

JABIL CIRCUIT INC
Form 10-Q
January 08, 2008
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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, 2007

or

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

For the transition period from _____ to _____

Commission file number: 001-14063

JABIL CIRCUIT, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

10560 Dr. Martin Luther King, Jr. Street North, St. Petersburg, Florida 33716

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

(Address of principal executive offices) (Zip Code)

(727) 577-9749

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(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 periods 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of December 18, 2007, there were 209,531,836 shares of the Registrant's Common Stock outstanding.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1: FINANCIAL STATEMENTS****JABIL CIRCUIT, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands)****(Unaudited)**

	November 30, 2007	August 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 664,456	\$ 663,625
Accounts receivable, net of allowance for doubtful accounts of \$11,301 at November 30, 2007 and \$10,559 at August 31, 2007	1,587,615	1,352,383
Inventories	1,472,806	1,374,400
Prepaid expenses and other current assets	236,372	231,797
Income taxes receivable	28,376	22,132
Deferred income taxes	31,454	21,956
Total current assets	4,021,079	3,666,293
Property, plant and equipment, net of accumulated depreciation of \$1,020,306 at November 30, 2007 and \$914,368 at August 31, 2007		
Goodwill	1,304,977	1,261,481
Intangible assets, net of accumulated amortization of \$58,752 at November 30, 2007 and \$93,688 at August 31, 2007	1,160,473	1,124,484
Deferred income taxes	139,845	146,592
Other assets	100,883	89,562
Total assets	\$ 6,734,039	\$ 6,295,232
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of notes payable, long-term debt and long-term lease obligations	\$ 517,242	\$ 501,716
Accounts payable	2,195,090	2,001,508
Accrued expenses	505,611	427,478
Income taxes payable	24,455	58,127
Deferred income taxes	1,164	2,018
Total current liabilities	3,243,562	2,990,847
Notes payable, long-term debt and long-term lease obligations, less current installments	758,775	760,477
Other liabilities	82,234	78,538
Income tax liability	47,706	
Deferred income taxes	15,726	13,677
Total liabilities	4,148,003	3,843,539

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Minority interest	9,113	8,682
Stockholders' equity:		
Common stock	213	212
Additional paid-in capital	1,347,991	1,340,687
Retained earnings	1,182,673	1,131,403
Accumulated other comprehensive income, net of tax	246,297	170,960
Treasury stock at cost, 8,418,700 shares at November 30, 2007 and August 31, 2007	(200,251)	(200,251)
Total stockholders' equity	2,576,923	2,443,011
Total liabilities and stockholders' equity	\$ 6,734,039	\$ 6,295,232

See accompanying notes to condensed consolidated financial statements.

Table of Contents**JABIL CIRCUIT, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS****(in thousands, except for per share data)****(Unaudited)**

	Three months ended	
	November 30,	November 30,
	2007	2006
Net revenue	\$ 3,367,947	\$ 3,224,003
Cost of revenue	3,128,233	3,032,018
Gross profit	239,714	191,985
Operating expenses:		
Selling, general and administrative	116,150	109,756
Research and development	6,512	8,708
Amortization of intangibles	8,855	5,766
Restructuring and impairment charges	9,287	6,657
Operating income	98,910	61,098
Other expense	4,485	3,635
Interest income	(3,052)	(2,501)
Interest expense	25,585	11,507
Income before income taxes and minority interest	71,892	48,457
Income tax expense	9,631	7,080
Minority interest	260	
Net income	\$ 62,001	\$ 41,377
Earnings per share:		
Basic	\$ 0.30	\$ 0.20
Diluted	\$ 0.30	\$ 0.20
Common shares used in the calculations of earnings per share:		
Basic	204,649	203,077
Diluted	206,605	206,361

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)**

	Three months ended	
	November 30,	November 30,
	2007	2006
Net income	\$ 62,001	\$ 41,377
Other comprehensive income:		
Foreign currency translation adjustment	88,894	30,556
Change in minimum pension liability, net of tax	(656)	(620)
Change in fair market value of derivative instruments, net of tax	(12,901)	
Comprehensive income	\$ 137,338	\$ 71,313

Accumulated foreign currency translation gains were \$291.4 million at November 30, 2007 and \$202.5 million at August 31, 2007. Foreign currency translation adjustments primarily consist of adjustments to consolidate subsidiaries that use a local currency as their functional currency.

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)**

	Three months ended November 30,	
	November 30, 2007	2006
Cash flows from operating activities:		
Net income	\$ 62,001	\$ 41,377
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	66,269	52,084
Minority interest	260	
Recognition of stock-based compensation	5,104	11,518
Deferred income taxes	(26,047)	(3,353)
Non-cash restructuring charges	9,287	6,657
Provision for doubtful accounts	1,081	2,991
Excess tax benefit of options exercised	(115)	(766)
Loss on sale of property	5,092	1,143
Change in operating assets and liabilities, exclusive of net assets acquired in business acquisitions:		
Accounts receivable	(190,549)	(200,916)
Inventories	(10,650)	(80,878)
Prepaid expenses and other current assets	4,913	(40,509)
Other assets	160	225
Accounts payable and accrued expenses	204,581	(43,231)
Income taxes payable	11,619	1,424
Net cash provided by (used in) operating activities	143,006	(252,234)
Cash flows from investing activities:		
Cash paid for business and intangible asset acquisitions, net of cash acquired	(60,073)	(356)
Acquisition of property, plant and equipment	(65,960)	(71,819)
Proceeds from sale of property and equipment	1,750	2,118
Net cash used in investing activities	(124,283)	(70,057)
Cash flows from financing activities:		
Borrowings under debt agreements	600,545	834,087
Payments toward debt agreements and capital lease obligations	(591,543)	(633,967)
Dividends paid to stockholders	(14,559)	(14,295)
Net proceeds from issuance of common stock under option and employee purchase plans	2,086	3,746
Tax benefit of options exercised	115	766
Net cash provided by (used in) financing activities	(3,356)	190,337
Effect of exchange rate changes on cash	(14,536)	9,683
Net increase (decrease) in cash and cash equivalents	831	(122,271)

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Cash and cash equivalents at beginning of period	663,625	773,563
Cash and cash equivalents at end of period	\$ 664,456	\$ 651,292

See accompanying notes to condensed consolidated financial statements.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (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. Certain amounts in the prior periods' financial statements have been reclassified to conform to current period presentation. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in the Annual Report on Form 10-K of Jabil Circuit, Inc. (the Company) for the fiscal year ended August 31, 2007. Results for the three-month period ended November 30, 2007 are not necessarily an indication of the results that may be expected for the fiscal year ending August 31, 2008.

Note 2. Inventories

The components of inventories consist of the following (in thousands):

	November 30, 2007	August 31, 2007
Raw materials	\$ 1,011,182	\$ 912,577
Work in process	284,987	275,993
Finished goods	176,637	185,830
Total inventories	\$ 1,472,806	\$ 1,374,400

Note 3. Earnings Per Share and Dividends***a. Earnings Per Share***

The following table sets forth the calculation of basic and diluted earnings per share (in thousands, except per share data):

	November 30, 2007	November 30, 2006
Numerator:		
Net income	\$ 62,001	\$ 41,377
Denominator:		
Weighted-average common shares outstanding - basic	204,649	203,077
Dilutive common shares issuable upon exercise of stock options, exercise of stock appreciation rights and employee stock plan purchases	1,559	3,043
Dilutive unvested common shares associated with restricted stock awards	397	241
Weighted-average common shares - diluted	206,605	206,361

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Earnings per share:

Basic	\$	0.30	\$	0.20
Diluted	\$	0.30	\$	0.20

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For the three months ended November 30, 2007 and 2006, options to purchase 7,516,218 and 675,514 shares of common stock, respectively, were outstanding during the respective periods but were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares, and therefore, their effect would be anti-dilutive as calculated under the treasury method promulgated by the Statement of Financial Accounting Standard No. 128, *Earnings Per Share* (SFAS 128). In accordance with the contingently issuable shares provision of SFAS 128, 3,117,144 and 1,690,131 shares of performance-based, unvested common stock awards (restricted stock) granted in fiscal years 2006 through 2008 were not included in the calculation of earnings per share for the three months ended November 30, 2007 and 2006, respectively, because all the necessary conditions for vesting have not been satisfied. In addition, for the three months ended November 30, 2007 and 2006, 8,031,020 and 5,337,048 stock appreciation rights, respectively, were not included in the calculation of diluted earnings per share because the shares considered repurchased with the assumed proceeds were greater than the shares issuable or the exercise price was greater than the average market price, and therefore, their effect would be anti-dilutive.

b. Dividends

The following table sets forth certain information relating to our cash dividends paid or declared to common stockholders during fiscal years 2008 and 2007.

	Dividend Information		Total of cash dividends declared	Date of record for dividend payment	Dividend cash payment date
	Dividend declaration date	Dividend per share			
	(in thousands, except for per share data)				
Fiscal year 2007:	November 2, 2006	\$ 0.07	\$ 14,378	November 15, 2006	December 1, 2006
	January 22, 2007	\$ 0.07	\$ 14,414	February 15, 2007	March 1, 2007
	April 30, 2007	\$ 0.07	\$ 14,517	May 15, 2007	June 1, 2007
	August 2, 2007	\$ 0.07	\$ 14,559	August 15, 2007	September 4, 2007
Fiscal year 2008:	November 1, 2007	\$ 0.07	\$ 14,667	November 15, 2007	December 3, 2007

Note 4. Stock-Based Compensation

The Company applies the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), for its share-based compensation plans. Under SFAS 123R, all share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense in earnings over the requisite service period.

The Company applies a lattice valuation model for all stock options and stock appreciation rights (collectively known as the Options), excluding those granted under the Company s employee stock purchase plan (ESPP), granted subsequent to August 31, 2005. The lattice valuation model is a more flexible analysis to value employee Options because of its ability to incorporate inputs that change over time, such as volatility and interest rates, and to allow for actual exercise behavior of Option holders. The Company uses the Black-Scholes model for valuing the shares granted under the ESPP and Options granted prior to September 1, 2005. Compensation for restricted stock awards is measured at fair value on the date of grant based on the number of shares expected to vest and the quoted market price of the Company s common stock. Compensation cost for all awards is recognized in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period.

The Company recorded \$1.7 million and \$8.2 million of stock compensation expense in the Condensed Consolidated Statements of Earnings for the three months ended November 30, 2007 and 2006 respectively, net of related tax effects of \$3.4 million and \$3.3 million, respectively. There were no capitalized stock-based compensation costs at November 30, 2007 or 2006.

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The fair-value method is applied to non-employee awards in accordance with SFAS 123R. The measurement date for equity awards granted to non-employees is the earlier of the performance commitment date or the date the services required under the arrangement have been completed. The Company generally considers the measurement date for such non-employee awards to be the date that the award has vested. The Company re-measures the awards at each interim reporting period between the grant date and the measurement date. Non-employee awards are classified as liabilities on the Condensed Consolidated Balance Sheet and are therefore remeasured at each interim reporting period until the options are exercised, cancelled or expire unexercised. At November 30, 2007, \$0.3 million related to non-employee stock-based awards was classified as a liability on the Company's Condensed Consolidated Balance Sheet. The Company recognized an insignificant gain in the Condensed Consolidated Statement of Earnings related to remeasuring the awards for the three months ended November 30, 2007.

Cash received from Options exercises under all share-based payment arrangements for the three months ended November 30, 2007 and 2006 was \$2.1 million and \$3.7 million, respectively. The Company currently expects to satisfy share-based awards with registered shares available to be issued.

As described in Note 6 Commitments and Contingencies, the Company is involved in shareholder derivative actions, a putative shareholder class action and a Securities and Exchange Commission (SEC) informal inquiry, and has received a subpoena from the U.S. Attorney's office for the Southern District of New York in connection with certain historical stock option grants. In response to the derivative actions, an independent Special Committee of the Company's Board of Directors was appointed to review the allegations in such actions. The Company has cooperated and intends to continue to cooperate with the Special Committee, the SEC and the U.S. Attorney's office. The Company cannot, however, predict the outcome of the litigation or those investigations.

a. Stock Option and Stock Appreciation Right Plans

The Company's 1992 Stock Option Plan (the 1992 Plan) provided for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code and for the granting of non-statutory stock options to employees and consultants of the Company. A total of 23,440,000 shares of common stock were reserved for issuance under the 1992 Plan. The 1992 Plan was adopted by the Board of Directors in November of 1992 and was terminated in October 2001 with the remaining shares transferred into a new plan created in fiscal year 2002.

In October 2001, the Company established a new Stock Option Plan (the 2002 Incentive Plan). The 2002 Incentive Plan was adopted by the Board of Directors in October 2001 and approved by the stockholders in January 2002. The 2002 Incentive Plan provides for the granting of Section 422 Internal Revenue Code and non-statutory stock options, as well as restricted stock, stock appreciation rights and other stock-based awards. The 2002 Incentive Plan has a total of 29,608,726 shares reserved for grant, including 2,608,726 shares that were transferred from the 1992 Plan when it was terminated in October 2001, 10,000,000 shares authorized in January 2004, 7,000,000 shares authorized in January 2006 and 3,000,000 shares authorized in August 2007. The Company also adopted sub-plans under the 2002 Incentive Plan for its United Kingdom employees (the CSOP Plan) and for its French employees (the FSOP Plan). The CSOP Plan and FSOP Plan are tax advantaged plans for the Company's United Kingdom and French employees, respectively. Shares are issued under the CSOP Plan and FSOP Plan from the authorized shares under the 2002 Incentive Plan.

The 2002 Incentive Plan provides that the exercise price of Options generally shall be no less than the fair market value of shares of common stock on the date of grant. Exceptions to this general rule apply to grants of stock appreciation rights, grants of Options intended to preserve the economic value of stock option and other equity-based interests held by employees of acquired entities, and grants of Options intended to provide a material inducement for a new employee to commence employment with the Company. It is and has been the Company's intention for the exercise price of Options granted under the 2002 Incentive Plan to be at least equal to the fair market value of shares of common stock on the date of grant. However, as we previously discussed in Note 2 Stock Option Litigation and Restatements to the Consolidated Financial Statements in the Annual Report on Form 10-K for the fiscal year ending August 31, 2006, a certain number of Options were identified that had a measurement date based on the date

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that the Compensation Committee or management (as appropriate) decided to grant the Options, instead of the date that the terms of such grants became final, and, therefore, the related Options had an exercise price less than the fair market value of shares of common stock on the final date of measurement. In October 2007, the Board of Directors approved comprehensive procedures governing the manner in which Options are granted to, among other things, substantially reduce the likelihood that future grants of Options will be made with an exercise price that is less than the fair market value of shares of common stock on the Option measurement date for financial accounting and reporting purposes.

With respect to any participant who owns stock representing more than 10% of the voting power of all classes of stock of the Company, the exercise price of any incentive stock option granted is to equal at least 110% of the fair market value on the grant date and the maximum term of the option may not exceed five years. The term of all other Options under the 2002 Incentive Plan may not exceed ten years. Beginning in fiscal year 2006, Options will generally vest at a rate of one-twelfth fifteen months after the grant date with an additional one-twelfth vesting at the end of each three-month period thereafter, becoming fully vested after a 48-month period. Prior to this change, Options generally vested at a rate of 12% after the first six months and 2% per month thereafter, becoming fully vested after a 50-month period.

The following table summarizes Option activity from September 1, 2007 through November 30, 2007:

	Shares Available for Grant	Options Outstanding	Aggregate Intrinsic Value (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)
Balance at September 1, 2007	7,325,471	16,405,944	\$ 34,418	\$ 24.04	6.19
Options authorized					
Options expired				\$	
Options granted	(2,268,304)	2,268,304		\$ 21.56	
Options cancelled	387,794	(387,794)		\$ 27.19	
Restricted stock awards (1)	(2,623,198)				
Options exercised		(136,964)		\$ 15.21	
Balance at November 30, 2007	2,821,763	18,149,490	\$ 14,386	\$ 23.73	6.35
Exercisable at November 30, 2007		11,707,594	\$ 14,386	\$ 22.15	4.87

(1) Represents the maximum number of shares that can be issued based on the achievement of certain performance criteria. The weighted-average grant-date fair value per share of Options granted during the three months ended November 30, 2007 and 2006 was \$8.73 and \$13.33, respectively. The total intrinsic value of Options exercised during the three months ended November 30, 2007 and 2006 was \$0.9 million and \$3.4 million, respectively.

As of November 30, 2007, there was \$65.7 million of unrecognized compensation costs related to non-vested Options that is expected to be recognized over a weighted-average period of 2.0 years. The total fair value of Options vested during the three months ended November 30, 2007 and 2006 was \$3.0 million and \$2.4 million, respectively.

The Company uses historical data to estimate the Option exercise and employee departure behavior used in the lattice valuation model. The expected term of Options granted is derived from the output of the option pricing model and represents the period of time that Options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the Options is based on the U.S. Treasury yield curve in effect at the time of grant. The volatility used for the lattice model is a constant volatility for all periods within the contractual term of the Option. The constant volatility is an average of implied volatilities from traded options and historical volatility corresponding to the contractual term of the Option. The expected dividend yield of Options granted is derived based on the expected annual dividend yield over the expected life of the option expressed as a percentage of the stock price on the date of grant.

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Following are the weighted-average and range assumptions, where applicable, used for each respective period:

	For the three months ended	
	November 30, 2007	November 30, 2006
Expected dividend yield	1.3%	1.0%
Risk-free interest rate	3.81% to 4.41%	4.75% to 5.14%
Weighted-average expected volatility	50.2%	49.1%
Weighted-average expected life	5.8 years	5.5 years

During the first quarter of fiscal year 2008, the Company granted 40,288 Options that will be settled by the Company with cash. SFAS 123R requires that the Company classify cash settled awards as liabilities on the Company's Condensed Consolidated Balance Sheet and measure these awards at fair value at each reporting date until the award is ultimately settled (i.e. until the Option is exercised or canceled). All changes in fair value are recorded to the Company's Condensed Consolidated Statement of Earnings at each reporting date. At November 30, 2007, an insignificant amount has been recorded as a liability on the Company's Condensed Consolidated Balance Sheet and an insignificant amount has been recognized in the Company's Condensed Consolidated Statement of Earnings for the three months ended November 30, 2007 to record the awards at fair value.

b. Stock Purchase and Award Plans

The Company's 2002 Employee Stock Purchase Plan (the "2002 Purchase Plan") was approved by the Company's Board of Directors in January 2002. Initially there were 2,000,000 shares reserved under the 2002 Purchase Plan. An additional 2,000,000 shares were authorized for issuance under the 2002 Purchase Plan and approved by stockholders in January 2006. The Company also adopted a sub-plan under the 2002 Purchase Plan for its Indian employees. The Indian sub-plan is a tax advantaged plan for the Company's Indian employees. Shares are issued under the Indian sub-plan from the authorized shares under the 2002 Purchase Plan. As of November 30, 2007, a total of 2,591,890 shares had been issued under the 2002 Purchase Plan.

Employees are eligible to participate in the 2002 Purchase Plan after 90 days of employment with the Company. The 2002 Purchase Plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's compensation, as defined, at a price equal to 85% of the fair market value of the common stock at the beginning or end of the offering period, whichever is lower. The 2002 Purchase Plan is intended to qualify under section 423 of the Internal Revenue Code. Unless terminated sooner, the 2002 Purchase Plan will terminate on October 17, 2011.

Awards under the 2002 Purchase Plan are generally granted in June and December. As such, there were no stock purchases under the 2002 Purchase Plan during the three months ended November 30, 2007 and 2006.

c. Restricted Stock Awards

In fiscal year 2005, the Company granted restricted stock to certain key employees pursuant to the 2002 Stock Incentive Plan. The shares granted in fiscal year 2005 will vest after five years, but may vest earlier if specific performance criteria are met.

Beginning in fiscal year 2006, the Company began granting certain restricted stock awards that have certain performance conditions that will be measured at the end of the employee's requisite service period, which provide a range of vesting possibilities from 0% to 200%. The fair value of each award was measured on the date of grant and was originally recognized over the requisite service period based on the number of shares that would vest if the Company achieved 100% of the performance goal, which was the probable outcome at the grant date. In the fourth quarter of fiscal year 2007, the Company determined that for the restricted stock awards that were granted in fiscal year 2006 that have the aforementioned performance conditions, it was probable that the performance goal resulting in 100% of the awards being vested would not be achieved. However, it was probable that 40% of the awards would vest. This change in estimate resulted in the reversal of \$9.1 million in stock-based compensation expense from the

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Company's Consolidated Statement of Earnings in the fourth quarter of fiscal year 2007. It was further determined in the first quarter of fiscal year 2008 that for such restricted stock awards granted in fiscal year 2006, it was probable that 0% of the awards would vest which resulted in an additional reversal of \$5.9 million in stock-based compensation expense from the Company's Consolidated Statement of Earnings. The restricted stock awards that were granted in fiscal years 2007 and 2008 continue to be recognized based on an estimated 100% performance goal, the probable outcome. If it becomes probable, based on the Company's performance, that more or less than 100% of the awarded shares will vest, an adjustment to compensation cost will be recognized. Alternatively, if any of the performance goals are not met, any recognized compensation cost will be reversed. In addition to restricted stock awards that have certain performance conditions, the Company has also granted certain restricted stock awards that vest over time.

During the first quarter of fiscal year 2008, the Company granted certain restricted stock awards with a vesting condition that is tied to the Standard and Poor's 500 Composite Index. In accordance with SFAS 123R, such a market condition must be considered in the grant date fair value of the award which contemplates that the market condition may never be met. Stock-based compensation expense related to an award with a market condition will be recognized over the requisite service period regardless of whether the market condition is satisfied, provided that the requisite service period has been completed.

The following table summarizes restricted stock activity from September 1, 2007 through November 30, 2007:

	Weighted -	
	Average	
	Grant-Date	
	Shares	Fair Value
Nonvested balance at September 1, 2007	4,993,627	\$ 27.73
Changes during the period		
Shares granted (1)	2,813,646	\$ 21.01
Shares vested	(59,075)	\$ 24.78
Shares forfeited	(190,448)	\$ 28.56
Nonvested balance at November 30, 2007	7,557,750	\$ 25.23

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

As of November 30, 2007, there was \$68.4 million of total unrecognized compensation cost related to restricted stock awards granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.8 years.

Note 5. Segment Information

Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), establishes standards for reporting information about segments in financial statements. Operating segments are defined as components of an enterprise that engage in business activities from which it 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, product management and after-market services. Management, including the Chief Executive Officer, evaluates performance and allocates resources on a divisional basis for manufacturing and service operating segments. Prior to the first quarter of fiscal year 2008, the Company managed its business based on three geographic regions, the Americas, Europe and Asia and managed the services group independently of the regional manufacturing segments. During fiscal year 2008, the Company realigned its organizational structure to manage the business based on divisions. Accordingly, the Company's operating segments now consist of three segments - Consumer Electronics, Electronic Manufacturing Services (EMS) and After-Market Services (AMS). All prior period disclosures presented below have been restated to reflect this change.

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Net revenue for the operating segments is attributed to the division in which the product is manufactured or service is performed. An operating segment's performance is evaluated based upon 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 selling, general and administrative expenses, and does not include, intangible amortization, stock-based compensation expense, restructuring and impairment charges, other expense, interest income, interest expense, income taxes or minority interest. Total segment assets are defined as accounts receivable, inventory, customer related machinery and equipment, intangible assets 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, 2007	November 30, 2006
<u>Net revenue</u>		
Consumer Electronics	\$ 1,214,004	\$ 1,270,803
EMS	1,975,383	1,812,353
AMS	178,560	140,847
	\$ 3,367,947	\$ 3,224,003
	2007	2006
<u>Segment income and reconciliation of income before income taxes and minority interest</u>		
Consumer Electronics	\$ 50,277	\$ 38,440
EMS	58,711	36,468
AMS	13,095	10,131
<i>Total segment income</i>	122,083	85,039
Reconciling items:		
Amortization of intangibles	8,855	5,766
Restructuring costs	9,287	6,657
Other expense	4,485	3,635
Net interest expense	22,533	9,006
Stock-based compensation expense	5,031	11,518
Income before income taxes and minority interest	\$ 71,892	\$ 48,457
	November 30, 2007	August 31, 2007
<u>Total assets</u>		
Consumer Electronics	\$ 2,593,097	\$ 2,407,756
EMS	2,701,608	2,530,540
AMS	297,721	282,709
Other non-allocated assets	1,141,613	1,074,227
Total assets	\$ 6,734,039	\$ 6,295,232

Total restructuring and impairment costs of \$9.3 million were charged against earnings during the three months ended November 30, 2007. Approximately \$1.4 million, \$1.4 million and \$4.7 million of restructuring and impairment costs were incurred during the three months ended November 30, 2007 in the Consumer Electronics,

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EMS and AMS operating segments, respectively. In addition, there was \$1.8 million in corporate restructuring and impairment costs that were incurred during the three months ended November 30, 2007. See Note 7 Restructuring and Impairment Charges for a discussion of the Company's restructuring plan initiated in fiscal year 2006.

The Company operates in 22 countries worldwide. Sales to unaffiliated customers are based on the Company's location providing the electronics design, production, product management or after-market services. The following table sets forth external net revenue, net of intercompany eliminations, and long-lived asset information where individual countries represent a material portion of the total (in thousands):

	Three Months Ended	
	November 30,	
	2007	2006
External net revenue:		
China	\$ 641,033	\$ 477,279
United States	612,796	645,828
Mexico	542,814	497,252
Poland	387,965	296,238
Malaysia	228,441	211,750
Taiwan	179,314	22
Hungary	154,080	498,133
Other	621,504	597,501
	\$ 3,367,947	\$ 3,224,003
		August 31,
	November 30,	2007
Long-lived assets:		
Taiwan	\$ 818,087	\$ 798,281
United States	352,912	357,741
India	286,524	289,171
China	286,205	279,971
Mexico	169,493	154,299
Hungary	148,020	143,641
Malaysia	130,031	82,428
Other	414,023	427,025
	\$ 2,605,295	\$ 2,532,557

Foreign source revenue represented 81.8% of net revenue for the three months ended November 30, 2007 compared to 80.0% for the three months ended November 30, 2006.

Note 6. Commitments and Contingencies*a. Legal Proceedings*

On April 26, 2006, a shareholder derivative lawsuit was filed in State Circuit Court in Pinellas County, Florida on behalf of Mary Lou Gruber, a purported shareholder of the Company, naming the Company as a nominal defendant, and naming certain of the Company's officers, Scott D. Brown, Executive Vice President, Mark T. Mondello, Chief Operating Officer, and Timothy L. Main, Chief Executive Officer, President and a Board member, as well as certain of its Directors, Mel S. Lavitt, William D. Morean, Frank A. Newman, Steven A. Raymund and Thomas A. Sansone, as defendants (the Initial Action). Mr. Morean and Mr. Sansone were the Company's previous Chief Executive Officer and President, respectively (such two individuals, with the defendant officers, collectively, the Officer Defendants). On May 10, 2006, a substantially identical complaint was filed in the same state court and was subsequently consolidated with the Initial Action (this consolidated action is referred to here

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as the Consolidated State Derivative Action). The Consolidated State Derivative Action alleged that the named

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defendant directors (other than Mr. Morean and Mr. Main), in their capacity as members of the Company's Board of Directors, Audit or Compensation Committees, at the behest of the Officer Defendants, breached certain of their fiduciary duties to the Company by backdating certain stock option grants between August 1998 and October 2004 to make it appear they were granted on a prior date when the Company's stock price was lower.

Subsequently, two federal derivative suits were filed (the first of which was filed by Mary L. Graves, a purported shareholder, on July 10, 2006) in the United States District Court for the Middle District of Florida, Tampa Division, that asserted similar factual allegations and claims as in the Consolidated State Derivative Action, in addition to a claim that the defendants violated Section 14(a) of the Exchange Act by issuing materially false and misleading statements in its proxy statements filed from 1998 to 2005. These suits were consolidated on January 26, 2007 into one action (the Consolidated Federal Derivative Action).

On May 3, 2006, the Company's Board of Directors appointed the Special Committee to review the allegations in the Initial Action. The Special Committee reviewed and analyzed the claims asserted in all of the above derivative actions and concluded that the evidence did not support a finding of intentional manipulation of stock option grant pricing by any member of management. In addition, the Special Committee concluded that it was not in the Company's best interests to pursue the derivative actions and stated that it would assert that position on the Company's behalf in each of the pending derivative lawsuits. The Special Committee identified certain factors related to the controls surrounding the process of accounting for option grants that contributed to the accounting errors that led to a restatement of certain of the Company's historical financial statements.

On September 20, 2007, the Company reached an agreement in principle to resolve the Consolidated State Derivative Action and the Consolidated Federal Derivative Action. Under the terms of this agreement in principle, the Company will not pay any monetary damages but it did adopt several new policies and procedures to improve the process through which equity awards are determined, approved and accounted for. In addition, the Company has agreed in principle to not object to an application by the plaintiff's counsel for an award of up to \$800,000 in attorney's fees (\$600,000 of which will be covered by the Company's Directors and Officers insurance carriers and \$200,000 of which will be paid by the Company). On November 8, 2007, the Company submitted the proposed settlement to the courts for approval. The state court has preliminarily approved the settlement, has approved the form of notice to be mailed to shareholders and the form of summary notice to be published, and has set a hearing on March 26, 2008, to consider whether to finally approve the settlement and whether to award attorney's fees and expenses to the plaintiffs' counsel. The federal court has approved the notice and summary notice. The federal court, however, has disapproved the plaintiffs' intention to seek an award of attorney's fees and costs in the amount of \$800,000, but has agreed that the state court can hold a fairness hearing to determine the amount to award in light of the common benefit, if any, created for all shareholders. The Company can give no assurance that the proposed settlement agreement will be approved.

In addition to the derivative actions, on September 18, 2006, a putative shareholder class action was filed in the United States District Court for the Middle District of Florida, Tampa Division against us and various present and former officers and directors, including Forbes I.J. Alexander, Scott D. Brown, Laurence S. Grafstein, Mel S. Lavitt, Chris Lewis, Timothy Main, Mark T. Mondello, William D. Morean, Lawrence J. Murphy, Frank A. Newman, Steven A. Raymund, Thomas A. Sansone and Kathleen Walters on behalf of a proposed class of plaintiffs comprised of persons that purchased the Company's shares between September 19, 2001 and June 21, 2006. A second putative class action, containing virtually identical legal claims and allegations of fact was filed on October 12, 2006. The two actions were consolidated into a single proceeding (the Consolidated Class Action) and on January 18, 2007, the Court appointed The Laborers Pension Trust Fund for Northern California and Pension Trust Fund for Operating Engineers as lead plaintiffs in the action. On March 5, 2007, the lead plaintiffs filed a consolidated class action complaint (the Consolidated Class Action Complaint). The Consolidated Class Action Complaint is purported to be brought on behalf of all persons who purchased the Company's publicly traded securities between September 19, 2001 and December 21, 2006, and names the Company and certain of its current and former officers, including Forbes I.J. Alexander, Scott D. Brown, Wesley B. Edwards, Chris A. Lewis, Mark T. Mondello, Robert L. Paver and Ronald J. Rapp, as well as certain of the Company's Directors, Mel S. Lavitt, William D. Morean, Frank A. Newman, Laurence S. Grafstein, Steven A. Raymund, Lawrence J. Murphy, Kathleen A. Walters and Thomas A. Sansone, as defendants. The Consolidated Class Action Complaint alleged violations of Sections 10(b), 20(a), and 14(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder. The Consolidated Class Action Complaint alleged that the defendants engaged in a scheme to fraudulently backdate the grant dates of options for various senior officers and directors, causing the Company's financial statements to understate management compensation and overstate net earnings, thereby inflating the Company's stock price. In

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addition, the complaint alleged that the Company's proxy statements falsely stated that it had adhered to its option grant policy of granting options at the closing price of its shares on the trading date immediately prior to the date of the grant. Also, the complaint alleged that the defendants failed to timely disclose the facts and circumstances that led the Company, on June 12, 2006, to announce that it was lowering its prior guidance for net earnings for the third quarter of fiscal year 2006. On April 30, 2007, the plaintiffs filed a First Amended Consolidated Class Action Complaint asserting claims substantially similar to the Consolidated Class Action Complaint it replaced but adding additional allegations relating to the restatement of earnings previously announced in connection with the correction of errors in the calculation of compensation expense for certain stock option grants. The Company filed a motion to dismiss the First Amended Consolidated Class Action Complaint on June 29, 2007. The plaintiffs filed an opposition to the Company's motion to dismiss, and the Company then filed a reply memorandum in further support of its motion to dismiss on September 28, 2007.

In addition to the private litigation described above, the Company was notified on May 2, 2006 by the Staff of the SEC of an informal inquiry concerning the Company's stock option grant practices. On May 17, 2006, the Company received a subpoena from the U.S. Attorney's office for the Southern District of New York requesting certain stock option related material. In addition, the Company's review of its historical stock option practices led it to review certain transactions proposed or effected between fiscal years 1999 and 2002 to determine if it properly recognized revenue associated with those transactions. The Audit Committee of the Company's Board of Directors engaged independent legal counsel to assist it in reviewing certain proposed or effected transactions with certain customers that occurred during this period. The review determined that there was inadequate documentation to support the Company's recognition of certain revenues received during the period. The Company's Audit Committee concluded that there was no direct evidence that any of the Company's employees intentionally made or caused false accounting entries to be made in connection with these transactions, and the Company concluded that the impact was immaterial. The Company has provided the SEC with the report that this independent counsel produced regarding these revenue recognition issues, the Special Committee's report regarding the Company's stock option grant practices, and the other information requested to date. In addition, the Company continues to cooperate fully with the Special Committee, the SEC and the U.S. Attorney's office. The Company cannot predict what effect such reviews may have. See **Risk Factors** "We are involved in reviews of our historical stock option grant practices" and "We are involved in an SEC review of our recognition of revenue for certain historical transactions."

The Company is party to certain other 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.

b. Warranty Provision

The Company maintains a provision for limited warranty repair of shipped products, which is established under the terms of specific manufacturing contract agreements. The warranty liability is included in accrued expenses on the Company's Condensed Consolidated Balance Sheet. The warranty period varies by product and customer industry sector. The provision represents management's estimate of probable liabilities, calculated as a function of sales volume and historical repair experience, for each product under warranty. The estimate is reevaluated periodically for accuracy. A rollforward of the warranty liability for the three months ended November 30, 2007 and 2006 is as follows (in thousands):

	Amount
Balance at August 31, 2007	\$ 7,575
Accruals for warranties	1,184
Settlements made	(1,113)
 Balance at November 30, 2007	 \$ 7,646
	Amount
Balance at August 31, 2006	\$ 3,940
Accruals for warranties	2,690
Settlements made	(694)
 Balance at November 30, 2006	 \$ 5,936

Table of Contents**Note 7. Restructuring and Impairment Charges**

In conjunction with the restructuring plan that was approved by the Company's Board of Directors in the fourth quarter of fiscal year 2006 (the 2006 Restructuring Plan), the Company charged an additional \$9.3 million and \$6.7 million of restructuring and impairment costs against earnings during the three months ended November 30, 2007 and 2006, respectively. The restructuring and impairment costs for the three months ended November 30, 2007 include \$3.6 million related to employee severance and benefits costs, \$5.5 million related to lease commitments and \$0.2 million related to other restructuring costs. The restructuring and impairment costs for the three months ended November 30, 2006 include \$7.4 million related to employee severance and benefits costs, \$1.8 million related to lease commitments, \$5.7 million related to fixed asset impairments and \$0.1 million related to other restructuring costs, which was off-set by \$8.3 million of proceeds received in connection with facility closure costs.

These restructuring and impairment charges related to the 2006 Restructuring Plan incurred through November 30, 2007 of \$163.6 million include cash costs totaling \$115.1 million, of which \$1.5 million was paid in the fourth fiscal quarter of 2006, \$64.8 million was paid in fiscal year 2007, and \$20.0 million was paid in the first fiscal quarter of 2008. The cash costs consist of employee severance and benefits costs of approximately \$103.3 million, costs related to lease commitments of approximately \$18.4 million and other restructuring costs of \$1.7 million. These cash costs were off-set by approximately \$8.3 million of cash proceeds received in connection with facility closure costs. Non-cash costs of approximately \$48.5 million primarily represent fixed asset impairment charges related to the Company's restructuring activities.

Employee severance and termination benefit costs of \$3.6 million and \$7.4 million recorded in the three months ended November 30, 2007 and 2006, respectively, are related to the reduction of employees across all functions of the business in manufacturing facilities in Europe, Asia and the Americas. Approximately 9,000 employees have been included in the 2006 Restructuring Plan to date. Lease commitment costs of \$5.5 million and \$1.8 million recorded in the three months ended November 30, 2007 and 2006, respectively, primarily relate to future lease payments for facilities that were vacated in the Americas and Europe. The Company performed an impairment assessment on fixed assets held by each facility that was significantly impacted by the restructuring program and recorded a fixed asset impairment charge of \$5.7 million during the three months ended November 30, 2006.

In addition, as part of the restructuring plan, management determined that it was more likely than not that certain foreign plants would not be able to utilize their deferred tax assets as a result of the contemplated restructuring activities. Therefore, the Company recorded valuation allowances of \$35.1 million on net deferred tax assets as part of the restructuring plan prior to September 1, 2007. The valuation allowances are excluded from the table below as they were recorded through the provision for income taxes on the Consolidated Statement of Earnings. See Note 4 Income Taxes to the Consolidated Financial Statements in the Annual Report on Form 10-K for the fiscal year ended August 31, 2007 for further discussion of the Company's net deferred tax assets and provision for income taxes.

The tables below set forth the significant components and activity in the restructuring program during the three months ended November 30, 2007 and 2006, including activity by reportable segment (in thousands):

Restructuring Activity – Three Months Ended November 30, 2007

	Liability Balance at	Restructuring	Asset	Cash	Liability Balance at
	August 31, 2007	Related	Impairment	(Payments)	November 30, 2007
		Charges	Charge and	Proceeds	
			Other Non-Cash		
			Activity		
Employee severance and termination benefits	\$ 34,307	\$ 3,634	\$ 1,649	\$ (12,706)	\$ 26,884
Lease costs	6,895	5,524	89	(6,629)	5,879
Fixed asset impairment		3	(3)		
Other	1,030	126	56	(703)	509