outstanding borrowings at interest rates that fluctuate based upon changes in various base interest rates. There were \$475.0 million in borrowings outstanding under these facilities at November 30, 2016. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 6—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 November 30, 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 November 30, 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**

For information regarding risk factors that could affect our business, results of operations, financial condition or future results, see Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended August 31, 2016. For further information on our forward-looking statements see Part I of this Quarterly Report on Form 10-Q.

**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 November 30, 2016:

<b>Period</b>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program<sup>(2)</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)</b>
September 1, 2016				
September 30, 2016	804,876	\$ 21.72	804,541	\$ 288,850,188
October 1, 2016 – October 31, 2016	3,510,836	\$ 21.70	3,083,135	\$ 221,753,302
November 1, 2016				
November 30, 2016	1,393,121	\$ 21.17	1,392,534	\$ 192,266,237
<b>Total</b>	<b>5,708,833</b>	<b>\$ 21.58</b>	<b>5,280,210</b>	<b>\$ 192,266,237</b>

(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 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. During the fourth quarter of fiscal year 2016, we repurchased 4.9 million shares, which utilized \$93.7 million of the \$400.0 million authorized by our Board of Directors. During the first quarter of fiscal year 2017, we repurchased 5.3 million shares, utilizing a total of \$114.1 million of the \$400.0 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**

<b>Exhibit 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.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

**Table of Contents**

- (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) 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.

Certain instruments with respect to long-term debt of the Registrant and its consolidated subsidiaries are not filed herewith pursuant to Item 601(b)(4)(iii) of Regulation S-K since the total amount of securities authorized under each such instrument does not exceed

10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

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: January 9, 2017

By: /s/ MARK T. MONDELLO  
**Mark T. Mondello**  
**Chief Executive Officer**

Date: January 9, 2017

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

---

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

<b>Exhibit 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.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.