

JABIL CIRCUIT INC  
Form 10-Q  
January 09, 2014  
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, 2013

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.**

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**10560 Dr. Martin Luther King, Jr. Street North, St. Petersburg, Florida 33716**  
(Address of principal executive offices) (Zip Code)

**(727) 577-9749**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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.

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

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 January 6, 2014, there were 206,224,627 shares of the registrant's Common Stock outstanding.

**Table of Contents**

**JABIL CIRCUIT, INC. AND SUBSIDIARIES INDEX**

**Part I Financial Information**

Item 1.	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets at November 30, 2013 and August 31, 2013</u>	3
	<u>Condensed Consolidated Statements of Operations for the three months ended November 30, 2013 and 2012</u>	4
	<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended November 30, 2013 and 2012</u>	5
	<u>Condensed Consolidated Statements of Stockholders' Equity at November 30, 2013 and August 31, 2013</u>	6
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended November 30, 2013 and 2012</u>	7
	<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4.	<u>Controls and Procedures</u>	36

**Part II Other Information**

Item 1.	<u>Legal Proceedings</u>	37
Item 1A.	<u>Risk Factors</u>	37
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	54
Item 3.	<u>Defaults Upon Senior Securities</u>	54
Item 4.	<u>Mine Safety Disclosures</u>	54
Item 5.	<u>Other Information</u>	54
Item 6.	<u>Exhibits</u>	55
	<u>Signatures</u>	57

**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)

	November 30, 2013 (Unaudited)	August 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 769,223	\$ 1,011,373
Accounts receivable, net of allowance for doubtful accounts of \$1,875 at November 30, 2013 and \$2,717 at August 31, 2013	1,430,997	1,281,425
Inventories	2,166,797	2,302,155
Prepaid expenses and other current assets	1,165,090	1,165,984
Income taxes receivable	26,280	13,048
Deferred income taxes	50,308	46,260
<b>Total current assets</b>	<b>5,608,695</b>	<b>5,820,245</b>
Property, plant and equipment, net of accumulated depreciation of \$1,898,449 at November 30, 2013 and \$1,810,736 at August 31, 2013	2,474,466	2,395,598
Goodwill	457,972	436,205
Intangible assets, net of accumulated amortization of \$165,401 at November 30, 2013 and \$157,660 at August 31, 2013	304,694	304,230
Deferred income taxes	87,170	94,069
Other assets	96,405	103,434
<b>Total assets</b>	<b>\$ 9,029,402</b>	<b>\$ 9,153,781</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current installments of notes payable, long-term debt and capital lease obligations	\$ 117,230	\$ 215,536
Accounts payable	3,185,090	3,301,235
Accrued expenses	1,351,125	1,301,078
Income taxes payable	18,129	40,332
Deferred income taxes	7,836	6,253
<b>Total current liabilities</b>	<b>4,679,410</b>	<b>4,864,434</b>
Notes payable, long-term debt and capital lease obligations, less current installments	1,677,824	1,690,426
Other liabilities	85,242	89,813
Income tax liabilities	90,490	80,368
Deferred income taxes	78,688	73,173
<b>Total liabilities</b>	<b>6,611,654</b>	<b>6,798,214</b>
Commitments and contingencies		
Equity:		

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

Jabil Circuit, Inc. stockholders' equity:		
Preferred stock, \$0.001 par value, authorized 10,000,000 shares; no shares issued and outstanding		
Common stock, \$0.001 par value, authorized 500,000,000 shares; 242,502,585 and 237,732,562 shares issued and 206,454,127 and 203,164,870 shares outstanding at November 30, 2013 and August 31, 2013, respectively		
	242	238
Additional paid-in capital	1,828,111	1,853,409
Retained earnings	1,172,105	1,071,175
Accumulated other comprehensive income	93,914	81,248
Treasury stock at cost, 36,048,458 and 34,567,692 shares at November 30, 2013 and August 31, 2013	(703,500)	(670,783)
Total Jabil Circuit, Inc. stockholders' equity	2,390,872	2,335,287
Noncontrolling interests	26,876	20,280
Total equity	2,417,748	2,355,567
Total liabilities and equity	\$ 9,029,402	\$ 9,153,781

See accompanying notes to Condensed Consolidated Financial Statements.

**Table of Contents**

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

(in thousands, except for per share data)

(Unaudited)

	Three months ended	
	November 30, 2013	November 30, 2012
Net revenue	\$ 4,611,442	\$ 4,637,018
Cost of revenue	4,242,672	4,286,423
Gross profit	368,770	350,595
Operating expenses:		
Selling, general and administrative	158,095	169,600
Research and development	9,054	7,263
Amortization of intangibles	7,678	3,451
Restructuring and related charges	21,275	
Operating income	172,668	170,281
Other expense	1,255	1,569
Interest income	(747)	(510)
Interest expense	33,314	29,604
Income before income tax	138,846	139,618
Income tax expense	20,781	34,034
Net income	118,065	105,584
Net income (loss) attributable to noncontrolling interests, net of income tax expense	143	(263)
Net income attributable to Jabil Circuit, Inc.	\$ 117,922	\$ 105,847
Earnings per share attributable to the stockholders of Jabil Circuit, Inc.:		
Basic	\$ 0.58	\$ 0.52
Diluted	\$ 0.57	\$ 0.51
Weighted average shares outstanding:		
Basic	204,762	204,318
Diluted	206,813	207,816
Cash dividend declared per share	\$ 0.08	\$ 0.08

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, 2013</b>	<b>November 30, 2012</b>
Net income	\$ 118,065	\$ 105,584
Other comprehensive income (loss):		
Foreign currency translation adjustment	9,184	4,909
Change in fair value of derivative instruments, net of tax	1,422	2,747
Reclassification of net losses (gains) realized and included in net income related to derivative instruments, net of tax	2,060	(1,041)
Total other comprehensive income	12,666	6,615
Comprehensive income	130,731	112,199
Comprehensive income (loss) attributable to noncontrolling interests	143	(263)
Comprehensive income attributable to Jabil Circuit, Inc.	\$ 130,588	\$ 112,462

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)

	Jabil Circuit, Inc. Stockholders				Equity	Treasury Stock	Noncontrolling Interests	Total Equity
	Common Stock Shares Outstanding	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income			
Balance at August 31, 2013	203,164,870	\$ 238	\$ 1,853,409	\$ 1,071,175	\$ 81,248	\$(670,783)	\$ 20,280	\$ 2,355,567
Shares issued upon exercise of stock options	1,251	4	(3)					1
Vesting of restricted stock awards	4,768,772							
Purchases of treasury stock under employee stock plans	(1,480,766)					(32,717)		(32,717)
Recognition of stock-based compensation			(25,206)					(25,206)
Excess tax benefit of stock awards			658					658
Declared dividends				(16,992)				(16,992)
Comprehensive income				117,922	12,666		143	130,731
Adjustment of noncontrolling interests							7,401	7,401
Purchase of noncontrolling interests			(747)				(973)	(1,720)
Foreign Currency Adjustments Attributable to Noncontrolling Interests							25	25
Balance at November 30, 2013	206,454,127	\$ 242	\$ 1,828,111	\$ 1,172,105	\$ 93,914	\$(703,500)	\$ 26,876	\$ 2,417,748

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, 2013</b>	<b>November 30, 2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 118,065	\$ 105,584
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	125,596	95,203
Recognition of stock-based compensation expense and related charges	(24,566)	18,803
Deferred income taxes	(5,429)	(1,288)
Restructuring and related charges	782	
Excess tax benefits related to stock awards	(714)	(330)
Other, net	3,691	3,116
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(146,619)	(308,487)
Inventories	137,407	(195,316)
Prepaid expenses and other current assets	1,323	10,256
Other assets	(6,136)	233
Accounts payable and accrued expenses	(73,700)	424,119
Income taxes payable	(11,994)	21
<b>Net cash provided by operating activities</b>	<b>117,706</b>	<b>151,914</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment	(202,992)	(166,485)
Proceeds from sale of property, plant and equipment	5,819	1,981
<b>Net cash used in investing activities</b>	<b>(197,173)</b>	<b>(164,504)</b>
<b>Cash flows from financing activities:</b>		
Borrowings under debt agreements	2,066,000	776,517
Payments toward debt agreements	(2,180,326)	(787,196)
Dividends paid to stockholders	(19,261)	(18,551)
Cash paid to purchase noncontrolling interest	(1,720)	
Net proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan		3,201
Payments to acquire treasury stock		(129,262)
Treasury stock minimum tax withholding related to vesting of restricted stock	(32,717)	(19,908)
Capital contribution to noncontrolling interest		317
Excess tax benefit related to stock awards	714	330
Bank overdraft	3,396	
<b>Net cash used in financing activities</b>	<b>(163,914)</b>	<b>(174,552)</b>
Effect of exchange rate changes on cash and cash equivalents	1,231	(80)

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

Net decrease in cash and cash equivalents	(242,150)	(187,222)
Cash and cash equivalents at beginning of period	1,011,373	1,217,256
Cash and cash equivalents at end of period	\$ 769,223	\$ 1,030,034

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 accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in the Annual Report on Form 10-K of Jabil Circuit, Inc. (the Company ) for the fiscal year ended August 31, 2013. Results for the three months ended November 30, 2013 are not necessarily an indication of the results that may be expected for the full fiscal year ending August 31, 2014.

**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, 2013</b>	<b>November 30, 2012</b>
<b>Numerator:</b>		
Net income attributable to Jabil Circuit, Inc.	\$ 117,922	\$ 105,847
<b>Denominator for basic and diluted earnings per share:</b>		
Denominator for basic earnings per share	204,762	204,318
Dilutive common shares issuable under the employee stock purchase plan and upon exercise of stock options and stock appreciation rights	79	88
Dilutive unvested restricted stock awards	1,972	3,410
Denominator for diluted earnings per share	206,813	207,816
<b>Earnings per share:</b>		
<b>Income attributable to the stockholders of Jabil Circuit, Inc.:</b>		
Basic	\$ 0.58	\$ 0.52
Diluted	\$ 0.57	\$ 0.51

For the three months ended November 30, 2013 and 2012, options to purchase 2,592,657 and 3,739,187 shares of common stock and 3,145,008 and 4,612,729 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, 2013 and 2012:

	<b>Dividend Declaration Date</b>	<b>Dividend per Share</b>	<b>Total Cash Dividends Declared (in thousands, except for per share data)</b>	<b>Date of Record for Dividend Payment</b>	<b>Dividend Cash Payment Date</b>
<b>Fiscal year 2014:</b>	October 17, 2013	\$ 0.08	\$ 17,221	November 15, 2013	December 2, 2013
<b>Fiscal year 2013:</b>	October 16, 2012	\$ 0.08	\$ 16,962	November 15, 2012	December 3, 2012

**3. Inventories**

Inventories consist of the following (in thousands):

	<b>November 30, 2013</b>	<b>August 31, 2013</b>
Raw materials	\$ 1,345,087	\$ 1,412,948
Work in process	495,501	548,096
Finished goods	326,209	341,111
	\$ 2,166,797	\$ 2,302,155

**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 (\$24.6) million and \$18.8 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, 2013 and 2012, respectively. During the three months ended November 30, 2013, the Company recorded a \$39.0 million reversal to stock-based compensation expense due to decreased expectations for the vesting of certain restricted stock awards. The Company recorded tax effects related to the stock-based compensation expense of \$0.0 million and \$0.2 million, which is included in income tax expense within the Condensed Consolidated Statements of Operations for the three months ended November 30, 2013 and 2012, respectively.

The following table summarizes stock option and stock appreciation right activity from August 31, 2013 through November 30, 2013:

	<b>Shares Available for Grant</b>	<b>Options Outstanding</b>	<b>Aggregate Intrinsic Value (in thousands)</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Life (years)</b>
Balance at August 31, 2013	12,011,073	7,857,127	\$ 1,927	\$ 26.31	1.95
Options canceled	1,533,125	(1,533,125)		\$ 26.21	
Restricted stock awards granted <sup>(1)</sup>	(3,966,609)				
Options exercised		(25,952)		\$ 19.38	

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Balance at November 30, 2013	9,577,589	6,298,050	\$	339	\$ 26.37	2.12
Exercisable at November 30, 2013		6,298,050	\$	339	\$ 26.37	2.12

<sup>(1)</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, 2013 through November 30, 2013:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested balance at August 31, 2013	11,335,192	\$ 17.15
Changes during the period		
Shares granted <sup>(1)</sup>	4,042,264	\$ 22.06
Shares vested	(4,768,772)	\$ 15.11
Shares forfeited	(75,655)	\$ 18.88
Non-vested balance at November 30, 2013	10,533,029	\$ 19.94

<sup>(1)</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 and performance-based restricted stock awards. The time-based restricted awards generally vest on a graded vesting schedule over three years. The performance-based restricted awards generally vest on a cliff vesting schedule over three to five years and provide a range of vesting possibilities of up to a maximum of 100% or 150%, depending on the specified performance condition and the level of achievement obtained. During the three months ended November 30, 2013 and 2012, the Company awarded approximately 1.7 million and 1.8 million time-based restricted stock units, respectively and 1.5 million and 1.7 million performance-based restricted stock units, respectively.

At November 30, 2013, there was \$83.4 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 1.6 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, 2013, the Company's five largest customers accounted for approximately 48% of its net revenue and 69 customers accounted for approximately 90% of its net revenue. Sales to these customers were reported in the Diversified Manufacturing Services ( DMS ), Enterprise & Infrastructure ( E&I ) and High Velocity Systems ( HVS ) operating segments.

The Company is currently in ongoing discussions with BlackBerry Limited regarding the termination of the business relationship. No reserve has currently been established regarding the termination of the customer relationship as a loss is not considered probable. The reduction in business could include related expenses which are still being determined and could have a material adverse effect on results of operations.

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

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

### b. Segment Data

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

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

The Company derives its revenue from providing comprehensive electronics design, production and product management services. The chief operating decision maker evaluates performance and allocates resources on a segment basis. The Company's operating segments consist of three segments - DMS, E&I and HVS.

The DMS segment is composed of dedicated resources to manage higher complexity global products in regulated and other industries and introduce materials and process technologies including design and aftermarket services to global customers. The E&I and HVS segments offer integrated global manufacturing and supply chain solutions designed to provide cost effective solutions for

**Table of Contents**

certain customer groups. The E&I segment is focused on customers primarily in the computing, storage, networking and telecommunication sectors. The HVS segment is focused on the particular needs of the consumer products industry, including mobility, display, set-top boxes and peripheral products such as printers and point of sale terminals.

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 stock-based compensation expense and related charges, amortization of intangibles, restructuring and related charges, other expense, interest income, interest expense, income tax expense or adjustment for net income (loss) attributable to noncontrolling interests. Total segment assets are defined as accounts receivable, inventories, net customer-related property, plant and equipment, intangible assets net of accumulated amortization and goodwill. All other non-segment assets are reviewed on a global basis by management. Transactions between operating segments are generally recorded at amounts that approximate arm's length.

The following table sets forth operating segment information (in thousands):

	Three months ended	
	November 30, 2013	November 30, 2012
<b>Net revenue</b>		
DMS	\$ 2,281,922	\$ 2,175,034
E&I	1,336,705	1,418,516
HVS	992,815	1,043,468
	<b>\$ 4,611,442</b>	<b>\$ 4,637,018</b>

	Three months ended	
	November 30, 2013	November 30, 2012
<b>Segment income and reconciliation of income before income tax</b>		
DMS	\$ 110,673	\$ 125,092
E&I	40,287	33,758
HVS	26,095	33,685
<i>Total segment income</i>	<b>\$ 177,055</b>	<b>\$ 192,535</b>
Reconciling items:		
Stock-based compensation expense and related charges	(24,566)	18,803
Amortization of intangibles	7,678	3,451
Restructuring and related charges	21,275	
Other expense	1,255	1,569
Interest income	(747)	(510)
Interest expense	33,314	29,604
<b>Income before income tax</b>	<b>\$ 138,846</b>	<b>\$ 139,618</b>

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

	November 30, 2013	August 31, 2013
<b>Total assets</b>		
DMS	\$ 4,053,551	\$ 4,131,973
E&I	1,147,526	1,110,458
HVS	1,105,514	1,031,911
Other non-allocated assets	2,722,811	2,879,439
	\$ 9,029,402	\$ 9,153,781

**Table of Contents**

The Company operates in 31 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 84.5% and 86.4% of net revenue during the three months ended November 30, 2013 and 2012, respectively.

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

Notes payable, long-term debt and capital lease obligations at November 30, 2013 and August 31, 2013, are summarized below (in thousands):

	November 30, 2013	August 31, 2013
7.750% Senior Notes due 2016	\$ 307,369	\$ 306,940
8.250% Senior Notes due 2018	398,379	398,284
5.625% Senior Notes due 2020	400,000	400,000
4.700% Senior Notes due 2022	500,000	500,000
Borrowings under credit facilities	100,000	200,000
Borrowings under loans (a)	47,973	58,447
Capital lease obligations	35,103	35,468
Fair value adjustment related to terminated interest rate swaps on the 7.750% Senior Notes	6,230	6,823
<b>Total notes payable, long-term debt and capital lease obligations</b>	<b>1,795,054</b>	<b>1,905,962</b>
Less current installments of notes payable, long-term debt and capital lease obligations	117,230	215,536
<b>Notes payable, long-term debt and capital lease obligations, less current installments</b>	<b>\$ 1,677,824</b>	<b>\$ 1,690,426</b>

The \$312.0 million of 7.750% senior unsecured notes, \$400.0 million of 8.250% senior unsecured notes, \$400.0 million of 5.625% senior unsecured notes and \$500.0 million of 4.700% senior unsecured notes outstanding are carried at the principal amount of each note, less any unamortized discount. The estimated fair values of these senior notes were approximately \$356.4 million, \$474.5 million, \$430.1 million and \$497.4 million, respectively, at November 30, 2013. The fair value estimates are based upon observable market data (Level 2 criteria).

- (a) During the third quarter of fiscal year 2012, the Company entered into a master lease agreement with a variable interest entity (the "VIE") whereby it sells to and subsequently leases back from the VIE up to \$60.0 million in certain machinery and equipment for a period of up to five years. In connection with this transaction, the Company holds a variable interest in the VIE, which was designed to hold debt obligations payable to third-party creditors. The proceeds from such debt obligations are utilized to finance the purchase of the machinery and equipment that is then leased by the Company. The Company is the primary beneficiary of the VIE as it has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Therefore, the Company consolidates the financial statements of the VIE and eliminates all intercompany transactions. At November 30, 2013, the VIE had approximately \$44.4 million of total assets, of which approximately \$43.3 million was comprised of a note receivable due from the Company, and approximately \$43.8 million of total liabilities, of which approximately \$43.7 million were debt obligations to the third-party creditors (as the VIE has utilized approximately \$43.7 million of the \$60.0 million debt obligation capacity). The third-party creditors have recourse to the Company's general credit only in the event that the Company defaults on its obligations under the terms of the master lease agreement. In addition, the assets held by the VIE can be used only to settle the obligations of the VIE.

**7. Trade Accounts Receivable Securitization and Sale Programs**

The Company regularly sells designated pools of trade accounts receivable under two asset-backed securitization programs, a factoring agreement, a committed trade accounts receivable sale program and three uncommitted trade accounts receivable sale programs (collectively referred to herein as the "programs"). The Company continues servicing the receivables sold and in exchange receives a servicing fee under each of the programs. Servicing fees related to each of the programs recognized during the three months ended November 30, 2013 and 2012, were not material. The Company does not record a servicing asset or liability on the Condensed Consolidated Balance Sheets as the Company

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

estimates that the fee it receives to service these receivables approximates the fair market compensation to provide the servicing activities.

---

**Table of Contents**

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

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

The Company continuously sells designated pools of trade accounts receivable under its North American asset-backed securitization program, currently scheduled to expire on October 21, 2014, and its foreign asset-backed securitization program, currently scheduled to expire on May 15, 2015, (collectively referred to herein as the asset-backed securitization programs) to special purpose entities, which in turn sell 100% of the receivables to conduits administered by unaffiliated financial institutions (for the North American asset-backed securitization program) and an unaffiliated financial institution (for the foreign asset-backed securitization program). The special purpose entity in the North American asset-backed securitization program is a wholly-owned subsidiary of the Company. The special purpose entity in the foreign asset-backed securitization program is a separate bankruptcy-remote entity whose assets would be first available to satisfy the creditor claims of the unaffiliated financial institution. The Company is deemed the primary beneficiary of this special purpose entity as the Company has both the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive the benefits that could potentially be significant to the entity from the transfer of the trade accounts receivable into the special purpose entity. Accordingly, the special purpose entities associated with these asset-backed securitization programs are included in the Company's Condensed Consolidated Financial Statements. Any portion of the purchase price for the receivables which is not paid in cash upon the sale taking place is recorded as a deferred purchase price receivable, which is paid as payments on the receivables are collected. Net cash proceeds of up to a maximum of \$200.0 million for the North American asset-backed securitization program are available at any one time. The Company decreased its facility limit from \$300.0 million to \$200.0 million during the first quarter of fiscal year 2014. Net cash proceeds of up to a maximum of \$200.0 million for the foreign asset-backed securitization program are available at any one time.

In connection with the asset-backed securitization programs, the Company sold \$2.2 billion and \$2.1 billion of eligible trade accounts receivable during the three months ended November 30, 2013 and 2012, respectively. In exchange, the Company received cash proceeds of \$1.7 billion during each of the three months ended November 30, 2013 and 2012, 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, 2013 and 2012, the deferred purchase price receivables recorded in connection with the asset-backed securitization programs totaled approximately \$544.1 million and \$436.9 million, respectively.

The Company recognized pretax losses on the sales of receivables under the asset-backed securitization programs of approximately \$1.1 million during each of the three months ended November 30, 2013 and 2012, respectively, which are recorded to other expense within the Condensed Consolidated Statements of Operations.

The deferred purchase price receivables recorded under the asset-backed securitization programs are recorded initially at fair value as prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets and are valued using unobservable inputs (Level 3 inputs), primarily discounted cash flows, and due to their credit quality and short-term maturity the fair values approximated book values. The unobservable inputs consist of estimated credit losses and estimated discount rates, which both have an immaterial impact on the fair value calculations of the deferred purchase price receivables.

***b. Trade Accounts Receivable Factoring Agreement***

In connection with a factoring agreement, the Company transfers ownership of eligible trade accounts receivable of a foreign subsidiary without recourse to a third party purchaser in exchange for cash. Proceeds from the transfer reflect the face value of the account less a discount. The discount is recorded as a loss to other expense within the Condensed Consolidated Statements of Operations in the period of the sale. In October 2013, the factoring agreement was extended through March 31, 2014, at which time it is expected to automatically renew for an additional six-month period.

The Company sold \$0.5 million and \$14.2 million of trade accounts receivable during the three months ended November 30, 2013 and 2012, respectively, and in exchange, received cash proceeds of \$0.5 million and \$14.2 million, respectively. The resulting losses on the sales of trade accounts receivables sold under this factoring agreement during the three months ended November 30, 2013 and 2012 were not material.

***c. Trade Accounts Receivable Sale Programs***

In connection with four separate trade accounts receivable sale agreements with unaffiliated financial institutions, the Company may elect to sell, at a discount, on an ongoing basis, up to a maximum of \$200.0 million, \$150.0 million, \$100.0 million and \$40.0 million, respectively, of

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

specific trade accounts receivable at any one time. The \$200.0 million trade accounts receivable sale agreement is a committed facility that was renewed during the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014. The \$150.0 million trade accounts receivable sale agreement is an uncommitted facility that was renewed during

**Table of Contents**

the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014. The \$100.0 million trade accounts receivable sale agreement is an uncommitted facility that was entered into during the first quarter of fiscal year 2014 and is subject to expiration on November 1, 2014, although any party may elect to terminate the agreement upon 15 days prior notice. The agreement will be automatically extended each year for additional 365 day periods until November 1, 2018, unless any party gives no less than 30 days prior notice that the agreement should not be extended. The \$40.0 million trade accounts receivable sale agreement is an uncommitted facility scheduled to expire on November 26, 2014, although either party may elect to terminate the agreement at any time upon no less than 30 days prior notice. The agreement will be automatically extended until June 1, 2015, unless either party gives no less than 30 days prior notice that the agreement should not be extended.

During the three months ended November 30, 2013 and 2012, the Company sold \$0.6 billion and \$0.7 billion of trade accounts receivable under these programs, respectively, and in exchange, received cash proceeds of \$0.6 billion and \$0.7 billion, respectively. The resulting losses on the sales of trade accounts receivable during the three months ended November 30, 2013 and 2012 were not material.

**8. Accumulated Other Comprehensive Income**

The following table sets forth the changes in accumulated other comprehensive income ( AOCI ) by component for the three months ended November 30, 2013 (in thousands):

	Foreign currency translation adjustment	Derivative instruments	Actuarial loss	Prior service cost	Total
Balance at August 31, 2013	\$ 125,594	\$ (5,050)	\$ (40,258)	\$ 962	\$ 81,248
Other comprehensive income before reclassifications	9,184	1,422			10,606
Amounts reclassified from accumulated other comprehensive income		2,060			2,060
Other comprehensive income	9,184	3,482			12,666
Balance at November 30, 2013	\$ 134,778	\$ (1,568)	\$ (40,258)	\$ 962	\$ 93,914

The following table sets forth the amounts reclassified out of AOCI, net of tax balances, for the three months ended November 30, 2013 (in thousands):

Details about AOCI Components	Amounts Reclassified from AOCI for the three months ended November 30, 2013	Affected Line Item in the Condensed Consolidated Statement of Operations
Gains (losses) on derivative instruments:		
Forward foreign exchange contracts	\$ (2,434)	Net revenue
Forward foreign exchange contracts	1,462	Cost of revenue
Forward foreign exchange contracts	(100)	Selling, general and administrative
Interest rate swap	(988)	Interest expense
Total reclassified	\$ (2,060)	

**9. Postretirement and Other Employee Benefits**

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

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, Canada, France, Germany, Japan, The Netherlands, Poland and Taiwan and which provide benefits based upon years of service and compensation at retirement.

**Table of Contents**

The following table provides information about net periodic benefit cost for the pension plans during the three months ended November 30, 2013 and 2012 (in thousands):

	Three months ended	
	November 30, 2013	November 30, 2012
Service cost	\$ 353	\$ 516
Interest cost	2,064	1,925
Expected long-term return on plan assets	(1,898)	(1,742)
Amortization of prior service cost	(61)	(6)
Recognized actuarial loss	644	681
Net periodic benefit cost	\$ 1,102	\$ 1,374

During the three months ended November 30, 2013, the Company made contributions of approximately \$1.1 million to its defined benefit pension plans. The Company expects to make total cash contributions of between \$4.7 million and \$5.5 million to its funded pension plans during fiscal year 2014.

**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.

**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 anticipated foreign currency denominated revenues and expenses. A hedging relationship existed with an aggregate notional amount outstanding of \$377.9 million and \$430.3 million at November 30, 2013 and 2012, 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, 2013 and September 30, 2014.

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

In addition to derivatives that are designated and qualify for hedge accounting, the Company also enters into forward contracts to economically hedge transactional exposure associated with commitments arising from trade accounts receivable, trade accounts payable, fixed purchase obligations and intercompany transactions denominated in a currency other than the functional currency of the respective operating entity. The aggregate notional amount of these outstanding contracts at November 30, 2013 and 2012 was \$1.3 billion and \$991.7 million, 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, 2013, 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	\$	\$ 11,502	\$	\$ 11,502
<b>Liabilities:</b>				
Forward foreign exchange contracts		(6,538)		(6,538)
<b>Total</b>	\$	\$ 4,964	\$	\$ 4,964

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 tables present the fair value of the Company's derivative instruments located on the Condensed Consolidated Balance Sheets utilized for foreign currency risk management purposes at November 30, 2013 and August 31, 2013 (in thousands):

<b>Fair Values of Derivative Instruments</b>				
<b>At November 30, 2013</b>				
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments:</b>				
Forward foreign exchange contracts	Prepaid expenses and other current assets	\$ 4,911	Accrued expenses	\$ 1,302
<b>Derivatives not designated as hedging instruments:</b>				
Forward foreign exchange contracts	Prepaid expenses and other current assets	\$ 6,591	Accrued expenses	\$ 5,236

<b>Fair Values of Derivative Instruments</b>				
<b>At August 31, 2013</b>				
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments:</b>				
Forward foreign exchange contracts	Prepaid expenses and other current assets	\$ 4,357	Accrued expenses	\$ 4,550
<b>Derivatives not designated as hedging instruments:</b>				
Forward foreign exchange contracts	Prepaid expenses and other current assets	\$ 7,147	Accrued expenses	\$ 4,959



**Table of Contents**

The following tables present the impact that changes in fair value of derivatives utilized for foreign currency risk management purposes and designated as hedging instruments had on AOCI and earnings during the three months ended November 30, 2013 and 2012 (in thousands):

Derivatives in Cash Flow Hedging Relationship during the Three Months Ended November 30, 2013	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss)		Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in	
		Reclassified from AOCI into Income (Effective Portion)	Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
Forward foreign exchange contracts	\$ (2,034)	Revenue		\$ (2,434)	Revenue	\$ 38
Forward foreign exchange contracts	\$ 3,375	Cost of revenue		\$ 1,462	Cost of revenue	\$ 2,970
Forward foreign exchange contracts	\$ 81	Selling, general and administrative		\$ (100)	Selling, general and administrative	\$ 49

Derivatives in Cash Flow Hedging Relationship during the Three Months Ended November 30, 2012	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss)		Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in	
		Reclassified from AOCI into Income (Effective Portion)	Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
Forward foreign exchange contracts	\$ (929)	Revenue		\$ (1,620)	Revenue	\$ 65
Forward foreign exchange contracts	\$ 3,489	Cost of revenue		\$ 3,371	Cost of revenue	\$ 1,516
Forward foreign exchange contracts	\$ 187	Selling, general and administrative		\$ 278	Selling, general and administrative	\$ 67

As of November 30, 2013, the Company estimates that it will reclassify into earnings during the next 12 months existing gains related to foreign currency risk management hedging arrangements of approximately \$1.2 million from the amounts recorded in AOCI as the hedged item affects earnings.

The following tables present the impact that changes in fair value of derivatives utilized for foreign currency risk management purposes and not designated as hedging instruments had on earnings during the three months ended November 30, 2013 and 2012 (in thousands):

Derivatives not designated as hedging instruments	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative during the Three Months Ended November 30, 2013
	Cost of revenue	\$ 4,996

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

Forward foreign exchange contracts

Derivatives not designated as hedging instruments	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative during the Three Months Ended November 30, 2012
Forward foreign exchange contracts	Cost of revenue	\$ 2,907

**Table of Contents**

**b. Interest Rate Risk Management**

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

*Fair Value Hedges*

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

During the fourth quarter of fiscal year 2011, the Company terminated the interest rate swaps entered into in connection with the 7.750% Senior Notes with a fair value of \$12.2 million, including accrued interest of \$0.6 million at August 31, 2011. The portion of the fair value that is not accrued interest is recorded as a hedge accounting adjustment to the carrying amount of the 7.750% Senior Notes and is being amortized as a reduction to interest expense over the remaining term of the 7.750% Senior Notes. The Company recorded \$0.6 million in amortization as a reduction to interest expense during the three months ended November 30, 2013. At November 30, 2013, the unamortized hedge accounting adjustment recorded is \$6.2 million in the Condensed Consolidated Balance Sheets.

*Cash Flow Hedges*

During the fourth quarter of fiscal year 2007, the Company entered into forward interest rate swap transactions to hedge the fixed interest rate payments for an anticipated debt issuance, which was the issuance of the 8.250% Senior Notes. The swaps were accounted for as a cash flow hedge and had a notional amount of \$400.0 million. Concurrently with the pricing of the 8.250% Senior Notes, the Company settled the swaps by its payment of \$43.1 million. The ineffective portion of the swaps was immediately recorded to interest expense within the Condensed Consolidated Statements of Operations. The effective portion of the swaps is recorded on the Company's Condensed Consolidated Balance Sheets as a component of AOCI and is being amortized to interest expense within the Company's Condensed Consolidated Statements of Operations over the life of the 8.250% Senior Notes, which is through March 15, 2018.

The following tables present the impact that changes in the fair value of the derivative utilized for interest rate risk management and designated as a hedging instrument had on AOCI and earnings during the three months ended November 30, 2013 and 2012 (in thousands):

	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<b>Derivatives in Cash Flow Hedging Relationship during the Three Months Ended November 30, 2013</b>					
Interest rate swap	\$	Interest expense	\$ (988)	Interest expense	\$

	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<b>Derivatives in Cash Flow Hedging Relationship during the Three Months Ended November 30, 2012</b>					

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

					Effectiveness Testing)
Interest rate swap	\$	Interest expense	\$ (988)	Interest expense	\$

As of November 30, 2013, the Company estimates that it will reclassify into earnings during the next 12 months existing losses related to interest rate risk management hedging arrangements of approximately \$4.0 million from the amounts recorded in AOCI as the hedged item affects earnings.

**Table of Contents**

The changes related to cash flow hedges (both forward foreign exchange contracts and interest rate swaps) included in AOCI net of tax are as follows (in thousands):

	<b>Three months ended November 30, 2013</b>
Accumulated comprehensive loss, August 31, 2013	\$ (5,050)
Change in fair value of derivative instruments	1,422
Reclassification of net losses realized and included in net income related to derivative instruments	2,060
Accumulated comprehensive loss, November 30, 2013	\$ (1,568)

	<b>Three months ended November 30, 2012</b>
Accumulated comprehensive loss, August 31, 2012	\$ (7,153)
Change in fair value of derivative instruments	2,747
Reclassification of net gains realized and included in net income related to derivative instruments	(1,041)
Accumulated comprehensive loss, November 30, 2012	\$ (5,447)

**12. Restructuring and Related Charges*****a. 2014 Restructuring Plan***

In conjunction with the restructuring plan that was approved by the Company's Board of Directors during the first quarter of fiscal year 2014 (the 2014 Restructuring Plan), the Company charged \$14.6 million of restructuring and related charges to the Condensed Consolidated Statement of Operations during the three months ended November 30, 2013. The 2014 Restructuring Plan is intended to address the termination of the Company's business relationship with BlackBerry Limited. The restructuring and related charges during the three months ended November 30, 2013 include \$12.4 million related to employee severance and benefit costs, \$0.5 million related to asset write off costs, \$0.4 million related to lease costs and \$1.3 million of other related costs.

These restructuring and related charges associated with the 2014 Restructuring Plan incurred during the three months ended November 30, 2013 of \$14.6 million are primarily cash costs totaling \$14.1 million. The cash costs consist of employee severance and benefit costs of \$12.4 million, lease costs of \$0.4 million and other related costs of \$1.3 million. Non-cash costs of \$0.5 million represent asset write off costs related to the Company's restructuring activities. These restructuring and related charges associated with the 2014 Restructuring Plan were assigned fully to the HVS reportable segment.

The Company currently expects to recognize approximately \$35.0 million to \$85.0 million in pre-tax restructuring and other related costs over the course of the Company's fiscal year 2014 under the 2014 Restructuring Plan. A majority of the total restructuring costs are expected to be related to employee severance and benefit costs and asset write offs. The exact amount and timing of these charges and cash outflows, as well as the estimated cost ranges by category type, have not been finalized. Much of the 2014 Restructuring Plan as discussed 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 sets forth the significant components and activity in the 2014 Restructuring Plan during the three months ended November 30, 2013 (in thousands):

**2014 Restructuring Plan — Three Months Ended November 30, 2013**

	Liability Balance at August 31, 2013	Restructuring Related Charges	Asset Write off Charge and Other Non- Cash Activity	Cash Payments	Liability Balance at November 30, 2013
Employee severance and benefit costs	\$	\$ 12,379	\$ 63	\$ (7,669)	\$ 4,773
Lease costs		357		(357)	
Asset write off costs		563	(563)		
Other related costs		1,324			1,324
<b>Total</b>	<b>\$</b>	<b>\$ 14,623</b>	<b>\$ (500)</b>	<b>\$ (8,026)</b>	<b>\$ 6,097</b>

**Table of Contents****b. 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 \$6.7 million of restructuring and related charges to the Condensed Consolidated Statement of Operations during the three months ended November 30, 2013. The 2013 Restructuring Plan is intended to better align the Company's manufacturing capacity in certain geographies and to reduce the Company's worldwide workforce in order to reduce operating expenses. These restructuring activities are intended to address current market conditions and customer requirements. The restructuring and related charges during the three months ended November 30, 2013 include \$6.3 million related to employee severance and benefit costs, \$0.3 million related to asset write off costs and \$0.1 million of other related costs.

These restructuring and related charges associated with the 2013 Restructuring Plan incurred during the three months ended November 30, 2013 of \$6.7 million are primarily cash costs totaling \$6.4 million. The cash costs consist of employee severance and benefit costs of \$6.3 million and other related costs of \$0.1 million. Non-cash costs of \$0.3 million represent asset write off costs related to the Company's restructuring activities.

The Company currently expects to recognize approximately \$188.0 million in pre-tax restructuring and other related costs over the course of the Company's fiscal years 2013, 2014 and 2015 under the 2013 Restructuring Plan. Since the inception of the 2013 Restructuring Plan, a total of \$96.1 million of restructuring and related costs have been recognized. Of the \$96.1 million recognized to date, \$26.6 million was allocated to the DMS segment, \$54.2 million was allocated to the E&I segment, \$10.9 million was allocated to the HVS segment and \$4.4 million was not allocated to a segment. A majority of the total restructuring costs are expected to be 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 in a range of \$140.0 million to \$160.0 million that will be payable over the course of the Company's fiscal years 2013, 2014 and 2015. The exact amount and timing of these charges and cash outflows, as well as the estimated cost ranges by category type, have not been finalized. Much of the 2013 Restructuring Plan as discussed 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 sets forth the significant components and activity in the 2013 Restructuring Plan during the three months ended November 30, 2013 (in thousands):

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

	Liability Balance at August 31, 2013	Restructuring Related Charges	Asset Write off Charge and Other Non- Cash Activity	Cash Payments	Liability Balance at November 30, 2013
Employee severance and benefit costs	\$ 57,623	\$ 6,347	\$ 1,903	\$ (6,687)	\$ 59,186
Lease costs	251			(251)	
Asset write off costs		218	(218)		
Other related costs	36	87		(36)	87
<b>Total</b>	<b>\$ 57,910</b>	<b>\$ 6,652</b>	<b>\$ 1,685</b>	<b>\$ (6,974)</b>	<b>\$ 59,273</b>

The table below sets forth the significant components and activity in the 2013 Restructuring Plan by reportable segment during the three months ended November 30, 2013 (in thousands):

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

Edgar Filing: JABIL CIRCUIT INC - Form 10-Q

	Liability Balance at August 31, 2013	Restructuring Related Charges	Asset Write off Charge and Other Non- Cash Activity	Cash Payments	Liability Balance at November 30, 2013
DMS	\$ 12,289	\$ 5,141	\$ 381	\$ (3,178)	\$ 14,633
E&I	40,603	(51)	1,147	(1,388)	40,311
HVS	4,985	234	157	(1,229)	4,147
Other	33	1,328		(1,179)	182
<b>Total</b>	<b>\$ 57,910</b>	<b>\$ 6,652</b>	<b>\$ 1,685</b>	<b>\$ (6,974)</b>	<b>\$ 59,273</b>

**Table of Contents****13. Business Acquisition**

On July 1, 2013, the Company completed its acquisition of Nypro Inc. ( Nypro ) by acquiring 100% of the issued and outstanding common shares of Nypro for net aggregate consideration of \$679.5 million, which was funded from available cash. Nypro is a provider of manufactured precision plastic products for customers in the healthcare, packaging and consumer electronics industries. Nypro has advanced capabilities in product design, tooling, injection molding, surface decoration and complete product manufacturing.

The acquisition of Nypro has been accounted for as a business combination using the acquisition method of accounting. The following table (in thousands) summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price is considered preliminary pending final valuation by the Company for intangible assets, noncontrolling interests and tax adjustments.

	<b>As reported at August 31, 2013</b>	<b>Adjustments</b>	<b>November 30, 2013</b>
Cash	\$ 77,384	\$ (12) <sup>(a)</sup>	\$ 77,372
Other current assets	343,446	76 <sup>(a)</sup>	343,522
Property, plant and equipment	282,599	(4,579) <sup>(b)</sup>	278,020
Intangible assets	196,800	7,800 <sup>(b)</sup>	204,600
Goodwill	335,871	21,475 <sup>(c)</sup>	357,346
Other assets	28,304	(309) <sup>(a)</sup>	27,995
Current liabilities	(322,397)	(361) <sup>(a)</sup>	(322,758)
Long-term deferred tax liability	(153,030)	(17,741) <sup>(a)</sup>	(170,771)
Other liabilities	(72,906)	1,052 <sup>(a)</sup>	(71,854)
Noncontrolling interests	(36,548)	(7,401) <sup>(b)</sup>	(43,949)
<b>Net assets acquired</b>	<b>\$ 679,523</b>	<b>\$</b>	<b>\$ 679,523</b>

(a) Adjustment related to the fair value of identifiable assets and liabilities

(b) Adjustment based on final valuation results

(c) Adjustment based on provisional amounts in (a) and (b)

The \$204.6 million of acquired intangible assets includes \$81.0 million assigned to customer relationships with an assigned useful life of up to 15 years, \$51.2 million assigned to intellectual property with an assigned useful life of up to 8 years and \$72.4 million assigned to an indefinite-lived trade name.

The excess of the purchase price over the fair value of the acquired assets and assumed liabilities of \$357.3 million was recorded to goodwill and was assigned fully to the DMS reportable segment. The goodwill is not expected to be deductible for tax purposes.

**Table of Contents****14. New Accounting Guidance*****a. Recently Adopted Accounting Guidance***

During the fourth quarter of fiscal year 2012, the FASB issued new accounting guidance intended to simplify how an entity tests indefinite-lived intangible assets for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative indefinite-lived intangible asset impairment test. An entity no longer will be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting guidance became effective for the Company for the annual and interim indefinite-lived intangible asset impairment tests performed for fiscal year 2014. The adoption of this guidance did not have a significant impact on the Company's Condensed Consolidated Financial Statements.

During the second quarter of fiscal year 2013, the FASB issued new accounting guidance requiring an entity to report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional information about those amounts. This accounting guidance became effective for the Company beginning in the first quarter of fiscal year 2014. The adoption of this guidance did not have a significant impact on the Company's Condensed Consolidated Financial Statements.

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

During the third quarter of fiscal year 2013, the FASB issued new accounting guidance intended to clarify the applicable guidance for the release of the cumulative translation adjustment when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity that is a business and when there is a loss of a controlling financial interest in a foreign entity or a step acquisition involving an equity method investment that is a foreign entity. Additionally, the new guidance emphasizes that the release of the cumulative translation adjustment into net income for sales or transfers of a controlling financial interest within a foreign entity is the same irrespective of whether the sale or transfer is of a subsidiary or a group of assets that is a business. This accounting guidance is effective for the Company beginning in the first quarter of fiscal year 2015. The Company does not expect the adoption of this guidance to have a significant impact on its Condensed Consolidated Financial Statements.

**15. Income Taxes**

The effective tax rate differed from the U.S. federal statutory rate of 35.0% during the three months ended November 30, 2013 and 2012 primarily due to: (a) a partial valuation allowance release related to the U.S. deferred tax assets; (b) income in tax jurisdictions with lower statutory tax rates than the U.S., (c) tax incentives granted to sites in Brazil, Malaysia, Poland, Singapore and Vietnam and (d) income and losses in tax jurisdictions with existing valuation allowances. The material tax incentives expire at various dates through 2020. Such tax incentives are subject to conditions with which the Company expects to continue to comply.

**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 2014 Form 10-Q. No significant events, other than those disclosed below, 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.

On December 17, 2013, the Company announced that it entered into a stock purchase agreement with iQor Holdings, Inc. (iQor) for the sale of Jabil's Aftermarket Services (AMS) business for consideration of \$725.0 million, which consists of \$675.0 million in cash and \$50.0 million in Senior Non-Convertible Cumulative Preferred Stock of iQor that accretes dividends at an annual rate of 8 percent and is redeemable in nine years or upon a change in control. The final purchase price is subject to adjustment based on the amounts, as of the closing date, for cash, indebtedness, taxes, interest and certain working capital accounts of the Company's AMS business. The transaction is subject to certain closing conditions, including regulatory approvals and receipt of third party consents, and is anticipated to close in the Company's third quarter of fiscal year 2014. Also, as part of this transaction, the Company is subject to a limited covenant not to compete.

---

**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;*

*the termination of our business relationship with BlackBerry Limited and any other potential future termination, or substantial winding down, of other 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 (including the recently completed acquisition of Nypro Inc. ( Nypro ))*

*our ability to successfully negotiate definitive agreements and consummate dispositions, and to disentangle operations following the consummation of dispositions (including the recently announced disposition of our Aftermarket Services ( AMS ) business);*

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

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

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

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

---

## **Table of Contents**

*For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations sections contained in this document, as well as our Annual Report on Form 10-K for the fiscal year ended August 31, 2013, any subsequent reports on Form 10-Q and Form 8-K and other filings with the Securities and Exchange Commission (the 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 aerospace, automotive, computing, consumer, defense, healthcare, industrial, instrumentation, medical, networking, packaging, peripherals, solar, storage and telecommunications 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 revenue, net of estimated return costs ( net revenue ). Based on net revenue, during the three months ended November 30, 2013, our largest customers currently include Apple, Inc., BlackBerry Limited, Cisco Systems, Inc., Ericsson, Hewlett-Packard Company, Ingenico S.A., International Business Machines Corporation, NetApp, Inc., Valeo and Zebra. During the three months ended November 30, 2013, we had net revenues of approximately \$4.6 billion and net income attributable to Jabil Circuit, Inc. of approximately \$117.9 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;

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

aftermarket services.

We currently conduct our operations in facilities that are located in Argentina, Austria, Belgium, Brazil, Canada, China, Colombia, Czech Republic, England, France, Germany, Hungary, India, Ireland, Israel, Italy, Japan, Malaysia, Mexico, The Netherlands, Poland, Russia, Scotland, Singapore, South Korea, Taiwan, Turkey, Ukraine, United Arab Emirates, 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. We have identified our global presence as a key to assessing our business opportunities.

The industry in which we operate is composed of companies that provide a range of manufacturing, design and aftermarket services to companies that utilize electronics components. The industry experienced rapid change and growth through the 1990s as an increasing number of companies chose to outsource an increasing portion, and, in some cases, all of their manufacturing requirements. In mid-2001, the industry's revenue declined as a result of significant cut-backs in customer production requirements, which was consistent with the overall downturn in the technology sector at the time. In response to this downturn in the technology sector, we implemented restructuring programs to reduce our cost structure and further align our manufacturing capacity with the geographic

**Table of Contents**

production demands of our customers. Industry revenues generally began to stabilize in 2003 and companies began to turn more to outsourcing versus internal manufacturing. In addition, the number of industries serviced, as well as the market penetration in certain industries, by electronic manufacturing service providers has increased over the past several years. In mid-2008, the industry's revenue declined when a deteriorating macro-economic environment resulted in illiquidity in global credit markets and a significant economic downturn in the North American, European and Asian markets. In response to this downturn, and the termination of our business relationship with BlackBerry Limited, we implemented additional restructuring programs, including the restructuring plans that were approved by our Board of Directors in the first quarter of fiscal year 2014 (the 2014 Restructuring Plan) and in fiscal year 2013 (the 2013 Restructuring Plan), to reduce our cost structure and further align our manufacturing capacity with the geographic production demands of our customers.

Uncertainty remains regarding the extent and timing of the current global economic recovery, particularly in those countries (such as in much of Europe) where economic conditions remain at risk. We will continue to monitor the current economic environment and its potential impact on both the customers that we serve as well as our end-markets and closely manage our costs and capital resources so that we can respond appropriately as circumstances continue to change.

*Summary of Results*

The following table sets forth, for the three month periods indicated, certain key operating results and other financial information (in thousands, except per share data):

	<b>Three months ended</b>	
	<b>November 30, 2013</b>	<b>November 30, 2012</b>
Net revenue	\$ 4,611,442	\$ 4,637,018
Gross profit	\$ 368,770	\$ 350,595
Operating income	\$ 172,668	\$ 170,281
Net income attributable to Jabil Circuit, Inc.	\$ 117,922	\$ 105,847
Earnings per share - basic	\$ 0.58	\$ 0.52
Earnings per share - diluted	\$ 0.57	\$ 0.51
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, 2013</b>	<b>August 31, 2013</b>	<b>May 31, 2013</b>	<b>February 28, 2013</b>
Sales cycle	6 days	4 days	4 days	12 days
Inventory turns (annualized)	8 turns	8 turns	7 turns	7 turns
Days in accounts receivable	28 days	24 days	20 days	26 days
Days in inventory	46 days	47 days	51 days	55 days
Days in accounts payable	68 days	67 days	67 days	69 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, 2013, days in accounts receivable increased four days to 28 days as compared to the prior sequential quarter primarily due to the timing of sales and collections activity. During the three months ended November 30, 2013, days in inventory decreased one day to 46 days as compared to the prior sequential quarter due to a continued focus on inventory management. During the three months ended November 30, 2013, days in accounts payable increased one day to 68 days from the prior sequential quarter primarily due to the timing of purchases and cash payments for purchases during the quarter. The sales cycle was six days during the three months ended November 30, 2013. The changes in the sales cycle are due to the changes in accounts receivable, accounts payable and inventory that are discussed above.

**Critical Accounting Policies and Estimates**

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

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

**Table of Contents**

amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. For further discussion of our significant accounting policies, refer to Note 1 Description of Business and Summary of Significant Accounting Policies to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results Operations Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended August 31, 2013.

**Recent Accounting Pronouncements**

See Note 14 New Accounting Guidance to the Condensed Consolidated Financial Statements for a discussion of recent accounting guidance.

**Results of Operations**

The following table sets forth, for the periods indicated, certain statements of operations data expressed as a percentage of net revenue:

	Three months ended	
	November 30, 2013	November 30, 2012
Net revenue	100.0%	100.0%
Cost of revenue	92.0	92.4
Gross profit	8.0	7.6
Operating expenses:		
Selling, general and administrative	3.4	3.7
Research and development	0.2	0.2
Amortization of intangibles	0.2	0.1
Restructuring and related charges	0.5	
Operating income	3.7	3.6
Other expense	0.0	0.0
Interest income	(0.0)	(0.0)
Interest expense	0.7	0.6
Income before income tax	3.0	3.0
Income tax expense	0.4	0.7
Net income	2.6	2.3
Net income (loss) attributable to noncontrolling interests, net of income tax expense	0.0	(0.0)
Net income attributable to Jabil Circuit, Inc.	2.6%	2.3%

**The Three Months Ended November 30, 2013, Compared to the Three Months Ended November 30, 2012**

**Net Revenue.** Net revenue remained relatively consistent at \$4.6 billion during the three months ended November 30, 2013 and 2012. The sale of Diversified Manufacturing Services ( DMS ) products increased 5% primarily due to increased revenue from new customers as a result of the Nypro acquisition. The increase in DMS was offset by decreases in the sales of Enterprise and Infrastructure ( E&I ) and High Velocity Systems ( HVS ) products. E&I sales decreased 6% primarily as a result of the overall macro environment. HVS sales decreased 5% primarily due to a decrease in the sale of mobility handset products, partially offset by an increase in sales of printer and set-top box products.

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

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

business. In addition, the added cost structures associated with our acquisitions have historically been relatively insignificant when compared to our overall cost structure.

**Table of Contents**

The distribution of revenue across our sectors 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 conditions; efforts to de-emphasize the economic performance of certain sectors; seasonality in our business; business growth from new and existing customers; specific product performance; and the current termination of our business relationship with BlackBerry Limited and any other potential future termination, or substantial winding down, of other significant customer relationships.

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

	Three months ended	
	November 30, 2013	November 30, 2012
<b>DMS</b>	<b>50%</b>	<b>47%</b>
<b>E&amp;I</b>	<b>29%</b>	<b>30%</b>
<b>HVS</b>	<b>21%</b>	<b>23%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>

Foreign source revenue represented 84.5% and 86.4% of our net revenue during the three months ended November 30, 2013 and 2012, respectively. We currently expect our foreign source revenue to remain relatively consistent as compared to current levels over the course of the next 12 months.

**Gross Profit.** Gross profit increased to \$368.8 million (8.0% of net revenue) during the three months ended November 30, 2013, compared to \$350.6 million (7.6% of net revenue) during the three months ended November 30, 2012. The increase in gross profit is due to increased revenue from new customers and certain of our existing customers in the DMS segment, which typically has higher margins than the E&I and HVS segments.

**Selling, General and Administrative.** Selling, general and administrative expenses decreased to \$158.1 million (3.4% of net revenue) during the three months ended November 30, 2013, compared to \$169.6 million (3.7% of net revenue) during the three months ended November 30, 2012. Selling, general and administrative expenses decreased from the same period of the prior fiscal year primarily as a result of a \$39.0 million reversal to stock-based compensation expense due to decreased expectations for the vesting of certain restricted stock awards. This decrease was partially offset by an increase to incremental selling, general and administrative expense resulting from the acquisition of Nypro during the fourth quarter of fiscal year 2013 and additional salary and salary related expenses associated with increased headcount to support the continued growth of our business.

**Research and Development.** Research and development expenses increased to \$9.1 million (0.2% of net revenue) during the three months ended November 30, 2013, compared to \$7.3 million (0.2% of net revenue) during the three months ended November 30, 2012. The increase is primarily due to new projects in targeted growth sectors and an increase to incremental expense resulting from the Nypro acquisition.

**Amortization of Intangibles.** Amortization of intangible assets increased to \$7.7 million during the three months ended November 30, 2013, compared to \$3.5 million during the three months ended November 30, 2012. The increase was primarily attributable to amortization expense associated with the definite lived intangible assets acquired in connection with the acquisition of Nypro.

**Restructuring and Related Charges.***a. 2014 Restructuring Plan*

In conjunction with the 2014 Restructuring Plan, we charged \$14.6 million of restructuring and related charges to the Condensed Consolidated Statement of Operations during the three months ended November 30, 2013. The 2014 Restructuring Plan is intended to address the termination of our business relationship with BlackBerry Limited. The restructuring and related charges during the three months ended November 30, 2013 include \$12.4 million related to employee severance and benefit costs, \$0.5 million related to asset write off costs, \$0.4 million related to lease

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

costs and \$1.3 million of other related costs.

At November 30, 2013, accrued liabilities of approximately \$6.1 million related to the 2014 Restructuring Plan are expected to be paid over the next twelve months.

These restructuring and related charges associated with the 2014 Restructuring Plan incurred during the three months ended November 30, 2013 of \$14.6 million are primarily cash costs totaling \$14.1 million. The cash costs consist of employee severance and

---

**Table of Contents**

benefit costs of \$12.4 million, lease costs of \$0.4 million and other related costs of \$1.3 million. Non-cash costs of \$0.5 million primarily represent asset write off costs related to our restructuring activities. During the three months ended November 30, 2013, \$8.0 million was paid relating to the 2014 Restructuring Plan.

We currently expect to recognize approximately \$35.0 million to \$85.0 million in pre-tax restructuring and other related costs over the course of fiscal year 2014 under the 2014 Restructuring Plan. A majority of the total restructuring costs are expected to be related to employee severance and benefit costs and asset write offs. The exact amount and timing of these charges and cash outflows, as well as the estimated cost ranges by category type, have not been finalized. Much of the 2014 Restructuring Plan as discussed reflects our intention only and restructuring decisions, and the timing of such decisions, at certain plants are still subject to the finalization of timetables for the transition of functions and consultation with our employees and their representatives.

Upon its completion, the 2014 Restructuring Plan is expected to yield annualized cost savings in the range of \$10.0 million to \$25.0 million on a net basis after taking into account potential future BlackBerry revenues that will not be earned due to the termination of our business relationship. The majority of these annual cost savings are expected to be reflected as a reduction in cost of revenue. We currently expect to begin to realize a portion of these cost savings in the second quarter of fiscal year 2014 and we are still evaluating the full effect of the cost savings and any cost savings offsets.

*b. 2013 Restructuring Plan*

In conjunction with the 2013 Restructuring Plan, we charged \$6.7 million of restructuring and related charges to the Condensed Consolidated Statement of Operations during the three months ended November 30, 2013. The 2013 Restructuring Plan is intended to better align our manufacturing capacity in certain geographies and to reduce our worldwide workforce in order to reduce operating expenses. These restructuring activities are intended to address current market conditions and customer requirements. The restructuring and related charges during the three months ended November 30, 2013 include \$6.3 million related to employee severance and benefit costs, \$0.3 million related to asset write off costs and \$0.1 million of other related costs.

At November 30, 2013, accrued liabilities of approximately \$59.3 million related to the 2013 Restructuring Plan are expected to be paid over the next twelve months.

These restructuring and related charges associated with the 2013 Restructuring Plan incurred during the three months ended November 30, 2013 of \$6.7 million are primarily cash costs totaling \$6.4 million. The cash costs consist of employee severance and benefit costs of \$6.3 million and other related costs of \$0.1 million. Non-cash costs of \$0.3 million represent asset write off costs related to our restructuring activities. During the three months ended November 30, 2013, \$7.0 million was paid relating to the 2013 Restructuring Plan.

We currently expect to recognize approximately \$188.0 million in pre-tax restructuring and other related costs over the course of fiscal years 2013, 2014 and 2015 under the 2013 Restructuring Plan. While we expect the total amount of pre-tax restructuring and other related costs will be \$188.0 million, we can only provide estimate ranges for certain of the major types of costs associated with the action): \$132.0 million to \$152.0 million of employee severance and benefit costs; \$28.0 million to \$48.0 million of asset write-off costs; \$3.0 million of contract termination costs and \$5.0 million of other related costs. Since the inception of the 2013 Restructuring Plan, a total of \$96.1 million of restructuring and related costs have been recognized. A majority of the total restructuring costs are expected to be 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 in a range of \$140.0 million to \$160.0 million that will be payable over the course of our fiscal years 2013, 2014 and 2015. The exact amount and timing of these charges and cash outflows, as well as the estimated cost ranges by category type, have not been finalized. Much of the 2013 Restructuring Plan as discussed reflects our intention only and restructuring decisions, and the timing of such decisions, at certain plants are still subject to the finalization of timetables for the transition of functions and consultation with our employees and their representatives.

Upon its completion, the 2013 Restructuring Plan is expected to yield annualized cost savings of approximately \$80.2 million. The expected avoided annual costs consist of a reduction in employee related expenses of \$77.9 million, a reduction in depreciation expense associated with asset disposals of \$1.5 million, and a reduction in rent expense associated with leased buildings that have been vacated of approximately \$0.8 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 \$75.0 million.

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

**Other Expense.** Other expense remained relatively consistent at \$1.3 million during the three months ended November 30, 2013, compared to \$1.6 million during the three months ended November 30, 2012.

---

**Table of Contents**

**Interest Income.** Interest income remained relatively constant at \$0.7 million during the three months ended November 30, 2013, compared to \$0.5 million during the three months ended November 30, 2012.

**Interest Expense.** We recorded interest expense of \$33.3 million during the three months ended November 30, 2013, compared to \$29.6 million during the three months ended November 30, 2012. The increase was primarily due to increased borrowings associated with our five year unsecured credit facility amended as of March 19, 2012 (the Amended and Restated Credit Facility ).

**Income Tax Expense.** Income tax expense reflects an effective tax rate of 15.0% during the three months ended November 30, 2013, as compared to an effective tax rate of 24.4% during the three months ended November 30, 2012. The effective tax rate decreased from the previous period primarily due to the reversal of stock-based compensation expense with minimal related tax expense and a partial valuation allowance release related to the U.S. deferred tax assets. These effective tax rate decreases were partially offset by restructuring costs with minimal related tax benefit. In addition, most of our international operations have historically been taxed at a lower rate than in the U.S., due to lower statutory tax rates and tax incentives granted to our sites in Brazil, Malaysia, Poland, Singapore and Vietnam. The material tax incentives expire at various dates through 2020. Such tax incentives are subject to conditions with which we expect to continue to comply.

The effective tax rate differed from the U.S. federal statutory rate of 35.0% during these periods primarily due to: (a) a partial valuation allowance release related to the U.S. deferred tax assets; (b) income in tax jurisdictions with lower statutory tax rates than the U.S.; (c) tax incentives granted to sites in Brazil, Malaysia, Poland, Singapore and Vietnam and (d) income and losses in tax jurisdictions with existing valuation allowances.

**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 and acquisition costs and purchase accounting adjustments. Among other uses, management uses non-U.S. GAAP core financial measures as a factor in determining certain employee performance when determining incentive compensation.

We are reporting core operating income and core earnings to provide investors with an additional method for assessing operating income and earnings, by presenting what we believe are our core manufacturing operations. A significant portion (based on the respective values) of the items that are excluded for purposes of calculating core operating income and core earnings also impacted certain balance sheet assets, resulting in a portion of an asset being written off without a corresponding recovery of cash we may have previously spent with respect to the asset. In the case of restructuring 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, 2013</b>	<b>November 30, 2012</b>
<b>Operating income (U.S. GAAP)</b>	\$ 172,668	\$ 170,281
Amortization of intangibles	7,678	3,451
Stock-based compensation expense and related charges	(24,566)	18,803
Restructuring and related charges	21,275	
<b>Core operating income (Non-U.S. GAAP)</b>	<b>\$ 177,055</b>	<b>\$ 192,535</b>
<b>Net income attributable to Jabil Circuit, Inc. (U.S. GAAP)</b>	<b>\$ 117,922</b>	<b>\$ 105,847</b>
Amortization of intangibles, net of tax	3,066	3,318
Stock-based compensation expense and related charges, net of tax	(24,598)	18,593
Restructuring and related charges, net of tax	18,067	
Acquisition costs and purchase accounting adjustments, net of tax	(9,064)	
<b>Core earnings (Non-U.S. GAAP)</b>	<b>\$ 105,393</b>	<b>\$ 127,758</b>
<b>Earnings per share: (U.S. GAAP)</b>		
Basic	\$ 0.58	\$ 0.52
Diluted	\$ 0.57	\$ 0.51
<b>Core earnings per share: (Non-U.S. GAAP)</b>		
Basic	\$ 0.51	\$ 0.63
Diluted	\$ 0.51	\$ 0.61
<b>Weighted average shares outstanding used in the calculations of earnings per share (U.S. GAAP &amp; Non-U.S. GAAP):</b>		
Basic	204,762	204,318
Diluted	206,813	207,816

Core operating income decreased 8.0% to \$177.1 million during the three months ended November 30, 2013, compared to \$192.5 million during the three months ended November 30, 2012. Core earnings decreased 17.5% to \$105.4 million during the three months ended November 30, 2013, compared to \$127.8 million during the three months ended November 30, 2012. These decreases 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, 2013, Compared to the Three Months Ended November 30, 2012.

**Acquisitions and Expansion**

As discussed in Note 13 - Business Acquisition to the Condensed Consolidated Financial Statements, we completed our acquisition of Nypro during the fourth quarter of fiscal year 2013. Acquisitions are accounted for using the acquisition method of accounting. Our Condensed Consolidated Financial Statements include the operating results of each business from the date of acquisition. See Risk Factors - We have on occasion not achieved, and may not in the future achieve, expected profitability from our acquisitions.

**Seasonality**

Production levels for a portion of the DMS and HVS segments 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 and HVS segments during the holiday selling season. Therefore, quarterly results should not be relied upon as necessarily being indicative of results for the entire fiscal year.

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

At November 30, 2013, our principal sources of liquidity consisted of cash, available borrowings under our credit facilities, our asset-backed securitization programs, our trade accounts receivable factoring agreement and our committed and uncommitted trade accounts receivable sale programs.

**Cash Flows**

The following table sets forth selected consolidated cash flow information during the three months ended November 30, 2013 and 2012 (in thousands):

	Three months ended	
	November 30, 2013	November 30, 2012
Net cash provided by operating activities	\$ 117,706	\$ 151,914
Net cash used in investing activities	(197,173)	(164,504)
Net cash used in financing activities	(163,914)	(174,552)
Effect of exchange rate changes on cash and cash equivalents	1,231	(80)
<b>Net decrease in cash and cash equivalents</b>	<b>\$ (242,150)</b>	<b>\$ (187,222)</b>

Net cash provided by operating activities during the three months ended November 30, 2013 was approximately \$117.7 million. This resulted primarily from net income of \$118.1 million, a \$137.4 million decrease in inventories and \$125.6 million in non-cash depreciation and amortization expense; which were partially offset by a \$146.6 million increase in accounts receivable, a \$73.7 million decrease in accounts payable and accrued expenses and (\$24.6) million of non-cash stock-based compensation expense. The decrease in inventories was primarily as a result of a continued focus on inventory management. The increase in accounts receivable was primarily driven by the timing of sales and collections activity coupled with higher sales levels. The decrease in accounts payable and accrued expenses was primarily driven by the timing of purchases and cash payments.

Net cash used in investing activities during the three months ended November 30, 2013 was \$197.2 million. This consisted primarily of capital expenditures of \$203.0 million principally for machinery and equipment for new business within our DMS segment, maintenance levels of machinery and equipment and information technology infrastructure upgrades.

Net cash used in financing activities during the three months ended November 30, 2013 was \$163.9 million. This resulted from our receipt of approximately \$2.1 billion of proceeds from borrowings under existing debt agreements, which primarily included an aggregate of \$2.1 billion of borrowings under the Amended and Restated Credit Facility. This was offset by repayments in an aggregate amount of approximately \$2.2 billion, which primarily included an aggregate of \$2.2 billion of repayments under the Amended and Restated Credit Facility. In addition, we paid \$32.7 million 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 \$32.7 million of employee-owned common stock related to this vesting) and we paid \$19.3 million in dividends to stockholders during the three months ended November 30, 2013.

**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 Amended and Restated Credit Facility (which is further discussed in the following paragraphs) 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 2015 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.

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

We regularly sell designated pools of trade accounts receivable under two asset-backed securitization programs, a factoring agreement, a committed trade accounts receivable sale program and three uncommitted trade accounts receivable sale programs (collectively referred to herein as the programs ). 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

---

**Table of Contents**

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.

Also, as described in Note 16 Subsequent Events to the Condensed Consolidated Financial Statements, we recently entered into a transaction for the sale of our AMS business for consideration of \$725.0 million, which consists of \$675.0 million in cash and \$50.0 million in Senior Non-Convertible Cumulative Preferred Stock of iQor. Upon the closing of this transaction, which remains subject to various closing conditions, we will have additional funds to finance our needs.

**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 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 21, 2014, are available at any one time. We decreased our facility limit from \$300.0 million to \$200.0 million during the first quarter of fiscal year 2014. Net cash proceeds up to a maximum of \$200.0 million for the foreign asset-backed securitization program, currently scheduled to expire on May 15, 2015, are available at any one time.

In connection with our asset-backed securitization programs, at November 30, 2013, we had sold \$875.5 million of eligible trade accounts receivable, which represents the face amount of total sold outstanding receivables at that date. In exchange, we received cash proceeds of \$331.4 million, and a deferred purchase price receivable. At November 30, 2013, the deferred purchase price receivable in connection with the asset-backed securitization programs totaled \$544.1 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 Factoring Agreement**

In connection with a factoring agreement, we transfer ownership of eligible trade accounts receivable of a foreign subsidiary without recourse to a third party purchaser in exchange for cash. Proceeds from the transfer reflect the face value of the account less a discount. In October 2013, the factoring agreement was extended through March 31, 2014, at which time it is expected to automatically renew for an additional six-month period.

During the three months ended November 30, 2013, we sold \$0.5 million of trade accounts receivable and received cash proceeds of \$0.5 million under the factoring agreement.

**c. Trade Accounts Receivable Sale Programs**

In connection with four separate trade accounts receivable sale agreements with unaffiliated financial institutions, we may elect to sell, at a discount, on an ongoing basis, up to a maximum of \$200.0 million, \$150.0 million, \$100.0 million and \$40.0 million, respectively, of specific trade accounts receivable at any one time. The \$200.0 million trade accounts receivable sale agreement is a committed facility that was renewed during the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014. The \$150.0 million trade accounts receivable sale agreement is an uncommitted facility that was renewed during the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014. The \$100.0 million trade accounts receivable sale agreement is an uncommitted facility that was entered into during the first quarter of fiscal year 2014 and is subject to expiration on November 1, 2014, although any party may elect to terminate the agreement upon 15 days prior notice. The agreement will be automatically extended each year for additional 365 day periods until November 1, 2018, unless any party gives no less than 30 days prior notice that the agreement should not be extended. The \$40.0 million trade accounts receivable sale agreement is an uncommitted facility scheduled to expire on November 26, 2014, although either party may elect to terminate the agreement at any time upon no less than 30 days prior notice. The agreement will be automatically extended until June 1, 2015, unless either party gives no less than 30 days prior notice that the agreement should not be extended.

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

During the three months ended November 30, 2013, we sold \$0.6 billion of trade accounts receivable and received cash proceeds of \$0.6 billion under these programs.

**Table of Contents**

Notes payable, long-term debt and capital lease obligations outstanding at November 30, 2013 and August 31, 2013, are summarized below (in thousands):

	November 30, 2013	August 31, 2013
7.750% Senior Notes due 2016	\$ 307,369	\$ 306,940
8.250% Senior Notes due 2018	398,379	398,284
5.625% Senior Notes due 2020	400,000	400,000
4.700% Senior Notes due 2022	500,000	500,000
Borrowings under credit facilities	100,000	200,000
Borrowings under loans	47,973	58,447
Capital lease obligations	35,103	35,468
Fair value adjustment related to terminated interest rate swaps on the 7.750% Senior Notes	6,230	6,823
<b>Total notes payable, long-term debt and capital lease obligations</b>	<b>1,795,054</b>	<b>1,905,962</b>
Less current installments of notes payable, long-term debt and capital lease obligations	117,230	215,536
<b>Notes payable, long-term debt and capital lease obligations, less current installments</b>	<b>\$ 1,677,824</b>	<b>\$ 1,690,426</b>

At November 30, 2013 and August 31, 2013, we were in compliance with all covenants under the Amended and Restated Credit Facility and our securitization programs.

**Uses**

On October 17, 2013, our Board of Directors approved payment of a quarterly dividend of \$0.08 per share to shareholders of record as of November 15, 2013. Of the total cash dividend declared of \$17.2 million, \$16.5 million was paid on December 2, 2013. The remaining \$0.7 million is related to dividend equivalents on unvested restricted stock units that will be payable at the time the awards vest. 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.

In December 2013, our Board of Directors authorized the repurchase of up to \$200.0 million of our common shares over the twelve month period following the authorization. We repurchased 614,805 shares during the second quarter of fiscal year 2014 utilizing \$10.5 million of the amount authorized by our Board of Directors.

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.

At November 30, 2013, we had approximately \$769.2 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 \$487.9 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.

As of November 30, 2013, however, we intend to repatriate the Nypro pre-acquisition undistributed foreign earnings of approximately \$240.0 million to our U.S. operations. Therefore, we recorded a deferred tax liability of approximately \$89.1 million based on the anticipated U.S. income taxes of the repatriation. We intend to indefinitely reinvest the remaining earnings from our foreign subsidiaries.

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

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

We currently anticipate that during the next 12 months, our capital expenditures will be in the range of \$100.0 million to \$200.0 million, principally for maintenance levels of machinery and equipment, information technology infrastructure upgrades and investments to support ongoing growth in our DMS operations. 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 committed trade accounts receivable sale program 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 and our working capital requirements for the next 12 months.

Our \$200.0 million North American asset-backed securitization program is scheduled to expire on October 21, 2014 and our \$200.0 million foreign asset-backed securitization program is scheduled to expire on May 15, 2015, and we may be unable to renew either of these. The \$200.0 million trade accounts receivable sale agreement is a committed facility that was renewed during the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014. The \$150.0 million trade accounts receivable sale

**Table of Contents**

agreement is an uncommitted facility that was renewed during the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014. The \$100.0 million trade accounts receivable sale agreement is an uncommitted facility that was entered into during the first quarter of fiscal year 2014 and is subject to expiration on November 1, 2014, although any party may elect to terminate the agreement upon 15 days prior notice. The agreement will be automatically extended each year for additional 365 day periods until November 1, 2018, unless any party gives no less than 30 days prior notice that the agreement should not be extended. The \$40.0 million trade accounts receivable sale agreement is an uncommitted facility scheduled to expire on November 26, 2014, although either party may elect to terminate the agreement at any time upon no less than 30 days prior notice. The agreement will be automatically extended until June 1, 2015, unless either party gives no less than 30 days prior notice that the agreement should not be extended. We can offer no assurance under the uncommitted sales programs that if we attempt to sell receivables under such programs in the future that we will receive funding from the associated banks which would require us to utilize other available sources of liquidity, including our revolving credit facilities.

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

**Contractual Obligations**

Our contractual obligations for short and long-term debt arrangements and capital lease obligations; future interest on notes payable, long-term debt and capital lease obligations; future minimum lease payments under non-cancelable operating lease arrangements; non-cancelable purchase order obligations for property, plant and equipment; pension and postretirement contributions and payments and capital commitments as of November 30, 2013 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.

	Total	Payments due by period (in thousands)			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Notes payable, long-term debt and capital lease obligations (a)	\$ 1,788,824	\$ 117,230	\$ 328,585	\$ 416,827	\$ 926,182
Future interest on notes payable, long-term debt and capital lease obligations (b)	601,090	106,953	203,570	138,721	151,846
Operating lease obligations	399,290	88,975	121,695	76,636	111,984
Non-cancelable purchase order obligations (c)	58,359	57,584	775		
Pension and postretirement contributions and payments (d)	15,429	5,509	1,263	1,919	6,738
Capital commitments (e)	1,500	1,500			
<b>Total contractual cash obligations (f)</b>	<b>\$ 2,864,492</b>	<b>\$ 377,751</b>	<b>\$ 655,888</b>	<b>\$ 634,103</b>	<b>\$ 1,196,750</b>

- (a) The above table excludes a \$6.2 million fair value adjustment related to the former interest rate swap on the 7.750% Senior Notes.
- (b) Certain of our notes payable, long-term debt and capital lease obligations 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 future interest payments.
- (c) Consists of purchase commitments entered into as of November 30, 2013 for property, plant and equipment pursuant to legally enforceable and binding agreements.
- (d) Includes the estimated company contributions to funded pension plans for the annualized nine month period following the first quarter of fiscal year 2014 and the expected benefit payments for unfunded pension and postretirement plans through 2023. These future payments are not recorded on the Condensed Consolidated Balance Sheets but will be recorded as incurred.
- (e) During the first quarter of fiscal year 2009, we committed \$10.0 million to an independent private equity limited partnership which invests in companies that address resource limits in energy, water and materials (commonly referred to as the CleanTech sector). Of that amount, we have invested \$8.5 million as of November 30, 2013.
- (f)

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

At November 30, 2013, we have \$0.4 million and \$90.5 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.

**Table of Contents****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, 2013, except for certain foreign currency contracts with a notional amount outstanding of \$377.9 million and a fair value of \$4.9 million recorded in prepaid expenses and other current assets and \$1.3 million recorded in accrued expenses, we have elected not to prepare and maintain the documentation required for the transactions to qualify 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, 2013 that do not qualify as accounting hedges was \$1.3 billion. The fair value of these contracts amounted to a \$6.6 million asset recorded in prepaid expenses and other current assets and a \$5.2 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 ten months being the maximum term of the contracts outstanding at November 30, 2013. 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, Canadian dollars, Chinese yuan renminbi, Euros, Hungarian forints, Indian rupees, Japanese yen, Malaysian ringgits, Mexican pesos, Polish zlotys, Russian rubles, Singapore dollar, Swedish kronor, Swiss francs, Taiwan dollars and U.S. dollars.

Based on our overall currency rate exposures as of November 30, 2013, including the derivative financial instruments intended to hedge the nonfunctional currency-denominated monetary assets and liabilities, an immediate 10% hypothetical change of foreign currency exchange rates would not have a material effect on our Condensed Consolidated Financial Statements.

**Interest Rate Risk**

A portion of our exposure to market risk for changes in interest rates relates to our domestic investment portfolio. We do not, and do not intend to, use derivative financial instruments for speculative purposes. We place cash and cash equivalents with various major financial institutions. We protect our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate these risks by generally investing in investment grade securities and by frequently positioning the portfolio to try to respond appropriately to a reduction in credit rating of any investment issuer, guarantor or depository to levels below the credit ratings dictated by our investment policy. The portfolio typically includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. At November 30, 2013, there were no significant outstanding investments.

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

During the fourth quarter of fiscal year 2011, we terminated the interest rate swaps entered into in connection with the 7.750% Senior Notes with a fair value of \$12.2 million, including accrued interest of \$0.6 million at August 31, 2011. The portion of the fair value that is not accrued interest is recorded as a hedge accounting adjustment to the carrying amount of the 7.750% Senior Notes and is being amortized as a reduction to interest expense over the remaining term of the 7.750% Senior Notes. At November 30, 2013, the hedge accounting adjustment recorded is \$6.2 million in the Condensed Consolidated Balance Sheets.

We pay interest on several of our outstanding borrowings at interest rates that fluctuate based upon changes in various base interest rates. There were \$100.0 million in borrowings outstanding under these facilities at November 30, 2013. 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

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

effect of an immediate hypothetical 10% change in variable interest rates would not have a material effect on our Condensed Consolidated Financial Statements.

---

## **Table of Contents**

### **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, 2013. 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, 2013, 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.

#### **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.

The SEC's general guidance permits the exclusion of an assessment of the effectiveness of a registrant's controls and procedures as they relate to its internal control over financial reporting for an acquired business during the first year following such acquisition if, among other circumstances and factors, there is not an adequate amount of time between the acquisition date and the date of assessment. On July 1, 2013, we acquired Nypro. In accordance with the SEC guidance, the scope of our evaluation of internal controls over financial reporting as of November 30, 2013 did not include the internal control over financial reporting of these acquired operations. Assets acquired from Nypro and the entities that it directly or indirectly owns represent 14.4% of our total consolidated assets at November 30, 2013 and net revenue generated by Nypro and the entities that it directly or indirectly owns subsequent to the date of acquisition represent 6.7% of our consolidated net revenue for the three months ended November 30, 2013. As part of our acquisition of Nypro we continue to evaluate Nypro's internal controls over financial reporting. From the acquisition date to November 30, 2013, the processes and systems of Nypro's acquired operations did not significantly impact 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 is the

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

information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

**Table of Contents**

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

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

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

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

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

the level and timing of customer orders;

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

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

price competition;

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

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

our exposure to financially troubled customers;

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

the termination of our business relationship with BlackBerry Limited and any other potential future termination, or substantial winding down, of other significant customer relationships;

our level of experience in manufacturing particular products;

the degree of automation used in our assembly process;

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

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

fluctuations in materials costs and availability of materials;

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

seasonality in customers' product demand;

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

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

The volume and timing of orders placed by our customers vary due to variation in demand for our customers' products; our customers' attempts to manage their inventory; electronic design changes; changes in our customers' manufacturing strategies; and acquisitions of or consolidations among our customers. In addition, our sales associated with consumer related products are subject to seasonal influences. We may realize greater revenue during our first fiscal quarter due to higher demand for consumer related products.

**Table of Contents**

during the holiday selling season. In the past, changes in customer orders that reduce net revenue have had a significant effect on our results of operations as a result of our overhead remaining relatively fixed while our net revenue decreased. Any one or a combination of these factors could adversely affect our annual and quarterly results of operations in the future. See Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

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

For the three months ended November 30, 2013, our five largest customers accounted for approximately 48% of our net revenue and 69 customers accounted for approximately 90% of our net revenue. In some instances, particular manufacturing services we provide for such customers represent a significant portion of the overall revenue we receive from that customer. We currently depend, and expect to continue to depend, upon a relatively small number of customers for a significant percentage of our net revenue and upon their growth, viability and financial stability. In addition, given the relatively large size of certain of our customers and the business we currently do with those customers and may do in the future for those customers, this dependence may increase in the future. If any of those customers experience a decline in the demand (anticipated or unanticipated) for one or more of their products due to economic or other forces, they may reduce their purchases from us or terminate their relationship with us. Our customers' industries have experienced rapid technological change, shortening of product life cycles, consolidation, and pricing and margin pressures. Consolidation among our customers may further reduce the number of customers that generate a significant percentage of our net revenue and exposes us to increased risks relating to dependence on a small number of customers. A significant reduction in sales to any of our customers or a customer exerting significant pricing and margin pressures on us, risks which are exacerbated for larger customers, could have a material adverse effect on our results of operations. In the past, some of our customers have terminated their manufacturing arrangements with us or have significantly reduced or delayed the volume of design, production or product management services ordered from us, including moving a portion of their manufacturing from us in order to more fully utilize their excess internal manufacturing capacity, which could again happen in the future. In other cases, we have terminated customer manufacturing arrangements. A terminated customer manufacturing arrangement (whether terminated by the customer or by us) can result in one or more of the following adverse effects: a decline in revenue; less revenue to absorb fixed costs and overhead; charges for bad debts, inventory write-offs, equipment write-offs and lease write-offs; other potential disengagement costs; a decrease in inventory turns; an increase in days in inventory and an increase in days in accounts receivable. We often, however, have an indemnification remedy which can mitigate some of these adverse effects if the customer has sufficient funds to satisfy any such indemnification liability. Some of the risks described above may not only exist with respect to a particular customer, but also with respect to manufacturing services with respect to a particular customer product for larger customers where a significant portion of the overall revenue we receive from such customer relates to such services for such product. Accordingly, if any of our customers' products experience a decline in demand (anticipated or unanticipated), the applicable customer may reduce their purchases from us or terminate their relationship with us. This could have a material adverse effect on our results of operations.

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

Certain of the industries to which we provide services have experienced significant financial difficulty during the recent recession, with some of the participants filing for bankruptcy. Such significant financial difficulty has negatively affected our business and, if further experienced by one or more of our customers, may further negatively affect our business due to the decreased demand of these financially distressed customers, the potential inability of these companies to make full payment on amounts owed to us, or both. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors We face certain risks in collecting our trade accounts receivable.

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

## Table of Contents

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

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

the inability of our customers to adapt to rapidly changing technology and evolving industry standards, which contributes to short product life cycles;

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

the potential that our customers' products become obsolete;

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

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

new product offerings by our customers' competitors may prove to be more successful than our customers' product offerings. Also, our High Velocity Systems (HVS) segment, particularly the mobility business and portions of our Diversified Manufacturing Services (DMS) segment, are highly dependent on the consumer products industry. This business is very competitive (both for us and our customers) and often subject to shorter product lifecycles, shifting end-user preferences, higher revenue volatility and programs that may be shifted among competitors in our industry. As a result, our exposure to this end market could adversely affect our results of operations.

At times our customers have been, and may be in the future, unsuccessful in addressing these competitive challenges, or any others that they may face, and their business has been, and may be in the future, materially adversely affected. As a result, the demand for our services has at times declined and may decline in the future. Even if our customers are successful in responding to these challenges, their responses may have consequences which affect our business relationships with our customers (and possibly our results of operations) by altering our production cycles and inventory management.

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

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

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

Consolidation in industries that utilize our services may further increase as companies combine to achieve further economies of scale and other synergies, which could result in an increase in excess manufacturing capacity as companies seek to divest manufacturing operations or eliminate duplicative product lines. Excess manufacturing capacity may increase pricing and competitive pressures for our industry as a whole and for us in particular. Consolidation could also result in an increasing number of very large companies offering products in multiple industries. The significant purchasing power and market power of these large companies could increase pricing and competitive pressures for us. If one of our

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

customers is acquired by another company that does not rely on us to provide services and has its own production facilities or relies on another provider of similar services, we may lose that customer's business. Such consolidation among our customers may further reduce the number of customers that generate a significant percentage of our net revenue and exposes us to increased risks relating to dependence on a small number of customers. Any of the foregoing results of industry consolidation could adversely affect our business.

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

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

variation in demand for our customers' products;

our customers' attempts to manage their inventory;

electronic design changes;

changes in our customers' manufacturing strategy; and

acquisitions of or consolidations among customers.

---

**Table of Contents**

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

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

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

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

In addition, we make significant decisions, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimate of customer requirements for one or more of their products. The following factors, among others, reduce our ability to accurately estimate future customer requirements, forecast operating results and make production planning decisions: the short-term nature of our customers' commitments for us to build their products; their uncertainty about, among other things, future economic conditions and other events, such as the flooding in Thailand in the second half of 2011; and the possibility of rapid changes in demand for one or more of their products.

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

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

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



---

## **Table of Contents**

Almost all of the products we manufacture require one or more components that are only available from a single source. Some of these components are allocated from time to time in response to supply shortages. In some cases, supply shortages will substantially curtail production of all assemblies using a particular component. A supply shortage can also increase our cost of goods sold, as a result of our having to pay higher prices for components in limited supply, and cause us to have to redesign or reconfigure products to accommodate a substitute component. At various times industry-wide shortages of electronic components have occurred, particularly of semiconductor, relay and capacitor products. We believe these past shortages were due to increased economic activity following recessionary conditions. In addition, natural disasters and global events, such as the flooding in Thailand in the second half of 2011, could cause material shortages. In the past, such circumstances have produced insignificant levels of short-term interruption of our operations, but could have a material adverse effect on our results of operations in the future. Portions of the Dodd-Frank Act will require certain companies to conduct due diligence and make certain disclosures regarding the source of certain minerals contained in their products and these requirements may decrease the supply of such minerals, increase their cost and/or disrupt our supply chain if we decide, or are instructed by our customers, to obtain components from different suppliers.

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

If a component shortage is threatened or we anticipate one, we may purchase such component early to avoid a delay or interruption in our operations. A possible result of such an early purchase is that we may incur additional inventory carrying costs, for which we may not be compensated, and have a heightened risk of exposure to inventory obsolescence, the cost of which may not be recoverable from our customers. Such costs would adversely affect our gross profit and net income. A component shortage may also require us to look to second tier vendors or to procure components through brokers with whom we are not familiar. These components may be of lesser quality than those we have historically purchased and could cause us to incur costs to bring such components up to our typical quality levels or to replace defective ones. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Business Components Procurement in our Annual Report on Form 10-K for the fiscal year ended August 31, 2013.

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

The introduction of programs requiring implementation of new competencies, including new process technology within our mechanical operations or other operations and our independent development of new products or services for customers, presents challenges in addition to opportunities. Deployment of such programs may require us to invest significant resources and capital in facilities, equipment and/or personnel. Due to these start-up investments, the early stages of these types of programs can be less efficient, and less profitable, than those of mature programs and/or programs developed in collaboration with customers. We may not meet our customers' expectations or otherwise execute properly or in a cost-efficient manner, which could damage our customer relationships and result in remedial costs or the loss of our invested capital and anticipated revenues and profits. While we attempt to negotiate contractual remedies to avoid or mitigate these costs or losses, we are not always successful. Also, in certain instances, a customer contract does not exist or its language does not cover a particular situation, so we have to rely on non-contractual legal remedies. In these situations, we must negotiate a manner to address the situation as costs or losses occur with the potential to lose customers and/or revenue. In addition, there are risks of market acceptance and product performance that could result in less demand than anticipated and our having excess capacity. The failure to ensure that our agreed terms appropriately reflect the anticipated costs, risks, and rewards of such an opportunity could adversely affect our profitability. If we do not meet one or more of these challenges, our operations and financial results could be adversely affected.

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

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



---

**Table of Contents**

**We compete with numerous other electronic manufacturing services and design providers and others, including our current and potential customers who may decide to manufacture some or all of their products internally.**

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

respond more quickly to new or emerging technologies;

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

be better able to take advantage of acquisition opportunities;

adapt more quickly to changes in customer requirements;

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

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

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

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

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

**The economies of the U.S., Europe and certain countries in Asia are, or have been, in a recession.**

There was an erosion of global consumer confidence amidst concerns over declining asset values, inflation, volatility in energy costs, geopolitical issues, the availability and cost of credit, high unemployment, and the stability and solvency of financial institutions, financial markets, businesses, and sovereign nations. These concerns slowed global economic growth and resulted in recessions in many countries, including in the U.S., Europe and certain countries in Asia. Even though we have seen signs of an overall economic recovery in the U.S. and

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

Asia, such recovery may be weak and/or short-lived and recessionary conditions may return. Recent developments in the European Union, including concerns over the solvency of certain European Union countries and of financial institutions that have significant direct or indirect exposure to debt issued by those countries, could significantly affect the U.S. and international debt and capital markets, as well as the demand for the products of certain of our customers with significant exposure to European end markets.

If any of these potential negative economic conditions occur, a number of negative effects on our business could result, including customers or potential customers reducing or delaying orders, increased pricing pressures, the insolvency of key suppliers, which could result in production delays, the inability of customers to obtain credit, and the insolvency of one or more customers. Thus, these economic conditions (1) could negatively impact our ability to (a) forecast customer demand, (b) effectively manage inventory levels, including our ability to limit our possession of excess or obsolete inventory and (c) collect receivables in a timely manner, if at all; (2) could increase our need for cash; and (3) have negatively impacted, and could negatively impact in the future, our net revenue and profitability and the value of certain of our properties and other assets. Depending on the length of time that these conditions exist, they may cause future additional negative effects, including some of those listed above.

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

Credit market turmoil effects could negatively impact the counterparties to our forward foreign exchange contracts and trade accounts receivable securitization and sale programs; our lenders under Jabil Circuit, Inc.'s (the Company's) five year unsecured credit facility amended as of March 19, 2012 (the Amended and Restated Credit Facility); and our lenders under various foreign subsidiary credit facilities. These potential negative impacts could potentially limit our ability to borrow under these financing agreements, contracts, facilities and programs. In addition, if we attempt to obtain future additional financing, such as renewing or refinancing our \$200.0 million North American asset-backed securitization program expiring on October 21, 2014 (during the first quarter of fiscal year 2014, we decreased our facility limit from \$300.0 million to \$200.0 million), our \$200.0 million foreign asset-backed securitization program expiring on May 15, 2015, our \$200.0 million committed trade accounts receivable sale program expiring on November 28, 2014, our \$150.0 million uncommitted trade accounts receivable sale program expiring on November 28, 2014, our \$100.0 million uncommitted trade accounts receivable program expiring on November 1, 2014 (though either party can elect to cancel the agreement by giving prior written notification to the other party of no less than 15 days) but can be automatically extended each year through November 1, 2018 or our \$40.0 million uncommitted trade accounts receivable sale program expiring on November 26, 2014 (though either party may elect to terminate the agreement at any time upon no less than 30 days prior notice) but can be automatically extended until June 1, 2015, the effects of the credit market turmoil could negatively impact our ability to obtain such financing. Finally, the credit market turmoil has negatively impacted certain of our customers and certain of their customers. These impacts could have several consequences which could have a negative effect on our results of operations, including one or more of the following: a negative impact on our liquidity, including potentially insufficient cash flows to support our operations; a decrease in demand for our services; a decrease in demand for our customers' products; and bad debt charges or inventory write-offs.

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

We rely on a variety of common carriers to transport our materials from our suppliers to us, and to transport our products from us to our customers. Problems suffered by any of these common carriers, whether due to a natural disaster, labor problem, increased energy prices, criminal activity or some other issue, could result in shipping delays, increased costs, or other supply chain disruptions, and could therefore have a material adverse effect on our operations.

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

We derived 84.5% of net revenue from international operations during the three months ended November 30, 2013 compared to 86.4% during the three months ended November 30, 2012. At November 30, 2013, we operate outside the U.S. in Buenos Aires, Argentina; Vienna, Austria; Hasselt, Belgium; Belo Horizonte, Manaus, Sorocaba and Valinhos, Brazil; Calgary and Toronto, Canada; Beijing, Hong Kong, Huangpu, Nanjing, Shanghai, Shenzhen, Suzhou, Tianjin, Wuxi and Yantai, China; Bogota, Colombia; Ostrava, Czech Republic; Coventry and Solihull, England; Brest and Chartres, France; Jena and Knittlingen, Germany; Nagyigmánd, Pecs, Szombathely and Tiszaujvaros, Hungary; Bangalore, Gurgaon, Kolkata, Manesar, Mumbai, New Delhi and Ranjangaon, India; Bray, Dublin and Waterford, Ireland; Tel Aviv, Israel; Marcianise, Italy; Gotemba and Hachiouji, Japan; Penang, Malaysia; Chihuahua, Guadalajara, Reynosa and Tijuana, Mexico; Amsterdam and Venray, The Netherlands; Bydgoszcz and Kwidzyn, Poland; Moscow and Tver, Russia; Livingston, Scotland; Jurong and Tampines, Singapore; Sungnam-si, South Korea; Changhua, Hsinchu, Taichung, Taipei and Taoyuan City, Taiwan; Ankara, Turkey; Uzhgorod, Ukraine; Dubai, United Arab Emirates; and Ho Chi Minh City, Vietnam. We continually consider additional opportunities to make foreign acquisitions and construct and open new foreign facilities. Our international operations are, have been and may be subject to a number of risks, including:

difficulties in staffing and managing foreign operations;

less flexible employee relationships that can be difficult and expensive to terminate;

rising labor costs, in particular within the lower-cost regions in which we operate, due to, among other things, demographic changes and economic development in those regions, which we may be unable to recover in our pricing to our customers;

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

labor unrest and dissatisfaction, including potential labor strikes;

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

**Table of Contents**

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

less favorable, or relatively undefined, intellectual property laws;

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

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

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

political and economic instability and unsafe working conditions (including acts of terrorism, widespread criminal activities and outbreaks of war);

risk of governmental expropriation of our property;

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

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

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

health concerns and related government actions;

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

longer customer payment cycles and difficulty collecting trade accounts receivable;

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

economies that are emerging or developing or that may be subject to greater currency volatility, negative growth, high inflation, limited availability of foreign exchange and other risks (see Risk Factors The economies of the U.S., Europe and certain countries in

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

Asia are, or have been, in a recession ).

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

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

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

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

---

**Table of Contents**

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

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

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

Operating risks, such as (1) the diversion of management's attention to the assimilation of the acquired businesses; (2) the risk that the acquired businesses will fail to maintain the quality of services that we have historically provided; (3) the need to implement financial and other systems and add management resources; (4) the need to maintain customer, supplier or other favorable business relationships of acquired operations and restructure or terminate unfavorable relationships; (5) the potential for deficiencies in internal controls of the acquired operations; (6) the inability to attract and retain the employees necessary to support the acquired businesses; (7) potential inexperience in a line of business that is either new to us or that has become materially more significant to us as a result of the transaction; (8) unforeseen difficulties (including any unanticipated liabilities) in the acquired operations; and (9) the impact on us of any unionized work force we may acquire or any labor disruptions that might occur.

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

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

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

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

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

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

---

**Table of Contents**

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

we may not achieve anticipated cost reductions and efficiencies;

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

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

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

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

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

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

We continuously evaluate our operations and cost structure relative to general economic conditions, market and customer demands, tax rates, cost competitiveness and our geographic footprint as it relates to our customers' production requirements. As a result of this ongoing evaluation, we have initiated restructuring plans approved by our Board of Directors in fiscal year 2014 (the 2014 Restructuring Plan) and in fiscal year 2013 (the 2013 Restructuring Plan). See Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Three Months Ended November 30, 2013, Compared to the Three Months Ended November 30, 2012 and Note 12 - Restructuring and Related Charges to the Condensed Consolidated Financial Statements for further details. In addition, we could initiate future restructuring plans. If we incur restructuring charges related to the 2014 Restructuring Plan or the 2013 Restructuring Plan, or in connection with any potential future restructuring program, in addition to those charges that we currently expect to incur, our financial condition and results of operations may suffer.

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



---

**Table of Contents**

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

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

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

maintain our technological expertise;

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

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

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

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

We manufacture and design products to our customers' specifications, and, in some cases, our manufacturing processes and facilities may need to comply with applicable statutory and regulatory requirements as well as certain customer-driven standards. For example, medical devices that we manufacture or design, as well as the facilities and manufacturing processes that we use to produce them, are regulated by the U.S. Food and Drug Administration (FDA) and non-U.S. counterparts of this agency. Similarly, items we manufacture for customers in the defense and aerospace industries, as well as the processes we use to produce them, are regulated by the Department of Defense and the Federal Aviation Authority. Also, we may be subject to standards established by certain customers, industry groups or other third party organizations (e.g., certain standards relating to labor practices). In addition, our customers' products and the manufacturing processes and design services that we use to produce them often are highly complex. As a result, products that we manufacture or design may at times contain manufacturing or design defects, and our processes may be subject to errors or not be in compliance with applicable statutory and regulatory requirements. Defects in the products we manufacture or design, whether caused by a design, manufacturing or component failure or error, or deficiencies in our manufacturing processes, may result in delayed shipments to customers or reduced or canceled customer orders. If these defects or deficiencies are significant, our business reputation may also be damaged. The failure of the products that we manufacture or our manufacturing processes and facilities to comply with applicable statutory and regulatory requirements may subject us to regulatory enforcement, legal fines or penalties and, in some cases, require us to shut down, temporarily halt operations or incur considerable expense to correct a manufacturing process or facility. In addition, these defects may result in liability claims against us, expose us to liability to pay for the recall or remanufacture of a product or adversely affect product sales or our reputation. The magnitude of such claims may increase as we expand our medical and aerospace and defense manufacturing services, as defects in medical devices and aerospace and defense systems could seriously harm or kill users of these products and others. Even if our customers are responsible for the defects or defective specifications, they may not, or may not have resources to, assume responsibility for any costs or liabilities arising from these defects, which could expose us to additional liability claims.

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

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

As a manufacturer and designer of medical devices for our customers, we have compliance requirements in addition to those relating to other areas of our business. We are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulation ( QSR ) and current Good Manufacturing Practices (cGMP) requirements, which require manufacturers of medical devices to adhere to certain regulations and to implement design and process manufacturing controls, quality control, labeling, handling and documentation procedures. The FDA, through periodic inspections and product field monitoring, continually reviews and rigorously monitors compliance with these QSR requirements and other applicable regulatory requirements. If any FDA inspection reveals noncompliance, and we do not address the FDA's concerns to its satisfaction, the FDA may take action against us, including issuing a form noting the FDA's inspectional observations, a notice of violation or a warning letter, imposing fines, bringing an action against the Company and its officers, requiring a recall of the products we manufactured for our customers, issuing an import detention on products entering the U.S. from an offshore facility or temporarily halting operations at

## **Table of Contents**

or shutting down a manufacturing facility. Beyond FDA, our medical device business is subject to additional state and foreign regulatory requirements which may also impact our ability to continue operations if these entities were to allege noncompliance and take action against us. If any of these were to occur, our reputation and business could suffer.

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

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

Providing manufacturing services can expose us to potential claims that the product design or manufacturing processes infringe third party intellectual property rights. Even though many of our manufacturing services contracts generally require our customers to indemnify us for infringement claims relating to their products, including associated product specifications and designs, a particular customer may not, or may not have the resources to, assume responsibility for such claims. In addition, we may be responsible for claims that our manufacturing processes or components used in manufacturing infringe third party intellectual property rights. Infringement claims could subject us to significant liability for damages, potential injunctive action, or hamper our normal operations such as by interfering with the availability of components and, regardless of merits, could be time-consuming and expensive to resolve.

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

We continue our efforts to offer certain design services, primarily those relating to products that we manufacture for our customers, and we also continue to offer design services related to collaborative design manufacturing. We also offer turnkey solutions that include the design and manufacture of end-user products, and product components, as well as related services. Providing such turnkey solutions can expose us to different or greater potential liabilities than those we face when providing our regular manufacturing services, including an increase in exposure to potential product liability claims resulting from injuries caused by defects in products we design, as well as potential claims that products we design or supply, or materials or components we use, infringe third party intellectual property rights. Such claims could subject us to significant liability for damages, subject the infringing portion of our business to injunction and, regardless of their merits, could be time-consuming and expensive to resolve. We also may have greater potential exposure from warranty claims and from product recalls due to problems caused by product design. Costs associated with possible product liability claims, intellectual property infringement claims and product recalls could have a material adverse effect on our results of operations. When providing collaborative design manufacturing or turnkey solutions, we may not be guaranteed revenue needed to recoup or profit from the investment in the resources necessary to design and develop products or provide services. No revenue may be generated from these efforts, particularly if our customers do not approve the designs in a timely manner or at all, or if they do not then purchase anticipated levels of products. Furthermore, contracts may allow the customer to delay or cancel deliveries and may not obligate the customer to any volume of purchases, or may provide for penalties or cancellation of orders if we are late in delivering designs or products. We may also have the responsibility to ensure that products we design or offer satisfy safety and regulatory standards and to obtain any necessary certifications. Failure to timely obtain the necessary approvals or certifications could prevent us from selling these products, which in turn could harm our sales, profitability and reputation.

In our contracts with turnkey solutions customers, we generally provide them with a warranty against defects in our designs. If a turnkey solutions product or component that we design is found to be defective in its design, this may lead to increased warranty claims. Warranty claims may also extend to defects caused by components or materials used in the products but which are provided to us by our suppliers. Although we have product liability insurance coverage, it may not be adequate or may not continue to be available on acceptable terms, in sufficient amounts, or at all. A successful product liability claim in excess of our insurance coverage or any material claim for which insurance coverage was denied or limited and for which indemnification was not available could have a material adverse effect on our operations, results of operations and financial position. Moreover, even if the claim relates to a defect caused by a supplier, we may not be able to get an adequate remedy from the supplier.

### **The success of our turnkey solution activities depends in part on our ability to obtain, protect and leverage intellectual property rights to our designs.**

We strive to obtain and protect certain intellectual property rights to our turnkey solutions designs, or for products or services that we create. We believe that having a significant level of protected proprietary technology gives us a competitive advantage in marketing our services. However, we cannot be certain that the measures that we employ will result in protected intellectual property rights or will result in the prevention of unauthorized use of our technology. If we are unable to obtain and protect intellectual property rights embodied within our designs, this could

reduce or eliminate the competitive advantages of our proprietary technology, which would harm our business.

## **Table of Contents**

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

Our turnkey solutions, designs, products and services and those of our customers may compete against the products of other companies, many of whom may own the intellectual property rights underlying those products. Such products and services may also infringe the intellectual property rights of third parties that may hold key intellectual property rights in areas in which we operate but which such third parties do not actively provide products or services. Patent clearance or licensing activities, if any, may be inadequate to anticipate and avoid third party claims. As a result, in addition to the risk that we could become subject to claims of intellectual property infringement, our customers or suppliers could become subject to infringement claims. Additionally, customers for our turnkey solutions, or collaborative designs in which we have significant technology contributions, typically require that we indemnify them against the risk of intellectual property infringement. If any claims are brought against us or against our customers for such infringement, regardless of their merits, we could be required to expend significant resources in the defense or settlement of such claims, or in the defense or settlement of related indemnification claims from our customers. In the event of a claim, we may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. We may not be successful in developing such alternatives or obtaining such a license on reasonable terms or at all. Our customers may be required to or decide to discontinue products which are alleged to be infringing rather than face continued costs of defending the infringement claims, and such discontinuance may result in a significant decrease in our business.

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

Our success depends to a large extent upon the continued services of our officers, managers and skilled personnel. Generally our employees are not bound by employment or non-competition agreements, and we cannot assure you that we will retain our officers, managers and skilled personnel. We could be seriously harmed by the loss of any of our executive officers. Recently, we had a planned succession of our Chairman of the Board, of our Chief Executive Officer and within our executive management. In order to manage our growth, we will need this succession to succeed as well as to internally develop, recruit and retain additional skilled management personnel. If we are not able to do so, our business and our ability to continue to grow could be harmed.

We establish strategic goals and ethical conduct policies. We are subject to risks if our officers and managers act inconsistently with our strategic goals or violate such ethical conduct policies. We are also subject to the risk that current and former officers, managers and skilled personnel could violate the terms of our confidentiality policies and procedures or proprietary information agreements with us which require them to keep confidential and not to use for their benefit information obtained in the course of their employment with us. Should a key current or former employee use or disclose such information, including information concerning our customers, pricing, capabilities or strategy, our ability to obtain new customers and to compete could be adversely impacted.

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

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

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

We rely on information systems, some of which are owned and operated by third parties, to store, process and transmit confidential information, including financial reporting, inventory management, procurement, invoicing and electronic communications, belonging to our customers, our suppliers, our employees and/or us. Although we attempt to monitor and mitigate our exposure and modify our systems when warranted, these systems are vulnerable to, and at times have suffered from, among other things, damage from power loss or natural disasters, computer system and network failures, loss of telecommunication services, physical and electronic loss of data, terrorist attacks, security breaches and computer viruses. The increased use of mobile technologies can heighten these and other operational risks. If we, or the third parties who own and operate certain of our information systems, are unable to prevent such breaches, losses of data and outages, our operations could be disrupted. In addition, any production inefficiencies or delays could negatively affect our ability to fill customer orders, resulting in a delay or reduction in our revenues. Also, the time and funds spent on monitoring and mitigating our exposure and responding to breaches, including the training of employees, the purchase of protective technologies and the hiring of additional employees and consultants to assist in these efforts could adversely affect our financial results. Finally, any theft or misuse of information resulting from a security breach could result in, among other things, loss of significant and/or sensitive information, litigation by affected parties, financial obligations resulting from



## **Table of Contents**

such theft or misuse, higher insurance premiums, governmental investigations, negative reactions from current and potential future customers (including potential negative financial ramifications under certain customer contract provisions) and poor publicity and any of these could adversely affect our financial results.

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

We are subject to a variety of federal, state, local and foreign environmental, health and safety, product stewardship and producer responsibility laws and regulations, including those relating to the use, storage, discharge and disposal of hazardous chemicals used during our manufacturing process, those governing worker health and safety, those requiring design changes, supply chain investigation or conformity assessments or those relating to the recycling or reuse of products we manufacture. If we fail to comply with any present or future regulations, we could become subject to liabilities, and we could face fines or penalties, the suspension of production, or prohibitions on sales of products we manufacture. In addition, such regulations could restrict our ability to expand our facilities or could require us to acquire costly equipment, or to incur other significant expenses, including expenses associated with the recall of any non-compliant product or with changes in our operational, procurement and inventory management activities.

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

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

As an example, under the Dodd-Frank Act, certain companies will become subject to new due diligence, disclosure and reporting requirements for manufacturing products that include components containing certain minerals. These regulations may result in a decrease in the supply of such minerals, an increase in their cost and/or a disruption to our supply chain.

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

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

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

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

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



---

## **Table of Contents**

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

Certain of our subsidiaries provide financing, products and services to, and may from time-to-time undertake certain significant transactions with, other subsidiaries in different jurisdictions. Moreover, several jurisdictions in which we operate have tax laws with detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles, and that contemporaneous documentation must exist to support such pricing. There is a risk that the taxing authorities may not deem our transfer pricing documentation acceptable.

### **Our credit rating may be downgraded.**

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

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

As of November 30, 2013, our debt obligations consisted of \$400.0 million under our 8.250% Senior Notes, \$312.0 million under our 7.750% Senior Notes, \$400.0 million under our 5.625% Senior Notes and \$500.0 million under our 4.700% Senior Notes. As of November 30, 2013, there was \$183.1 million outstanding under various bank loans to certain of our foreign subsidiaries and under various other debt obligations. Refer to 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 further details.

We have the ability to borrow up to \$1.3 billion under the Amended and Restated Credit Facility. In addition, the Amended and Restated Credit Facility contemplates a potential increase of up to an additional \$300.0 million, if we and the lenders later agree to such increase. We could incur additional indebtedness in the future in the form of bank loans, notes or convertible securities.

Should we desire to consummate significant additional acquisition opportunities, undertake significant additional expansion activities or make substantial investments in our infrastructure, our capital needs would increase and could possibly result in our need to increase available borrowings under our revolving credit facilities or access public or private debt and equity markets. There can be no assurance, however, that we would be successful in raising additional debt or equity on terms that we would consider acceptable. An increase in the level of our indebtedness, among other things, could:

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

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

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

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

impact certain financial covenants that we are subject to in connection with our debt and securitization programs, including, among others, the maximum ratio of debt to consolidated EBITDA (as defined in our debt agreements and securitization programs). There can be no assurance that we will be able to meet future debt service obligations.

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

More than an insignificant portion of our business is conducted in currencies other than the U.S. dollar. Changes in exchange rates among other currencies and the U.S. dollar will affect our cost of sales, operating margins and net revenue. We cannot predict the impact of future exchange rate fluctuations. We use financial instruments, primarily forward contracts, to economically hedge U.S.

---

## **Table of Contents**

dollar and other currency commitments arising from trade accounts receivable, trade accounts payable, fixed purchase obligations and other foreign currency obligations. Based on our calculations and current forecasts, we believe that our hedging activities enable us to largely protect ourselves from future exchange rate fluctuations. If, however, these hedging activities are not successful or if we change or reduce these hedging activities in the future, we may experience significant unexpected expenses from fluctuations in exchange rates.

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

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

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

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

### **Our stock price may be volatile.**

Our common stock is traded on the New York Stock Exchange (the NYSE ). The market price of our common stock has fluctuated substantially in the past and could fluctuate substantially in the future, based on a variety of factors, including future announcements covering us or our key customers or competitors, government regulations, litigation, changes in earnings estimates by analysts, fluctuations in quarterly operating results, or general conditions in our industry and the aerospace, automotive, computing, consumer, defense, healthcare, industrial, instrumentation, medical, networking, packaging, peripherals, solar, storage and telecommunications industries. Furthermore, stock prices for many companies and high technology companies in particular, fluctuate widely for reasons that may be unrelated to their operating results. Those fluctuations and general economic, political and market conditions, such as recessions or international currency fluctuations and demand for our services, may adversely affect the market price of our common stock.

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

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

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

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

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

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

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

---

**Table of Contents**

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

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

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

**If we receive other than an unqualified opinion on the adequacy of our internal control over financial reporting as of August 31, 2014 or any future year-ends, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of your shares.**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, larger public companies like us are required to include an annual report on internal control over financial reporting in their annual reports on Form 10-K that contains an assessment by management of the effectiveness of the company's internal control over financial reporting. Our independent registered certified public accounting firm, Ernst & Young LLP, issued an unqualified opinion on the effectiveness of our internal control over financial reporting as of August 31, 2013. While we continuously conduct a rigorous review of our internal control over financial reporting in order to try to assure compliance with the Section 404 requirements, if our independent registered certified public accounting firm interprets the Section 404 requirements and the related rules and regulations differently from us or if our independent registered certified public accounting firm is not satisfied with our internal control over financial reporting or with the level at which it is documented, operated or reviewed, they may issue an adverse opinion. An adverse opinion could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our Consolidated Financial Statements. In addition, we have spent a significant amount of resources, and will likely continue to for the foreseeable future, in complying with Section 404's requirements.

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

The Condensed Consolidated Financial Statements included in the periodic reports we file with the SEC are prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets, liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities and related reserves, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operations. In addition, the principles of U.S. GAAP are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the SEC and various bodies formed to create appropriate accounting policies, and interpret such policies. A change in those policies can have a significant effect on our accounting methods. For example, although not yet currently required, the SEC could require us to adopt the International Financial Reporting Standards in the next few years, which could have a significant effect on certain of our accounting methods.

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

Our operations and those of our suppliers may be subject to natural disasters (such as the March 2011 earthquake and tsunami in Japan and the flooding in Thailand in the second half of 2011), climate change related events, or other business disruptions, which could seriously harm our results of operation and increase our costs and expenses. We are susceptible to losses and interruptions caused by hurricanes (including in Florida, where our headquarters are located), earthquakes, power shortages, telecommunications



**Table of Contents**

failures, water or other natural resource shortages, tsunamis, floods, typhoons, drought, fire, extreme weather conditions, rising sea level, geopolitical events such as terrorist acts or widespread criminal activities and other natural or manmade disasters. Our insurance coverage with respect to natural disasters is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate, or may not continue to be available at commercially reasonable rates and terms.

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

Certain of the components that we use in our manufacturing activities are petroleum-based. In addition, we, along with our suppliers and customers, rely on various energy sources (including oil) in our facilities and transportation activities. An increase in energy prices, which have been volatile over the past few years, could cause an increase to our raw material costs and transportation costs. In addition, increased transportation costs of certain of our suppliers and customers could be passed along to us. We may not be able to increase our product prices enough to offset these increased costs. In addition, any increase in our product prices may reduce our future customer orders and profitability.

**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, 2013:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (2)
September 1, 2013 – September 30, 2013	156	\$ 23.85		\$
October 1, 2013 – October 31, 2013	1,480,610	\$ 22.09		\$
November 1, 2013 – November 30, 2013		\$		\$
<b>Total</b>	1,480,766	\$ 22.09		\$

- (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.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.



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

Exhibit No.	Description
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.
10.1	Form of Performance-Based Restricted Stock Unit Award Agreement (PBRSU EPS Officer - EU).
10.2	Form of Performance-Based Restricted Stock Unit Award Agreement (PBRSU EPS Officer - Non-EU).
10.3	Form of Performance-Based Restricted Stock Unit Award Agreement (PBRSU EPS Non-Officer).
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer of the Registrant.
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer of the Registrant.
32.1	Section 1350 Certification by the Chief Executive Officer of the Registrant.
32.2	Section 1350 Certification by the Chief Financial Officer of the Registrant.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.

**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 Current Report on Form 8-K (File No. 001-14063) filed by the Registrant on October 29, 2008.
- (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.

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, 2014

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

Date: January 9, 2014

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

**Table of Contents**

**Exhibit Index**

Exhibit No.	Description
10.1	Form of Performance-Based Restricted Stock Unit Award Agreement (PBRSU EPS Officer EU).
10.2	Form of Performance-Based Restricted Stock Unit Award Agreement (PBRSU EPS Officer Non-EU).
10.3	Form of Performance-Based Restricted Stock Unit Award Agreement (PBRSU EPS Non-Officer).
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer of the Registrant.
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer of the Registrant.
32.1	Section 1350 Certification by the Chief Executive Officer of the Registrant.
32.2	Section 1350 Certification by the Chief Financial Officer of the Registrant.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.