

JABIL CIRCUIT INC  
Form 10-K  
October 20, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended August 31, 2016**

**or**

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

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

**Commission file number 001-14063**

**JABIL CIRCUIT, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**10560 Dr. Martin Luther King, Jr. Street North, St. Petersburg, Florida 33716**

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

**(Address of principal executive offices) (Zip Code)**  
**(727) 577-9749**

**Registrant's telephone number, including area code**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, \$0.001 par value per share</b>	<b>New York Stock Exchange</b>
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant based on the closing sale price of the Common Stock as reported on the New York Stock Exchange on February 29, 2016 was approximately \$3.9 billion. For purposes of this determination, shares of Common Stock held by each officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the registrant's Common Stock as of the close of business on October 6, 2016, was 185,579,700. The registrant does not have any non-voting stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

The registrant's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders scheduled to be held on January 26, 2017 is incorporated by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

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**JABIL CIRCUIT, INC. AND SUBSIDIARIES**

**2016 FORM 10-K ANNUAL REPORT**

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

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

*variability of our operating results;*

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

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

*availability of components;*

*our dependence on certain industries;*

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

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

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

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

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

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

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

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

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

*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, and any subsequent reports on Form 10-Q and Form 8-K, and other filings with the Securities and Exchange Commission ( SEC ). Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements.*

*All forward-looking statements included in this Annual Report on Form 10-K are made only as of the date of this Annual Report on Form 10-K, 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 Annual Report on Form 10-K 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.*

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**PART I**

**Item 1. Business**

**The Company**

We are one of the leading providers of worldwide electronic manufacturing services and solutions. We provide comprehensive electronics design, production and product management services to companies in the automotive, capital equipment, consumer lifestyles and wearable technologies, computing and storage, defense and aerospace, digital home, emerging growth, healthcare, industrial and energy, mobility, networking and telecommunications, packaging, point of sale and printing industries. We serve our customers primarily with dedicated business units that combine highly automated, continuous flow manufacturing with advanced electronic design and design for manufacturability. We currently depend, and expect to continue to depend, upon a relatively small number of customers for a significant percentage of our net revenue and upon their growth, viability and financial stability. Based on net revenue, for the fiscal year ended August 31, 2016, our largest customers include Apple, Inc., Cisco Systems, Inc., Dell Technologies, General Electric Company, Hewlett-Packard Company, Ingenico S.A., LM Ericsson Telephone Company, NetApp, Inc., Valeo S.A. and Zebra Technologies Corporation. For the fiscal year ended August 31, 2016, we had net revenues of approximately \$18.4 billion and net income attributable to Jabil Circuit, Inc. of approximately \$254.1 million.

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

integrated design and engineering;

component selection, sourcing and procurement;

automated assembly;

design and implementation of product testing;

parallel global production;

enclosure services;

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

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

We currently conduct our operations in facilities that are located in Austria, Belgium, Brazil, Canada, China, Finland, France, Germany, Hungary, India, Ireland, Israel, Italy, Japan, Malaysia, Mexico, The Netherlands, Poland, Russia, Scotland, Singapore, South Africa, South Korea, Spain, Taiwan, Ukraine, the U.S. and Vietnam. Our global manufacturing production sites allow customers to manufacture products simultaneously in the optimal locations for their products. Our services allow customers to reduce manufacturing costs, improve supply-chain management, reduce inventory obsolescence, lower transportation costs and reduce product fulfillment time. Our global presence is key to assessing our business opportunities.

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

Our principal executive offices are located at 10560 Dr. Martin Luther King, Jr. Street North, St. Petersburg, Florida 33716, and our telephone number is (727) 577-9749. We were incorporated in Delaware in 1992. Our website is located at <http://www.jabil.com>. Through a link on the Investors section of our website, we make available the following financial filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC: our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. All such filings are available free of charge. Information contained in our website, whether currently posted or posted in the future, is not a part of this document or the documents incorporated by reference in this document.



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**Table of Contents****Industry Background**

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

We continue to try to monitor the current economic environment and its potential impact on both the customers that we serve as well as our end-markets and closely manage our costs and capital resources so that we can respond appropriately as circumstances continue to change. Over the longer term, however, we believe the factors driving our customers and potential customers to utilize our industry's services include:

***Reduced Product Cost.*** Manufacturing service providers are often able to manufacture products at a reduced total cost to companies. These cost advantages result from higher utilization of capacity because of diversified product demand and, generally, a greater focus on elements of manufacturing cost.

***Accelerated Product Time-to-Market and Time-to-Volume.*** Manufacturing service providers are often able to deliver accelerated production start-ups and achieve high efficiencies in transferring new products into production. Providers are also able to more rapidly scale production for changing markets and to position themselves in global locations that serve the leading world markets. With increasingly shorter product life cycles, these key services allow new products to be sold in the marketplace in an accelerated time frame.

***Access to Advanced Design and Manufacturing Technologies.*** Customers gain access to additional advanced technologies in manufacturing processes, as well as product and production design. Product and production design services may offer customers significant improvements in the performance, cost, time-to-market and manufacturability of their products.

***Improved Inventory Management and Purchasing Power.*** Manufacturing service providers are often able to more efficiently manage both procurement and inventory, and have demonstrated proficiency in purchasing components at improved pricing due to the scale of their operations and continuous interaction with the materials marketplace.

***Reduced Capital Investment in Manufacturing.*** Companies are increasingly seeking to lower their investment in inventory, facilities and equipment used in manufacturing in order to allocate capital to other activities such as sales and marketing and research and development ( R&D ). This strategic shift in capital deployment has contributed to increased demand for and interest in outsourcing to external manufacturing service providers.

## **Our Strategy**

We are focused on expanding our position as one of the leading providers of worldwide electronic manufacturing services and solutions. To achieve this objective, we continue to pursue the following strategies:

***Establish and Maintain Long-Term Customer Relationships.*** Our core strategy is to establish and maintain long-term relationships with leading companies in expanding industries with size and growth characteristics that can benefit from highly automated, continuous flow manufacturing on a global scale. Over the past several years, we have made concentrated efforts to diversify our industry sectors and customer base. As a result of these efforts, we have experienced business growth from existing customers and from new customers. Additionally, our acquisitions have contributed to our business growth. We focus on maintaining long-term relationships with our customers and seek to expand these relationships to include additional product lines and services. In addition, we have a focused effort to identify and develop relationships with new customers who meet our profile.

***Utilize Business Units.*** Most of our business units are dedicated to one customer and operate by primarily utilizing dedicated production equipment, production workers, supervisors, buyers, planners and engineers. We believe our customer centric business units promote increased responsiveness to our customers' needs, particularly as a customer relationship grows to multiple production locations.

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***Expand Parallel Global Production.*** Our ability to produce the same product on a global scale is a significant requirement of our customers. We believe that parallel global production is a key strategy to reduce obsolescence risk and secure the lowest landed costs while simultaneously supplying products of equivalent or comparable quality throughout the world. Consistent with this strategy, we have established or acquired operations in Austria, Belgium, Brazil, Canada, China, Finland, France, Germany, Hungary, India, Ireland, Israel, Italy, Japan, Malaysia, Mexico, The Netherlands, Poland, Russia, Scotland, Singapore, South Africa, South Korea, Spain, Taiwan, Ukraine and Vietnam to increase our European, Asian and Latin American presence.

***Offer Systems Assembly, Direct-Order Fulfillment and Configure-to-Order Services.*** Our systems assembly, direct-order fulfillment and configure-to-order services allow our customers to reduce product cost and risk of product obsolescence by reducing total work-in-process and finished goods inventory. These services are available at all of our manufacturing locations.

***Offer Design Services.*** We offer a wide spectrum of value-add design services for products that we manufacture for our customers. We provide these services to enhance our relationships with current customers by allowing them the flexibility to utilize complementary design services to achieve improvements in performance, cost, time-to-market and manufacturability, as well as to help develop relationships with new customers.

***Pursue Selective Acquisition Opportunities.*** Traditionally, EMS companies have acquired manufacturing capacity from customers to drive growth, expand footprint and gain new customers. More recently, our acquisition strategy has expanded beyond focusing on acquisition opportunities presented by companies divesting internal manufacturing operations to include opportunities to acquire DMS and EMS competitors who are focused on our key growth areas which include specialized manufacturing in key markets, materials technology, design operations and/or other acquisition opportunities complementary to our services offerings. The primary goal of our acquisition strategy is 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. As the scope of our acquisition opportunities expands, the risks associated with our acquisitions expand as well, both in terms of the amount of risk we face and the scope of such risks. See

Risk Factors We have on occasion not achieved, and may not in the future achieve, expected profitability from our acquisitions.

## **Our Approach to Manufacturing**

In order to achieve high levels of manufacturing performance, we have adopted the following approaches:

***Business Units.*** Most of our business units are dedicated to one customer and are empowered to formulate strategies tailored to individual customer needs. Most of our business units have dedicated production lines consisting of equipment, production workers, supervisors, buyers, planners and engineers. Under certain circumstances, a production line may include more than one business unit in order to maximize resource utilization. Business units have direct responsibility for manufacturing results and time-to-volume production, promoting a sense of individual commitment and ownership. The business unit approach is modular and enables us to grow incrementally without disrupting the operations of other business units.

Business unit management reviews the customer financial information in order to assess whether or not the business units are meeting their designated responsibilities and to ensure that the daily execution of manufacturing activities are being effectively managed. The business units aggregate into operating segments based on the economic profiles of the services performed, including manufacturing capabilities, market share strategy, margins, return on capital and risk profiles.

***Automated Continuous Flow.*** We use a highly automated, continuous flow approach where different pieces of equipment are joined directly or by conveyor to create an in-line assembly process. This process is in contrast to a batch approach, where individual pieces of assembly equipment are operated as freestanding work-centers. The elimination of waiting time prior to sequential operations results in faster manufacturing, which improves production efficiencies and quality control, and reduces inventory work-in-process. Continuous flow manufacturing provides cost reductions and quality improvement when applied to volume manufacturing.

***Computer Integration.*** We support all aspects of our manufacturing activities with advanced computerized control and monitoring systems. Component inspection and vendor quality are monitored electronically in real-time. Materials planning, purchasing, stockroom and shop floor control systems are supported through a computerized Manufacturing Resource Planning system, providing customers with a continuous ability to monitor material availability and track work-in-process on a real-time basis. Manufacturing processes are supported by a real-time, computerized statistical process control system, whereby customers can remotely access our computer systems to monitor real-time yields, inventory positions, work-in-process status and vendor quality data. See Technology and Risk Factors Any delay in the implementation of our information systems could disrupt our operations and cause unanticipated increases in our costs.

***Supply Chain Management.*** We make available an electronic commerce system/electronic data interchange and web-based tools for our customers and suppliers to implement a variety of supply chain management programs. Most of our customers utilize these tools to share demand and product forecasts and deliver purchase orders. We use these tools with most of our suppliers for just-in-time delivery, supplier-managed inventory and consigned supplier-managed inventory.

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### **Our Design Services**

We offer a wide spectrum of value-add design services for products that we manufacture for our customers. We provide these services to enhance our relationships with current customers and to help develop relationships with our new customers. We offer the following design services:

***Electronic Design.*** Our Electronic Design team provides electronic circuit design services, including application-specific integrated circuit design, firmware development and rapid prototyping services. These services have been used by our customers for a variety of products including smart phones and accessory products, notebook and personal computers, servers, radio frequency products, video set-top boxes, optical communications products, communication and broadband products, automotive and consumer appliance controls.

***Industrial Design Services.*** Our Industrial Design team designs the look and feel of the plastic and metal enclosures that house the electro-mechanics, including the printed circuit board assemblies ( PCBA ).

***Mechanical Design.*** Our Mechanical Design team specializes in three-dimensional mechanical design with the analysis of electronic, electro-mechanical and optical assemblies using state of the art modeling and analytical tools. The mechanical team has extended Jabil's product design offering capabilities to include all aspects of industrial design, advance mechanism development and tooling management.

***Computer-Assisted Design.*** Our Computer-Assisted Design ( CAD ) team provides PCBA design services using advanced CAD engineering tools, PCBA design validation and verification services, and other consulting services, which include the generation of a bill of materials, approved vendor list and assembly equipment configuration for a particular PCBA design. We believe that our CAD services result in PCBA designs that are optimized for manufacturability and cost efficiencies, and accelerate the product's time-to-market and time-to-volume production.

***Product Validation.*** Our Product Validation team provides complete product and process validation. This includes product system test, product safety, regulatory compliance and reliability test.

***Manufacturing Test Solution Development.*** Our Manufacturing Test Solution Development team works as an integral function to the design team to embed design for testability and minimization of capital and resource investment for mass manufacturing. The use of software driven instrumentation and test process design and management has enhanced our customer product quality and less human dependent test processes. The full electronic test data-log of customer products has allowed customer product test traceability and visibility throughout the manufacturing test process.

Our teams are strategically staffed to support Jabil customers for all development projects, including turnkey system design and design for manufacturing activities. See Risk Factors We may not be able to maintain our engineering, technological and manufacturing process expertise.

We are exposed to different or greater potential liabilities from our design services than those we face from our regular manufacturing services. See **Risk Factors** 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.

### **Our Systems Assembly, Test, Direct-Order Fulfillment and Configure-to-Order Services**

We offer systems assembly, test, direct-order fulfillment and configure-to-order services to our customers. Our systems assembly services extend our range of assembly activities to include assembly of higher-level sub-systems and systems incorporating multiple PCBAs. We maintain systems assembly capacity to meet the demands of our customers. In addition, we provide testing services, based on quality assurance programs developed with our customers, of the PCBAs, sub-systems and systems products that we manufacture. Our quality assurance programs include circuit testing under various environmental conditions to try to ensure that our products meet or exceed required customer specifications. We also offer direct-order fulfillment and configure-to-order services for delivery of final products we assemble for our customers.

### **Technology**

We believe that our manufacturing and testing technologies are among the most advanced in the industry. Through our R&D efforts, we intend to continue to offer our customers among the most advanced highly automated, continuous flow manufacturing process technologies for precise and aesthetic mechanical components and system assembly. These technologies include automation, electronic interconnection, advanced polymer and metal material science, automated tooling, single/multi-shot injection molding, stamping, multi-axis Computer Numerical Control, spray painting, vacuum metallization, physical vapor deposition, digital printing, anodization, thermal-plastic composite formation, plastic with embedded electronics, in-mold labeling, metal cover with insert-molded or die-casting features for assembly, seamless display cover with integrated touch sensor, plastic cover with insert-molded glass lens and advanced testing solutions. In addition to our R&D activities, we are continuously making refinements to our existing manufacturing processes in connection with providing manufacturing services to our customers. See **Risk Factors** We may not be able to maintain our engineering, technological and manufacturing process expertise.

**Table of Contents****Research and Development**

To meet our customers' increasingly sophisticated needs, we continuously engage in product research and design activities. These activities include electronic design, mechanical design, software design, system level design, material processing research (including plastics, metal, glass and ceramic), component and product validation, as well as other design and process development related activities necessary to manufacture our customers' products in the most cost-effective and consistent manner. We are engaged in advanced research and platform designs for products including: mobile internet devices and associated accessories, multi-media tablets, two-way radios, consumer lifestyles products, health care and life science products, server and storage products, set-top and digital home products, printing products and wearable technologies products. These activities focus on assisting our customers in product creation and manufacturing solutions. For fiscal years 2016, 2015 and 2014, we expended \$32.0 million, \$27.6 million and \$28.6 million, respectively, on R&D activities.

**Financial Information about Business Segments**

We derive revenue from providing comprehensive electronics design, production and product management services. Management evaluates performance and allocates resources on a segment basis. At August 31, 2016, our reportable operating segments consisted of two segments - EMS and DMS. See Note 13 - Concentration of Risk and Segment Data to the Consolidated Financial Statements.

**Customers and Marketing**

Our core strategy is to establish and maintain long-term relationships with leading companies in expanding industries with the size and growth characteristics that can benefit from highly automated, continuous flow manufacturing on a global scale. A small number of customers and significant industry sectors have historically comprised a major portion of our net revenue. The table below sets forth the respective portion of net revenue for the applicable period attributable to our customers who individually accounted for approximately 10% or more of our net revenue in any respective period:

	<b>Fiscal Year Ended August 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Apple, Inc.	24%	24%	18%

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

	<b>Fiscal Year Ended August 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
EMS	60%	60%	67%
DMS	40%	40%	33%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

In fiscal year 2016, our five largest customers accounted for approximately 49% of our net revenue and 85 customers accounted for approximately 90% of our net revenue. 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. See Risk Factors Because we depend on a limited number of customers, a reduction in sales to any one of those customers could cause a significant decline in our revenue, Risk Factors Consolidation in industries that utilize our services may adversely affect our business and Note 13 Concentration of Risk and Segment Data to the Consolidated Financial Statements.

We have made concentrated efforts to diversify our industry sectors and customer base, including but not limited to increasing our net revenue in the EMS and DMS segments through acquisitions and organic growth. Our Business Unit Managers and Directors, supported by executive management, work to expand existing customer relationships through the addition of product lines and services. These individuals also identify and attempt to develop relationships with new customers who meet our profile. This profile includes financial stability, need for technology-driven turnkey manufacturing, anticipated unit volume and long-term relationship stability. Unlike traditional sales managers, our Business Unit Managers and Directors are responsible for ongoing management of production for their customers.

### **International Operations**

A key element of our strategy is to provide localized production of global products for leading companies in the major consuming regions of the Americas, Europe, Asia and Africa. Consistent with this strategy, we have established or acquired operations in Austria, Belgium, Brazil, Canada, China, Finland, France, Germany, Hungary, India, Ireland, Israel, Italy, Japan, Malaysia, Mexico, The Netherlands, Poland, Russia, Scotland, Singapore, South Africa, South Korea, Spain, Taiwan, Ukraine and Vietnam.



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Our European operations provide European and multinational customers with design and manufacturing services to satisfy their local market consumption requirements.

Our Asian operations enable us to provide local design and manufacturing services and a more competitive cost structure in the Asian market; and serve as a low cost manufacturing source for new and existing customers in the global market.

Our Latin American operations located in Mexico enable us to provide a low cost manufacturing source for new and existing customers principally in the U.S. marketplace. Our Latin American operations located in South America provide customers with manufacturing services to satisfy their local market consumption requirements.

Our African operations, located in South Africa, provide energy consulting and monitoring services and products to telecommunication customers throughout Africa.

See **Risk Factors** We derive a substantial 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 and **Management's Discussion and Analysis of Financial Condition and Results of Operations**.

## **Competition**

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

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

### **Backlog**

Our order backlog at August 31, 2016 and 2015 was valued at approximately \$4.5 billion and \$5.0 billion, respectively. Our order backlog is expected to be filled within the current fiscal year. Although our backlog consists of firm purchase orders, the level of backlog at any particular time may not be necessarily indicative of future sales. Given the nature of our relationships with our customers, we frequently allow our customers to cancel or reschedule deliveries, and therefore, backlog is often not a meaningful indicator of future financial results. Although we may seek to negotiate fees to cover the costs of such cancellations or rescheduling, we may not always be successful in such negotiations. See **Risk Factors** Most of our customers do not commit to long-term production schedules, or they may cancel their orders, change production quantities, delay production or change their sourcing strategy which makes it difficult for us to schedule production and capital expenditures, and to maximize the efficiency of our manufacturing capacity.

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### **Seasonality**

Production levels for a portion of the DMS segment are subject to seasonal influences. We may realize greater net revenue during our first fiscal quarter due to higher demand for consumer related products manufactured in the DMS segment during the holiday selling season.

### **Components Procurement**

We procure components from a broad group of suppliers, determined on an assembly-by-assembly basis. 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. In the past there have been industry wide conditions, natural disasters and global events that have caused material shortages. Such circumstances have produced insignificant levels of short-term interruption of our operations, but they could have a material adverse effect on our results of operations in the future. Our production of a customer's product could be negatively impacted by any quality, reliability or availability issues with any of our component suppliers. The financial condition of our suppliers could affect their ability to supply us with components and their ability to satisfy any warranty obligations they may have, which could have a material adverse effect on our operations. See Risk Factors We depend on a limited number of suppliers for components that are critical to our manufacturing processes. A shortage of these components or an increase in their price could interrupt our operations and reduce our profit, increase our inventory carrying costs, increase our risk of exposure to inventory obsolescence and cause us to purchase components of a lesser quality.

### **Proprietary Rights**

We regard certain aspects of our design, production and product services as proprietary intellectual property. To protect our proprietary rights, we rely largely upon a combination of intellectual property laws, non-disclosure agreements with our customers, employees, and suppliers and our internal security systems, policies and procedures. Although we take steps to protect our intellectual property, misappropriation may still occur. We have not historically sought patent protection for many of our proprietary processes, designs or other patentable intellectual property. We currently have a relatively modest number of solely owned and/or jointly held patents for various innovations. We believe that our research and design activities, along with developments relating thereto, may result in growth of our patent portfolio and its importance to us, particularly as we expand our business activities. Other factors significant to our proprietary rights include the knowledge and experience of our management and personnel and our ability to develop, enhance and market manufacturing services.

We license some technology and intellectual property rights from third parties that we use in providing some of our design, production and product management services to our customers. Generally, the license agreements which govern such third party technology and intellectual property rights grant us the right to use the subject technology anywhere in the world and will terminate upon a material breach by us. In the event of termination, we may not be successful in developing alternatives.

We do not believe that our designs, production and product management services infringe on the proprietary rights of third parties. However, if third parties successfully assert infringement claims against us with respect to past, current or future designs or processes, we could be required to enter into an expensive royalty arrangement, develop non-infringing designs or processes, discontinue use of the infringing design or processes, or engage in costly

litigation. See Risk Factors We may not be able to maintain our engineering, technological and manufacturing process expertise, Risk Factors - Our manufacturing processes and services may result in exposure to intellectual property infringement and other claims, Risk Factors - The success of certain aspects of our business depends in part on our ability to obtain, protect and leverage intellectual property rights and Risk Factors - Intellectual property infringement claims against our customers, our suppliers or us could harm our business.

## **Employees**

As of August 31, 2016, we employed approximately 138,000 people worldwide. None of our U.S. domestic employees are represented by a labor union. In certain international locations, our employees are represented by labor unions and by works councils. We have never experienced a significant work stoppage or strike and we believe that our employee relations are good.

## **Geographic Information**

The information regarding net revenue and long-lived assets set forth in Note 13 Concentration of Risk and Segment Data to the Consolidated Financial Statements, is hereby incorporated by reference into this Part I, Item 1. Each of our segments is dependent on foreign operations.

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### **Environmental**

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. See **Risk Factors** 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.

### **Executive Officers of the Registrant**

Executive officers are appointed by the Board of Directors and serve at the discretion of the Board. Each executive officer is a full-time employee of Jabil. There are no family relationships among our executive officers and directors. There are no arrangements or understandings between any of our executive officers and any other persons pursuant to which any of such executive officers were selected. Below is a list of our executive officers as of the most recent practicable date.

**Forbes I.J. Alexander** (age 56) was named Chief Financial Officer in September 2004. Mr. Alexander joined Jabil in 1993 as Controller of Jabil's Scottish operation and was promoted to Assistant Treasurer in April 1996. Mr. Alexander was Treasurer from November 1996 to August 2004. Prior to joining Jabil, Mr. Alexander was Financial Controller of Tandy Electronics European Manufacturing Operations in Scotland and has held various financial positions with Hewlett Packard and Apollo Computer. Mr. Alexander is a Fellow of the Institute of Chartered Management Accountants. He holds a B.A. in Accounting from the University of Abertay Dundee, Scotland.

**Steven D. Borges** (age 48) was named Executive Vice President, Chief Executive Officer, Healthcare in September 2016. Mr. Borges joined Jabil in 1993 and has global experience in Business Development, Manufacturing Operations and Supply Chain Management. From 1993 through 2015, Mr. Borges held several positions, including various positions in operations through 1997, Business Unit Coordinator in 1998, Vice President, Business Development in 2002, Vice President, Business Development, Americas in 2003, Vice President, Global Business Units, EMS, in 2007, Senior Vice President, Industrial & Energy in 2013, Executive Vice President, CEO, Growth Markets in 2014 and Executive Vice President, CEO, Healthcare, in 2015. He holds a Bachelor's Degree in Business Administration and Management from Fitchburg State University.

**Sergio A. Cadavid** (age 60) was named Senior Vice President, Treasurer in September 2013. Mr. Cadavid joined Jabil in 2006 as Treasurer. Prior to joining Jabil, Mr. Cadavid was Corporate Assistant Treasurer for Owens-Illinois, Inc. in Toledo, Ohio. Mr. Cadavid joined Owens-Illinois, Inc. in 1988 and held various financial and administrative positions in the U.S., Italy and Colombia. He has also held various positions with The Quaker Oats Company, Arthur Andersen & Co. and J.M. Family Enterprises, Inc. He holds an M.B.A. from the University of Florida and a B.B.A. from Florida International University.

**Michael Dastoor** (age 51) was named Senior Vice President, Controller in July 2010. Mr. Dastoor joined Jabil in 2000 as Regional Controller - Asia Pacific and was named Controller in June 2004. Prior to joining Jabil, Mr. Dastoor was a Regional Financial Controller for Inchcape PLC. Mr. Dastoor joined Inchcape in 1993. He holds a degree in

Finance and Accounting from the University of Bombay. Mr. Dastoor is a Chartered Accountant from the Institute of Chartered Accountants in England and Wales.

**Erich Hoch** (age 47) was named Executive Vice President, Chief Executive Officer, Jabil Packaging Solutions in June 2016. Mr. Hoch joined Jabil in 2002 as Business Unit Manager as part of the Business Development Group. In 2005, he became a Vice President, Global Business Units presiding over Jabil's display sector. From 2008 to 2013, Mr. Hoch was Senior Vice President and Chief Supply Chain Officer where he developed solutions and strategies aimed at making Jabil a sustainable holistic supply chain management services organization. Most recently, he served as Executive Vice President of Engineering and Technology Services. Prior to Jabil, Mr. Hoch spent 18 years at Philips Electronics where he worked across multiple functional disciplines. Mr. Hoch received an engineering diploma in Vienna, Austria, in toolmaking and mechanics. He also holds various international certifications in Marketing, Purchasing, and Business Management.

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**Robert L. Katz** (age 54) joined Jabil in March 2016 and was named Executive Vice President, General Counsel and Corporate Secretary in September 2016. Mr. Katz served as General Counsel of Jabil prior to this appointment. Prior to joining Jabil, Mr. Katz served as Executive Vice President, General Counsel and Secretary of SharkNinja. He was previously Senior Vice President and General Counsel of Ingersoll Rand plc from 2010 to 2015. Mr. Katz joined Ingersoll Rand from Federal-Mogul Corporation where he was Senior Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer from 2007 to 2011. Prior to joining Federal-Mogul, he was General Counsel - EMEA and Regional Compliance Officer - EMEA for Delphi Corporation in Paris, France from 1999 to 2007. From 1996 to 1999, Mr. Katz served as Assistant General Counsel for General Motors (Europe) AG in Zurich, Switzerland. He began his career with Milbank, Tweed, Hadley & McCloy working in the Mergers and Acquisitions and General Corporate Group in New York and London. He earned a Bachelor of Laws (LL.B.) and a Bachelor of Civil Law (B.C.L.) from McGill University. He is a member of the New York Bar.

**Michael J. Loparco** (age 45) was named Executive Vice President, Chief Executive Officer, Engineered Solutions Group in January 2016. Previously, Mr. Loparco served as Executive Vice President, Chief Executive Officer, Industrial and Energy, Senior Vice President, Global Business Units in Jabil's High Velocity business and held a variety of global management positions. Before joining Jabil in 1999, Mr. Loparco was an attorney at Holland & Knight, LLP, practicing corporate and commercial litigation, and was a Certified Mediator in the judicial circuits of the State of Florida. He holds a Juris Doctorate from Stetson University College of Law; and attended Florida State University, College of Law, while serving with the Committee of Business and Professional Regulation for the Florida House of Representatives. He holds a Bachelor of Arts in International Business, with minor degrees in Spanish and Business Management, from Eckerd College.

**Joseph A. McGee** (age 54) was named Executive Vice President, Strategic Planning and Development in January 2010 and was designated as an executive officer in July 2013. Mr. McGee joined Jabil in 1993 as a Business Unit Manager. From 1993 through 2004, Mr. McGee held several positions, including Director of Business Development, Malaysia, General Manager, California and Vice President, Global Business Units. Mr. McGee was promoted to Senior Vice President, Global Business Units in September 2004 and Senior Vice President, Strategic Planning and Development in June 2008. Prior to joining Jabil, Mr. McGee held positions within Sun Microsystems, Philips, the University of Glasgow and the University of Strathclyde. He holds a Bachelor's degree in Mechanical Engineering from the University of Strathclyde, an MBA from the University of Glasgow and a Doctorate in Thermodynamics and Fluid Mechanics from the University of Strathclyde.

**Mark Mondello** (age 52) was named Chief Executive Officer in March 2013. Mr. Mondello joined Jabil in 1992 as a manufacturing supervisor. Mr. Mondello was promoted to Project Manager in 1993, named Vice President, Business Development in 1997, Senior Vice President, Business Development in 1999 and served as Chief Operating Officer from November 2002 through March 2013. Prior to joining Jabil, Mr. Mondello was a commercial and defense-related aerospace project manager for Moog, Inc. He holds a B.S. in Mechanical Engineering from the University of South Florida.

**William D. Muir, Jr.** (age 48) was named Chief Operating Officer in March 2013. Mr. Muir joined Jabil in 1992 as a Quality Engineer and has served in management positions including Senior Director of Operations for Florida, Michigan, Guadalajara, and Chihuahua; was promoted to Vice President, Operations-Americas in February 2001, was named Vice President, Global Business Units in November 2002, Senior Vice President, Regional President - Asia in September 2004 and Executive Vice President, Chief Executive Officer, EMS Division from September 2007 to April 2010. Mr. Muir recently served as Executive Vice President, Chief Executive Officer, Global Manufacturing Services Group from April 2010 to March 2013. He holds a Bachelor's degree in Industrial Engineering and an MBA, both from the University of Florida.

**Alessandro Parimbelli** (age 48) was named Executive Vice President, Chief Executive Officer, Enterprise and Infrastructure in July 2013. Mr. Parimbelli joined Jabil in 1998 as a Test Engineering Manager. At Jabil, Mr. Parimbelli served in business management positions in Boise, Idaho and Paris, France before being promoted to Vice President, Global Business Units in September 2006. From 2010 through 2012 Mr. Parimbelli was Senior Vice President, Global Business Units and was responsible for Jabil's Enterprise and Infrastructure business. Prior to joining Jabil, Mr. Parimbelli held various engineering positions within Hewlett-Packard and other software engineering companies. He holds an MBA from Colorado State University and a Software Engineering degree from Politecnico of Milan, Italy.

**William E. Peters** (age 53) was named President in March 2013. Mr. Peters served as Executive Vice President, Human Development, Human Resources from April 2010 to March 2013. He joined Jabil in 1990 as a buyer and shortly thereafter was named Purchasing Manager. In 1993 Mr. Peters was named Operations Manager for Jabil's Michigan facility and was promoted to Vice President, Operations in January 1999. Mr. Peters was named Senior Vice President, Operations in October 2000. He was promoted to Senior Vice President, Regional President Americas in September 2004. In September 2007, Mr. Peters was named Senior Vice President, Human Development. Prior to joining Jabil, Mr. Peters was a financial analyst for Electronic Data Systems. He holds a B.A. in Economics from Michigan State University.



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**Courtney J. Ryan** (age 46) was named Executive Vice President, Corporate Development/Chief of Staff in July 2016. Mr. Ryan joined Jabil in 1993 as a Quality Engineer and worked his way through various operations and business development management positions. In December 2000, Mr. Ryan was named Vice President, Operations for Europe. In 2004, he was named Senior Vice President, Global Supply Chain and was named Senior Vice President, Global Business Units in 2007. Mr. Ryan served as Executive Vice President, Chief Executive Officer, Nypro from July 2013 to June 2016. Mr. Ryan holds an MBA with a concentration in Decision and Information Science and a Bachelor of Arts in Economics, both from the University of Florida. He also serves on the University of Florida's MBA and Supply Chain Advisory Board.

### **Item 1A. Risk Factors**

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

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

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

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

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

the level and timing of customer orders;

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

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

price competition;

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

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

our exposure to financially troubled customers;

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

our level of experience in manufacturing particular products;

the degree of automation used in our assembly process;

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

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

fluctuations in materials costs and availability of materials;

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

seasonality in customers' product demand;

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

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

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

The volume and timing of orders placed by our customers vary due to variation in demand for our customers' products; our customers' attempts to manage their inventory; product design changes; changes in our customers' manufacturing strategies; customer requirements to relocate our manufacturing operations or to transfer our manufacturing from one facility to another; 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 during



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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.

### **When financial markets experience significant turmoil, the financial arrangements we may need to enter into, refinance or repay may be adversely affected.**

Credit market turmoil could negatively impact the counterparties and lenders to our forward foreign exchange contracts, trade accounts receivable securitization and sale programs, unsecured credit and term loan facilities, and various foreign subsidiary credit facilities. These potential negative impacts could potentially limit our ability to borrow under these financing agreements, contracts, facilities and programs. If we do not comply with the covenants under various debt instruments, our ability to borrow would be adversely affected. In addition, the effects of the credit market turmoil could negatively impact our ability to renew or obtain future additional financing. Credit market turmoil has also negatively impacted certain of our customers and certain of their respective customers. These impacts could have several consequences which could have a negative effect on our results of operations, including one or more of the following: a negative impact on our liquidity, including potentially insufficient cash flows to support our operations; a decrease in demand for our services; a decrease in demand for our customers' products; and bad debt charges or inventory write-offs.

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

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

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

We currently depend, and expect to continue to depend, upon a relatively small number of customers for a significant percentage of our net revenue and upon their growth, viability and financial stability. We have recently experienced increased dependence and expect this dependence to continue. During the fiscal year ended August 31, 2016, our five largest customers accounted for approximately 49% 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. Consolidation among our customers exposes us to increased risks relating to dependence on a smaller number of customers. These circumstances could each have a material adverse effect on our results of operations.

A customer may reduce its purchases from us, terminate its relationship with us, or postpone spending in response to circumstances such as a decline in demand for one or more of its products, which has recently occurred and impacted

our performance this fiscal year, or if it experiences tighter credit, negative financial news, or declines in income or asset values. These conditions may negatively impact our results of operations. We cannot assure you that present or future customers will not terminate their design, production and product management services arrangements with us or significantly change, reduce or delay the amount of services ordered from us. If they do, such termination, change, reduction or delay could have a material adverse effect on our results of operations. In addition, if one or more of our customers were to become insolvent or otherwise were unable to pay for the services provided by us on a timely basis, or at all, our operating results and financial condition could be adversely affected. Also, our operating results and financial condition could be adversely affected by the potential recovery by the bankruptcy estate of amounts previously paid to us by a customer that later became insolvent. Such adverse effects could include one or more of the following: a decline in revenue, less revenue to absorb fixed costs and overhead, a charge for bad debts, severance costs, a charge for inventory write-offs, a charge for equipment write-offs, a charge for lease write-offs, a decrease in inventory turns, an increase in days that products remain in inventory and an increase in days in which accounts receivable remain outstanding. Some of the risks described above may not only exist with respect to a particular customer, but also with respect to manufacturing services with respect to a particular customer product for larger customers where a significant portion of the overall revenue we receive from such customer relates to such services for such product. Accordingly, if any of our customers' products experiences a decline in demand (anticipated or unanticipated), which has recently occurred and impacted our second, third and fourth fiscal quarters, the applicable customer may reduce its purchases from us or terminate its relationship with us. This could have a material adverse effect on our results of operations.

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

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

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

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

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

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

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

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

consolidation;

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

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

Our Diversified Manufacturing Services ( DMS ) segment is highly dependent on the consumer products industry. This business is very competitive (both for us and our customers) and often subject to shorter product lifecycles, shifting end-user preferences, higher revenue volatility and programs that may be shifted to our competitors. We may experience a negative impact on our customer orders thus reducing net revenue and our ability to cover fixed costs. These risks heighten our exposure to this end market which could adversely affect our results of operations. During the fiscal year ended August 31, 2016, we experienced less than anticipated product demand within our DMS segment, which impacted our second, third and fourth fiscal quarters.

If our customers are unsuccessful in addressing these competitive challenges, their business may be materially adversely affected, reducing the demand for our services or altering our production cycles and inventory management which could adversely affect our results of operations.

**Most of our customers do not commit to long-term production schedules, or they may cancel their orders, change production quantities, delay production or change their sourcing strategy which makes it difficult for us to schedule production and capital expenditures, and to maximize the efficiency of our manufacturing capacity.**

Most of our customers do not commit to firm production schedules for more than one quarter. 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. Our inability to forecast the level of customer orders with certainty makes it difficult to schedule production and maximize utilization of our manufacturing capacity. In the past, we have been required to increase staffing and other expenses in order to meet the anticipated demand. 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. Alternatively, anticipated orders 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. 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. In addition, because many of our costs and operating expenses are relatively fixed, a reduction in customer demand, particularly a reduction in demand for any particular customer product that represents a significant amount of our revenue, can harm our gross profit and operating results. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

We sometimes experience difficulty forecasting the timing of our receipt of revenue and earnings following commencement of providing manufacturing services. 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. 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. An increasing portion of our revenues have come from our largest customer, and servicing that customer requires an increased level of capital expenditures by us.

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. The success of one or more of our customers' products in the market affects our business. Customers have canceled their orders, changed production quantities, delayed production and changed their sourcing strategy. Such changes, delays and cancellations have led to, and may lead in the future to a decline in our production and our

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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. We may also experience a reduction in the number of products that we sell, delays in payment for inventory that we purchased and reductions in the use of our manufacturing facilities which have associated fixed costs not dependent on our level of revenue. Although we attempt to negotiate contractual language with our customers to avoid or mitigate these risks, they may be exacerbated when the inventory is for a specific product that represents a significant amount of our revenue.

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

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

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

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

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

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



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

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

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

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

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

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

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

- respond more quickly to new or emerging technologies;

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

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

be better able to take advantage of acquisition opportunities;

adapt more quickly to changes in customer requirements;

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

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

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

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

We may be operating at a cost disadvantage compared to competitors who (a) have greater direct buying power from component suppliers, distributors and raw material suppliers, (b) have lower cost structures as a result of their geographic location or the services they provide, (c) are willing to make sales or provide services at lower margins than we do (including relationships where our competitors are willing to accept a lower margin from certain of their customers for whom they perform other higher margin business) or (d) have increased their vertical capabilities, thereby potentially providing them greater cost savings. As a result, competitors may procure a competitive advantage and obtain business from our customers. Our manufacturing processes are generally not subject to

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significant proprietary protection. In addition, companies with greater resources or a greater market presence may enter our market or increase their competition with us. We also expect our competitors to continue to improve the performance of their current products or services, to reduce the sales prices of their current products or services and to introduce new products or services that may offer greater performance and improved pricing. In addition, due to the price sensitive nature of our industry, business that we acquire or maintain may have lower margins than our historical or target margins. Any of these developments could cause a decline in our sales, loss of market acceptance of our products or services, compression of our profits or loss of our market share.

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

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

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

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

maintain and continually improve our technological expertise;

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

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

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

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

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

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

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

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

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

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

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

**We derive a substantial 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 a substantial majority, 90.7%, of net revenue from international operations during the fiscal year ended August 31, 2016. Our international operations are, have been and may be subject to a number of risks, including:

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

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

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

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

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

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

less favorable, or relatively undefined, intellectual property laws;

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

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

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

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

risk of governmental expropriation of our property;

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

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

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

health concerns and related government actions;

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

longer customer payment cycles and difficulty collecting trade accounts receivable;

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

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

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



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

**We have on occasion not achieved, and may not in the future achieve, expected profitability from our acquisitions.**

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

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

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

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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; (9) the impact on us of any unionized work force we may acquire or any labor disruptions that might occur; (10) the possibility that the acquired business's past transactions or practices before our acquisition may lead to future commercial or regulatory risks; and (11) the difficulty of presenting a unified corporate image.

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

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

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

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

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

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

we may not achieve anticipated cost reductions and efficiencies;

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

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

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

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

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

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

**We face 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

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transferring programs from higher cost geographies to lower cost geographies. The process of restructuring entails, among other activities, moving production between facilities, closing facilities, reducing the level of staff, realigning our business processes and reorganizing our management.

We continuously evaluate our operations and cost structure relative to general economic conditions, market and customer demands, tax rates, cost competitiveness and our geographic footprint as it relates to our customers production requirements. As a result of this ongoing evaluation, we initiated restructuring plans approved by our Board of Directors in fiscal year 2017 (the 2017 Restructuring Plan ), in fiscal year 2014 (the 2014 Restructuring Plan ) and in fiscal year 2013 (the 2013 Restructuring Plan ). See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations The Fiscal Year Ended August 31, 2016 Compared to the Fiscal Year Ended August 31, 2015, Note 15 Restructuring and Related Charges and Note 18 Subsequent Events to the Consolidated Financial Statements for further details. In addition, we could initiate future restructuring plans. If we incur restructuring charges related to the 2017 Restructuring Plan and 2013 Restructuring Plan, or in connection with any potential future restructuring program, in addition to those charges that we currently expect to incur, our financial condition and results of operations may suffer.

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

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

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

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

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

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

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

We manufacture and design products to our customers' specifications, and, in some cases, our manufacturing sites, processes or facilities may need to comply with applicable statutory and regulatory requirements as well as certain customer-driven standards. For example, medical devices that we manufacture or design, as well as the facilities and manufacturing processes that we use to produce them, are regulated by the U.S. Food and Drug Administration ( FDA ) and non-U.S. counterparts of this agency. Similarly, items we manufacture for customers in the defense and aerospace industries, as well as the processes we use to produce them, are regulated by the DOD and the Federal Aviation Authority. If we do not conduct our business at those facilities at which this business is conducted in accordance with applicable laws, we may be subject to civil or criminal penalties and administrative sanctions by either the

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government, the customer or third parties. Also, we may be subject to standards established by certain customers, industry groups or other third party organizations (e.g., certain standards relating to labor practices). In addition, our customers' products and the manufacturing processes and design services that we use to produce them often are highly complex. As a result, products that we manufacture or design may at times contain manufacturing or design defects, and our processes may be subject to errors or not be in compliance with applicable statutory and regulatory requirements. Defects in the products we manufacture or design, whether caused by a design, manufacturing or component failure or error, or deficiencies in our manufacturing processes, may result in delayed shipments to customers or reduced or canceled customer orders. If these defects or deficiencies are significant, our business reputation may also be damaged. The failure of the products that we manufacture or of our manufacturing processes or facilities to comply with applicable statutory and regulatory requirements may subject us to regulatory enforcement, legal fines or penalties and, in some cases, require us to shut down, temporarily halt operations or incur considerable expense to correct a manufacturing process or facility. In addition, these defects may result in liability claims against us, expose us to liability to pay for the recall or remanufacture of a product or adversely affect product sales or our reputation. The magnitude of such claims may increase as we expand our medical and aerospace and defense manufacturing services, as defects in medical devices and aerospace and defense systems could cause death or seriously harm users of these products and others. Even if our customers are responsible for the defects or defective specifications, they may not, or may not have resources to, assume responsibility for any costs or liabilities arising from these defects, which could expose us to additional liability claims. Any of these actions could increase our expenses, reduce our revenue or damage our reputation as a supplier to these customers.

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

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

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

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

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

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

Certain environmental laws impose liability for the costs of investigation, removal and remediation of hazardous or toxic substances on an owner, occupier or operator of real estate, or on parties who arranged for hazardous substance treatment or disposal,

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

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.

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

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

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

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

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

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



operations and financial position. The risks described in this Risk Factor may be heightened in connection with our customer relationships with emerging companies.

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

We continue our efforts to offer certain design services, primarily relating to products that we manufacture for our customers. We also offer turnkey solutions that include the design and manufacture of end-user products, and product components, as well as related services. Providing such turnkey solutions or other design solutions can expose us to different or greater potential liabilities than those we face when providing just manufacturing services, including an increase in exposure to potential product liability claims resulting from injuries caused by defects in products we design, as well as potential claims that products we design or supply, or materials or components we use, infringe third party intellectual property rights. Such claims could subject us to significant liability for damages, subject the infringing portion of our business to injunction and, regardless of their merits, could be time-consuming and expensive to resolve. We also may have greater potential exposure from warranty claims and from product recalls due to problems caused by product design. Costs associated with possible product liability claims, intellectual property infringement claims and product recalls could have a material adverse effect on our results of operations and financial position. In the event of such a claim, we may spend significant amounts of money and effort to develop non-infringing alternatives or obtain and maintain licenses. We may not be successful in developing such alternatives or obtaining and maintaining such a license on reasonable terms or at all. When providing turnkey solutions or other design solutions, we may not be guaranteed revenue needed to recoup or profit from the investment in the resources necessary to design and develop products or provide services. No revenue may be generated from these

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efforts, particularly if our customers do not approve the designs in a timely manner or at all, or if they do not then purchase anticipated levels of products. Furthermore, contracts may allow the customer to delay or cancel deliveries and may not obligate the customer to any volume of purchases, or may provide for penalties or cancellation of orders if we are late in delivering designs or products. We may also have the responsibility to ensure that products we design or offer satisfy certain standards, like safety and regulatory standards, and to obtain any necessary certifications. Failure to timely obtain the necessary approvals or certifications could prevent us from selling these products, which in turn could harm our sales, profitability and reputation and could have a material adverse effect on our results of operations and financial position.

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

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

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

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

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

Products we manufacture and/or services we provide may infringe the intellectual property rights of third parties, some of who may hold key intellectual property rights in areas in which we operate. Some of these third parties may compete with us, our suppliers or our customers. Some of these third parties may not actively provide competing

products or services. Patent clearance or licensing activities, if any, may be inadequate to anticipate and avoid third party claims. As a result, in addition to the risk that we could become subject to claims of intellectual property infringement, our customers or suppliers could become subject to infringement claims. Additionally, customers for our turnkey solutions or design services in which we have significant technology contributions, typically require that we indemnify them against the risk of intellectual property infringement. If any claims are brought against our customers, our suppliers or us for such infringement, regardless of their merits, we could be required to expend significant resources in the defense or settlement of such claims, or in the defense or settlement of related indemnification claims. In the event of a claim, we may be required to spend significant amounts of money and effort to develop non-infringing alternatives or obtain and maintain licenses. We may not be successful in developing such alternatives or obtaining or maintaining such licenses on reasonable terms or at all. We, our suppliers or our customers may be required to or decide to discontinue products which are alleged to be infringing rather than face continued costs of defending the infringement claims, and such discontinuance may result in a significant decrease in our business, and could have a material adverse effect on our results of operations and financial position.

**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.

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

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

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

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

Refer to Note 5 **Income Taxes** to the Consolidated Financial Statements for details of the field examination completed by the Internal Revenue Service ( **IRS** ) of our tax returns for the fiscal years 2009 through 2011 which resulted in proposed adjustments. While we currently believe that the resolution of these issues will not have a material adverse effect on our financial position, results of operations or cash flows, an unfavorable resolution, particularly if the IRS successfully asserts similar claims for later years, could have a material adverse effect on our results of operations and financial condition.

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

expirations will impact us in the future. In addition, acquisitions may cause our effective tax rate to increase, depending on the jurisdictions in which the acquired operations are located.

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

**Our credit rating may be downgraded.**

Our credit is rated by credit rating agencies. Our 8.250% Senior Notes, our 5.625% Senior Notes and our 4.700% Senior Notes are currently rated BBB- by Fitch Ratings ( Fitch ) and Standard and Poor's Ratings Service ( S&P ) and Ba1 by Moody's Investors Service ( Moody's ), and are considered to be below investment grade 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 Credit Facility is subject to adjustment from time to time if our credit ratings change. Thus, any potential future negative change in our credit rating may increase the interest rate payable on the 8.250% Senior Notes, the Credit Facility and certain of our other borrowings.

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

As of August 31, 2016, our debt obligations consisted of \$400.0 million under our 8.250% Senior Notes, \$400.0 million under our 5.625% Senior Notes, \$500.0 million under our 4.700% Senior Notes, \$300.0 million under our 4.900% Senior Notes and \$500.0 million under the Term Loan Facility. As of August 31, 2016, there was \$49.4 million outstanding under various bank loans to certain of our foreign subsidiaries and under various other debt obligations. On May 19, 2016, we entered into a note purchase agreement with certain third parties which closed on July 14, 2016 for a private placement of \$300.0 million of senior unsecured notes maturing on July 14, 2023 with an interest rate of 4.9% (the 4.900% Senior Notes). The proceeds from the sale of the notes were used to repay our \$312.0 million 7.750% Senior Notes due July 15, 2016. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 9—Notes Payable, Long-Term Debt and Capital Lease Obligations to the Consolidated Financial Statements for further details.

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

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

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

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

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

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

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

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

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

increase our interest costs and reduce our net income. Also, increased interest rates could make any future, fixed interest rate debt obligations more expensive.

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

Although a significant number of our operations are located outside the United States, the majority of our business is conducted in U.S. dollar. Changes in exchange rates will affect our net revenue, cost of sales, operating margins and net income. We cannot predict the impact of future exchange rate fluctuations. We use financial instruments, primarily forward contracts, to economically hedge our exposure to exchange rate fluctuations. 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.

**Our stock price may be volatile.**

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

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

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

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



breakdowns can occur simply because of error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

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

**If we receive other than an unqualified opinion on the adequacy of our internal control over financial reporting as of August 31, 2017 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 public accounting firm, Ernst & Young LLP, issued an unqualified opinion on the effectiveness of our internal control over financial reporting as of August 31, 2016. 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 public accounting firm interprets the Section 404 requirements and the related rules and regulations differently from us or if our independent registered public accounting firm is not satisfied with our internal control over financial reporting or with the level at which it is documented, operated or reviewed, they may issue an adverse opinion. An adverse opinion could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our Consolidated Financial Statements. In addition, we have spent a significant amount of resources, and will likely continue to for the foreseeable future, in complying with Section 404's requirements, particularly given the changes recently introduced by the Committee of Sponsoring Organizations ( COSO ) to the manner in which internal controls over financial reporting must be administered.

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

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

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

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

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

**Item 1B. Unresolved Staff Comments**

We have not received any written comments from the SEC staff regarding our periodic or current reports under the Exchange Act that were received on or before the date that is 180 days before the end of our 2016 fiscal year and that remain unresolved.

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We own or lease facilities located in the countries listed below. We believe that our properties are generally in good condition, are well maintained and are generally suitable and adequate to carry out our business at expected capacity for the foreseeable future. The table below lists the approximate square footage for our facilities as of August 31, 2016:

<b>Location</b>	<b>Approximate Square Footage</b>	<b>Description of Use</b>
Austria	97,000	Manufacturing, Design, Support
Belgium	52,000	Design, Prototype Design
Brazil	188,000	Manufacturing
Canada	12,000	Design
China <sup>(2), (3)</sup>	23,538,000	Manufacturing, Prototype Manufacturing, Design, Support, Storage
Finland	15,000	Design, Support
France <sup>(1)</sup>	483,000	Manufacturing, Storage
Germany	162,000	Manufacturing, Prototype Manufacturing, Design, Prototype Design, Support, Storage
Hungary <sup>(2)</sup>	1,159,000	Manufacturing, Support, Storage
India <sup>(1)</sup>	674,000	Manufacturing, Support
Indonesia <sup>(4)</sup>	420,000	
Ireland <sup>(2)</sup>	354,000	Manufacturing, Prototype Manufacturing, Design, Prototype Design, Storage
Israel	120,000	Manufacturing
Italy <sup>(1), (2)</sup>	568,000	Manufacturing, Storage
Japan	61,000	Manufacturing
Malaysia	1,232,000	Manufacturing, Support, Storage
Mexico	2,492,000	Manufacturing, Support, Storage
The Netherlands	420,000	Manufacturing, Storage
Poland <sup>(2)</sup>	593,000	Manufacturing
Russia <sup>(2)</sup>	258,000	Manufacturing
Scotland	143,000	Manufacturing
Singapore	214,000	Manufacturing, Design, Support, Storage
South Africa	39,000	Manufacturing, Support
South Korea	1,000	Support
Spain	292,000	Manufacturing, Storage
Taiwan	1,266,000	Manufacturing, Design, Support
Ukraine	225,000	Manufacturing
United States <sup>(2)</sup>	4,535,000	Manufacturing, Prototype Manufacturing, Design, Prototype Design, Support, Storage
Vietnam	292,000	Manufacturing
Total Facilities at August 31, 2016	39,905,000	

As of August 31, 2016, our facilities consist of 15,076,000 square feet in facilities that we own, with the remaining 24,829,000 square feet in leased facilities. The majority of the square footage in the table above is active manufacturing space. The properties listed in the table above are reported in both the EMS and DMS operating

segments. Our manufacturing facilities are ISO certified to ISO 9001:2008 standards and most are also certified to ISO-14001:2004 environmental standards.

- (1) The facilities located in Brest, France; Chennai, India; and Cassina de Pecchi, Italy are no longer used in our business operations.
- (2) A portion of the facilities located in San Jose, California; Wuhan and Zhejiang, China; Nagyigmánd, Hungary, Waterford City, Ireland; Marcianise, Italy; Kwidzyn, Poland; and Moscow and Tver, Russia are no longer used in our business operations.
- (3) Our material properties in China include approximately 5.9 million square feet of leased property in Chengdu, approximately 4.6 million square feet of property in Huangpu (of which approximately 2.6 million is owned and approximately 2.0 million is leased) and approximately 4.0 million square feet of leased property in Wuxi. Approximately 1.9 million square feet of the Chengdu facility is under construction, thus it is not currently used in our business operations.
- (4) The facility located in Bandung, Indonesia is under construction, thus it is not currently used in our business operations.

**Table of Contents****Item 3. 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 4. Mine Safety Disclosures**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock trades on the New York Stock Exchange under the symbol JBL. The following table sets forth the high

and low sales prices per share for our common stock as reported on the New York Stock Exchange for the fiscal periods indicated:

	<b>High</b>	<b>Low</b>
<b>Fiscal Year Ended August 31, 2016</b>		
First Quarter (September 1, 2015 – November 30, 2015)	\$ 25.69	\$ 18.43
Second Quarter (December 1, 2015 – February 29, 2016)	\$ 26.00	\$ 18.09
Third Quarter (March 1, 2016 – May 31, 2016)	\$ 22.00	\$ 16.78
Fourth Quarter (June 1, 2016 – August 31, 2016)	\$ 21.25	\$ 17.27
<b>Fiscal Year Ended August 31, 2015</b>		
First Quarter (September 1, 2014 – November 30, 2014)	\$ 21.87	\$ 18.03
Second Quarter (December 1, 2014 – February 28, 2015)	\$ 22.62	\$ 19.45
Third Quarter (March 1, 2015 – May 31, 2015)	\$ 24.95	\$ 21.12
Fourth Quarter (June 1, 2015 – August 31, 2015)	\$ 24.76	\$ 16.90

On October 6 2016, the closing sales price for our common stock as reported on the New York Stock Exchange was \$22.02. As of October 6, 2016, there were 1,551 holders of record of our common stock.

Information regarding equity compensation plans is incorporated by reference to the information set forth in Item 12 of Part III of this report.

**Dividends**

The following table sets forth certain information relating to our cash dividends declared to common stockholders during fiscal years 2016 and 2015:

**Dividend Information**

	<b>Total of Cash</b>				
	<b>Dividend Declaration Date</b>	<b>Dividend per Share</b>	<b>Dividends Declared</b>	<b>Date of Record for Dividend Payment</b>	<b>Dividend Cash Payment Date</b>
	<b>(in thousands, except for per share data)</b>				
<b>Fiscal year 2016:</b>	October 14, 2015	\$ 0.08	\$ 15,906	November 16, 2015	December 1, 2015
	January 21, 2016	\$ 0.08	\$ 15,947	February 16, 2016	March 1, 2016
	April 21, 2016	\$ 0.08	\$ 15,940	May 16, 2016	June 1, 2016
	July 21, 2016	\$ 0.08	\$ 15,575	August 15, 2016	September 1, 2016
<b>Fiscal year 2015:</b>	October 16, 2014	\$ 0.08	\$ 15,973	November 14, 2014	December 1, 2014
	January 21, 2015	\$ 0.08	\$ 16,020	February 13, 2015	March 2, 2015
	April 15, 2015	\$ 0.08	\$ 15,988	May 15, 2015	June 1, 2015
	July 16, 2015	\$ 0.08	\$ 15,980	August 14, 2015	September 1, 2015

We currently expect to continue to declare and pay 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.

**Table of Contents****Issuer Purchases of Equity Securities**

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

<b>Period</b>		<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program<sup>(2)</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)</b>
June 1, 2016	June 30, 2016	1,125,000	\$ 18.72	1,125,000	\$ 378,936
July 1, 2016	July 31, 2016	2,835,433	\$ 18.78	2,827,369	\$ 325,852
August 1, 2016	August 31, 2016	943,089	\$ 20.70	943,089	\$ 306,325
<b>Total</b>		4,903,522	\$ 19.14	4,895,458	\$ 306,325

(1) The purchases include amounts that are attributable to shares surrendered to us by employees to satisfy, in connection with the vesting of restricted stock awards and the exercise of stock options and stock appreciation rights, their tax withholding obligations.

(2) In June 2016, our Board of Directors authorized the repurchase of up to \$400.0 million of our common shares. The share repurchase program expires on August 31, 2017. During the fourth quarter of fiscal year 2016, we repurchased 4.9 million shares, which utilized \$93.7 million of the \$400.0 million authorized by our Board of Directors. In addition, following the end of fiscal year 2016 through October 6, 2016, we repurchased an additional 1.4 million shares, utilizing a total of \$124.6 million of the \$400.0 million authorized by our Board of Directors.

**Table of Contents****Item 6. Selected Financial Data**

The following selected data are derived from our Consolidated Financial Statements. This data should be read in conjunction with the Consolidated Financial Statements and notes thereto incorporated into Item 8, and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

	<b>Fiscal Year Ended August 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(in thousands, except for per share data)</b>				
<b>Consolidated Statement of Operations Data:</b>					
Net revenue	\$ 18,353,086	\$ 17,899,196	\$ 15,762,146	\$ 17,249,493	\$ 16,140,705
Cost of revenue	16,825,382	16,395,978	14,736,543	16,037,303	14,979,754
Gross profit	1,527,704	1,503,218	1,025,603	1,212,190	1,160,951
Operating expenses:					
Selling, general and administrative	924,427	862,647	675,730	614,295	572,645
Research and development	31,954	27,645	28,611	28,412	25,837
Amortization of intangibles	37,121	24,449	23,857	10,954	12,899
Restructuring and related charges	11,369	33,066	85,369	80,513	
Loss on disposal of subsidiaries			7,962		
Impairment of notes receivable and related charges				25,597	
Operating income	522,833	555,411	204,074	452,419	549,570
Other expense	8,380	5,627	7,637	6,095	8,935
Interest income	(9,128)	(9,953)	(3,741)	(1,813)	(2,002)
Interest expense	136,536	128,091	128,055	121,023	106,088
Income from continuing operations					
before tax	387,045	431,646	72,123	327,114	436,549
Income tax expense	132,149	137,461	73,711	7,631	102,866
Income (loss) from continuing operations, net of tax	254,896	294,185	(1,588)	319,483	333,683
Discontinued operations:					
(Loss) income from discontinued operations, net of tax		(7,698)	20,554	50,608	62,406
(Loss) gain on sale of discontinued operations, net of tax		(875)	223,299		
Discontinued operations, net of tax		(8,573)	243,853	50,608	62,406
Net income	254,896	285,612	242,265	370,091	396,089
Net income (loss) attributable to noncontrolling interests, net of tax	801	1,593	952	(1,391)	1,402



Net income attributable to Jabil Circuit, Inc.	\$	254,095	\$	284,019	\$	241,313	\$	371,482	\$	394,687
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Earnings per share attributable to the stockholders of Jabil Circuit, Inc.:

Basic:

Income (loss) from continuing operations, net of tax	\$	1.33	\$	1.51	\$	(0.01)	\$	1.58	\$	1.61
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Discontinued operations, net of tax	\$	0.00	\$	(0.04)	\$	1.20	\$	0.25	\$	0.30
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Net income	\$	1.33	\$	1.47	\$	1.19	\$	1.83	\$	1.91
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Diluted:

Income (loss) from continuing operations, net of tax	\$	1.32	\$	1.49	\$	(0.01)	\$	1.54	\$	1.57
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Discontinued operations, net of tax	\$	0.00	\$	(0.04)	\$	1.20	\$	0.24	\$	0.30
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Net income	\$	1.32	\$	1.45	\$	1.19	\$	1.79	\$	1.87
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Weighted average shares outstanding:

Basic		190,413		193,689		202,497		203,096		206,160
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Diluted		192,750		196,005		202,497		207,815		211,181
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	2016	2015	August 31, 2014 (in thousands)	2013	2012
<b>Consolidated Balance Sheets Data:</b>					
Working capital	\$ 280,325	\$ 191,168	\$ 1,037,920	\$ 955,811	\$ 1,780,332
Total assets	\$ 10,322,677	\$ 9,591,600	\$ 8,479,746	\$ 9,153,781	\$ 7,803,141
Current installments of notes payable, long-term debt and capital lease obligations	\$ 45,810	\$ 322,966	\$ 12,960	\$ 215,448	\$ 17,944
Notes payable, long-term debt and capital lease obligations, less current installments	\$ 2,074,012	\$ 1,335,818	\$ 1,669,585	\$ 1,690,418	\$ 1,658,247
Total Jabil Circuit, Inc. stockholders equity	\$ 2,438,171	\$ 2,314,856	\$ 2,241,828	\$ 2,335,287	\$ 2,105,057
Cash dividends declared, per share	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We are one of the leading providers of worldwide electronic manufacturing services and solutions. We provide comprehensive electronics design, production and product management services to companies in the automotive, capital equipment, consumer lifestyles and wearable technologies, computing and storage, defense and aerospace, digital home, emerging growth, healthcare, industrial and energy, mobility, networking and telecommunications, packaging, point of sale and printing industries.

We derive substantially all of our revenue from production and product management services (collectively referred to as manufacturing services), which encompasses the act of producing tangible components that are built to customer specifications which are then provided to the customer. We recognize manufacturing services revenue when such tangible components are shipped to or the goods are received by the customer, title and risk of ownership have passed, the price to the buyer is fixed or determinable and collectability is reasonably assured (net of estimated returns). We also derive revenue to a lesser extent from electronic design services to certain customers. Revenue from electronic design services is generally recognized upon completion and acceptance by the respective customer.

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

packaging industries.

Our cost of revenue includes the cost of electronic components and other materials that comprise the products we manufacture; the cost of labor and manufacturing overhead; and adjustments for excess and obsolete inventory. As a provider of turnkey manufacturing services, we are responsible for procuring components and other materials. This requires us to commit significant working capital to our operations and to manage the purchasing, receiving, inspecting and stocking of materials. Although we bear the risk of fluctuations in the cost of materials and excess scrap, we periodically negotiate cost of materials adjustments with our customers. Net revenue from each product that we manufacture consists of an element based on the costs of materials in that product and an element based on the labor and manufacturing overhead costs allocated to that product. We refer to the portion of the sales price of a product that is based on materials costs as material-based revenue, and to the portion of the sales price of a product that is based on labor and manufacturing overhead costs as manufacturing-based revenue. Our gross margin for any product depends on the mix between the cost of materials in the product and the cost of labor and manufacturing overhead allocated to the product. We typically realize higher gross margins on manufacturing-based revenue than we do on materials-based revenue. As we gain experience in manufacturing a product, we usually achieve increased efficiencies, which may result in lower labor and manufacturing overhead costs for that product.

Our operating results are impacted by the level of capacity utilization of manufacturing facilities; indirect labor costs; and selling, general and administrative expenses. Operating income margins have generally improved during periods of high production volume and high capacity utilization. During periods of low production volume, we generally have idle capacity and reduced operating income margins.

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

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We have consistently utilized advanced circuit design, production design and manufacturing technologies to meet the needs of our customers. To support this effort, our engineering staff focuses on developing and refining design and manufacturing technologies to meet specific needs of specific customers. Most of the expenses associated with these customer-specific efforts are reflected in our cost of revenue. In addition, our engineers engage in research and development ( R&D ) of new technologies that apply generally to our operations. The expenses of these R&D activities are reflected in the research and development line item within our Consolidated Statement of Operations.

An important element of our strategy is the expansion of our global production facilities. The majority of our revenue and materials costs worldwide are denominated in U.S. dollars, while our labor and utility costs in operations outside the U.S. are denominated in local currencies. We largely economically hedge certain of these local currency costs, based on our evaluation of the potential exposure as compared to the cost of the hedge, through the purchase of foreign currency exchange contracts. Changes in the fair market value of such hedging instruments are reflected within the Consolidated Statement of Operations and the Consolidated Statement of Comprehensive Income. See Risk Factors We are subject to risks of currency fluctuations and related hedging operations.

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. A significant reduction in sales to any of our customers, a customer exerting significant pricing and margin pressures on us or the termination or substantial winding down of our business relationship with one of our customers has previously had, and could in the future 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. There can be no assurance that present or future customers will not terminate their manufacturing arrangements with us or significantly reduce or delay the volume of design, production or product management services ordered from us, or move a portion of their manufacturing from us in order to more fully utilize their excess internal manufacturing capacity. We could in the future terminate, or substantially wind down, significant customer relationships. Any such termination or substantial winding down of a customer or manufacturing relationship or change, reduction or delay in orders could have a material adverse effect on our results of operations or financial condition. See Risk Factors Because we depend on a limited number of customers, a reduction in sales to any one of those customers could cause a significant decline in our revenue, Risk Factors Most of our customers do not commit to long-term production schedules, or they may cancel their orders, change production quantities, delay production or change their sourcing strategy which makes it difficult for us to schedule production and capital expenditures, and to maximize the efficiency of our manufacturing capacity and Note 13 Concentration of Risk and Segment Data to the Consolidated Financial Statements.

*Summary of Results*

Net revenues for fiscal year 2016 increased approximately 2.5% to \$18.4 billion compared to \$17.9 billion for fiscal year 2015 primarily due to increased revenues from customers within our mobility business due to strengthened end user product demand during the first half of fiscal year 2016 as well as increased revenues from new business with existing customers within our telecommunications business.

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The following table sets forth, for the fiscal years ended August 31, 2016, 2015 and 2014, certain key operating results and other financial information (in thousands, except per share data):

	<b>Fiscal Year Ended August 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net revenue	\$ 18,353,086	\$ 17,899,196	\$ 15,762,146
Gross profit	\$ 1,527,704	\$ 1,503,218	\$ 1,025,603
Operating income	\$ 522,833	\$ 555,411	\$ 204,074
Net income attributable to Jabil Circuit, Inc.	\$ 254,095	\$ 284,019	\$ 241,313
Net earnings per share - basic	\$ 1.33	\$ 1.47	\$ 1.19
Net earnings per share - diluted	\$ 1.32	\$ 1.45	\$ 1.19

*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>August 31, 2016</b>	<b>May 31, 2016</b>	<b>February 29, 2016</b>	<b>November 30, 2015</b>
Sales cycle	3 days	7 days	13 days	6 days
Inventory turns (annualized)	7 turns	7 turns	7 turns	8 turns
Days in accounts receivable	28 days	27 days	30 days	29 days
Days in inventory	54 days	52 days	51 days	48 days
Days in accounts payable	79 days	72 days	68 days	71 days

	<b>Three Months Ended</b>			
	<b>August 31, 2015</b>	<b>May 31, 2015</b>	<b>February 28, 2015</b>	<b>November 30, 2014</b>
Sales cycle	4 days	1 day	4 days	4 days
Inventory turns (annualized)	7 turns	7 turns	7 turns	8 turns
Days in accounts receivable	28 days	25 days	27 days	31 days
Days in inventory	52 days	51 days	48 days	45 days
Days in accounts payable	76 days	75 days	71 days	72 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 August 31, 2016, May 31, 2016, February 29, 2016 and November 30, 2015, the changes in days in accounts receivable from the prior sequential quarter were primarily due to the timing of sales and collections activity as well as cash collection efforts during the third quarter of fiscal year 2016.

During the three months ended August 31, 2016, days in inventory increased as compared to the prior sequential quarter to support expected revenue levels in the first quarter of fiscal year 2017. During the three months ended May 31, 2016 and February 29, 2016, days in inventory increased as compared to the prior sequential quarter as a result of lower production in the DMS segment due to reduced consumer demand in the mobility business. The

increase during the three months ended February 29, 2016 also supports inventory we expected to sell in the third quarter of fiscal year 2016. During the three months ended November 30, 2015, days in inventory decreased as compared to the prior sequential quarter due to increased sales activity. During the three months ended August 31, 2016, May 31, 2016, February 29, 2016 and November 30, 2015, inventory turns, on an annualized basis, remained relatively consistent as compared to the prior sequential quarter, respectively.

During the three months ended August 31, 2016, the increase in days in accounts payable from the prior sequential quarter was primarily due to the timing of purchases and cash payments for purchases and higher materials purchases during the quarter. During the three months ended May 31, 2016, February 29, 2016 and November 30, 2015, the changes in days in accounts payable from the prior sequential quarter were primarily due to the timing of purchases and cash payments for purchases during the respective quarters. The decrease during the three months ended February 29, 2016 is also due to lower materials purchases during the quarter.

The changes in the sales cycle during the three months ended August 31, 2016, May 31, 2016, February 29, 2016 and November 30, 2015 are due to the changes in accounts receivable, accounts payable and inventory that are discussed above.

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### **Critical Accounting Policies and Estimates**

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

#### *Revenue Recognition*

We derive substantially all of our revenue from production and product management services (collectively referred to as manufacturing services ), which encompasses the act of producing tangible components that are built to customer specifications which are then provided to the customer. We recognize manufacturing services revenue when such tangible components are shipped to or the goods are received by the customer, title and risk of ownership have passed, the price to the buyer is fixed or determinable and collectability is reasonably assured (net of estimated returns). We also derive revenue to a lesser extent from electronic design services to certain customers. Revenue from electronic design services is generally recognized upon completion and acceptance by the respective customer. Upfront payments from customers are recorded upon receipt as deferred income and are recognized as revenue as the related manufacturing services are provided.

#### *Allowance for Doubtful Accounts*

We maintain an allowance for doubtful accounts related to receivables not expected to be collected from our customers. This allowance is based on management s assessment of specific customer balances, considering the age of receivables and financial stability of the customer. If there is an adverse change in the financial condition and circumstances of our customers, or if actual defaults are higher than provided for, an addition to the allowance may be necessary.

#### *Inventory Valuation*

We purchase inventory based on forecasted demand and record inventory at the lower of cost or market. Management regularly assesses inventory valuation based on current and forecasted usage, customer inventory-related contractual obligations and other lower of cost or market considerations. If actual market conditions or our customers product demands are less favorable than those projected, additional valuation adjustments may be necessary.

#### *Long-Lived Assets*

We review property, plant and equipment and amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of property, plant and equipment is measured by comparing its carrying value to the undiscounted projected cash flows that the asset(s) or asset group(s) are expected to generate. If the carrying amount of an asset or an asset group is not recoverable, we recognize an impairment loss based on the excess of the carrying amount of the long-lived asset or asset group over its respective fair value, which is generally determined as either the present value of estimated future

cash flows or the appraised value. The impairment analysis is based on significant assumptions of future results made by management, including revenue and cash flow projections. Circumstances that may lead to impairment of property, plant and equipment include unforeseen decreases in future performance or industry demand and the restructuring of our operations resulting from a change in our business strategy or adverse economic conditions. For further discussion of our current restructuring program, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations, Restructuring and Related Charges.

We have recorded intangible assets, including goodwill, in connection with business acquisitions. Estimated useful lives of amortizable intangible assets are determined by management based on an assessment of the period over which the asset is expected to contribute to future cash flows. The fair value of acquired amortizable intangible assets impacts the amounts recorded as goodwill.

We perform a goodwill impairment analysis using the two-step method on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. We determine the fair value of our reporting units based on an average weighting of both projected discounted future results and the use of comparative market multiples. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second test is performed to measure the amount of loss, if any.



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We perform an indefinite-lived intangible asset impairment analysis on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverability of indefinite-lived intangible assets is measured by comparing the carrying amount to the fair value. We determine the fair value of our indefinite-lived intangible assets principally based on a variation of the income approach, known as the relief from royalty method. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, the indefinite-lived intangible asset is considered impaired.

We completed our annual impairment test for goodwill and indefinite-lived intangible assets during the fourth quarter of fiscal year 2016 and determined that the fair values of our reporting units and the indefinite-lived intangible assets are substantially in excess of the carrying values and that no impairment existed as of the date of the impairment test.

### *Retirement Benefits*

We have pension and postretirement benefit costs and liabilities in certain foreign locations that are developed from actuarial valuations. Actuarial valuations require management to make certain judgments and estimates of discount rates, compensation rate increases and return on plan assets. We evaluate these assumptions on a regular basis taking into consideration current market conditions and historical market data. The discount rate is used to state expected future cash flows at a present value on the measurement date. This rate represents the market rate for high-quality fixed income investments. A lower discount rate increases the present value of benefit obligations and increases pension expense. When considering the expected long-term rate of return on pension plan assets, we take into account current and expected asset allocations, as well as historical and expected returns on plan assets. Other assumptions include demographic factors such as retirement, mortality and turnover. For further discussion of our pension and postretirement benefits, refer to Note 10 Postretirement and Other Employee Benefits to the Consolidated Financial Statements.

### *Income Taxes*

We estimate our income tax provision in each of the jurisdictions in which we operate, a process that includes estimating exposures related to examinations by taxing authorities. We must also make judgments regarding the ability to realize the deferred tax assets. The carrying value of our net deferred tax assets is based on our belief that it is more likely than not that we will generate sufficient future taxable income in certain jurisdictions to realize these deferred tax assets. A valuation allowance has been established for deferred tax assets that we do not believe meet the more likely than not criteria. We assess whether an uncertain tax position taken or expected to be taken in a tax return meets the threshold for recognition and measurement in the Consolidated Financial Statements. Our judgments regarding future taxable income as well as tax positions taken or expected to be taken in a tax return may change due to changes in market conditions, changes in tax laws or other factors. If our assumptions and consequently our estimates change in the future, the valuation allowances and/or tax reserves established may be increased or decreased, resulting in a respective increase or decrease in income tax expense.

The Internal Revenue Service ( IRS ) completed its field examination of our tax returns for fiscal years 2009 through 2011 and issued a Revenue Agent s Report on May 27, 2015, which was updated on June 22, 2016, proposing adjustments primarily related to U.S. taxation of certain intercompany transactions. If the IRS ultimately prevails in its positions, our income tax payment due for the fiscal years 2009 through 2011 would be approximately \$28.6 million after utilization of tax loss carry forwards available through fiscal year 2011. Also, the IRS has proposed interest and penalties with respect to fiscal years 2009 through 2011. The IRS may make similar claims in future audits with respect to these types of transactions. At this time, anticipating the amount of any future IRS proposed adjustments, interest, and penalties is not practicable.

We disagree with the proposed adjustments and intend to vigorously contest these matters through the applicable IRS administrative and judicial procedures, as appropriate. As the final resolution of the proposed adjustments remains uncertain, we continue to provide for the uncertain tax positions based on the more likely than not standard. While the resolution of the issues may result in tax liabilities, interest and penalties, which are significantly higher than the amounts provided for these matters, management currently believes that the resolution will not have a material adverse effect on our financial position, results of operations or cash flows. Despite this belief, an unfavorable resolution, particularly if the IRS successfully asserts similar claims for later years, could have a material adverse effect on our results of operations and financial condition. For further discussion related to our income taxes, refer to Note 5 Income Taxes to the Consolidated Financial Statements and Risk Factors We are subject to the risk of increased taxes.

### **Recent Accounting Pronouncements**

See Note 17 New Accounting Guidance to the Consolidated Financial Statements for a discussion of recent accounting guidance.

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

The following table sets forth, for the fiscal year ended August 31, 2016, 2015 and 2014, certain statements of operations data expressed as a percentage of net revenue:

	<b>Fiscal Year Ended August 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net revenue	100.0%	100.0%	100.0%
Cost of revenue	91.7	91.6	93.5
Gross profit	8.3	8.4	6.5
Operating expenses:			
Selling, general and administrative	5.0	4.8	4.3
Research and development	0.2	0.2	0.2
Amortization of intangibles	0.2	0.1	0.2
Restructuring and related charges	0.1	0.2	0.5
Loss on disposal of subsidiaries			0.1
Operating income	2.8	3.1	1.2
Other expense	0.0	0.0	0.0
Interest income	(0.0)	(0.1)	(0.0)
Interest expense	0.7	0.7	0.8
Income from continuing operations before tax	2.1	2.5	0.4
Income tax expense	0.7	0.8	0.5
Income (loss) from continuing operations, net of tax	1.4	1.7	(0.1)
Discontinued operations:			
(Loss) income from discontinued operations, net of tax		(0.0)	0.1
(Loss) gain on sale of discontinued operations, net of tax		(0.0)	1.4
Discontinued operations, net of tax			1.5
Net income	1.4	1.7	1.4
Net income attributable to noncontrolling interests, net of tax	0.0		0.0
Net income attributable to Jabil Circuit, Inc.	1.4%	1.7%	1.4%

**The Fiscal Year Ended August 31, 2016 Compared to the Fiscal Year Ended August 31, 2015**

**Net Revenue.** Net revenue increased 2.5% to \$18.4 billion during the fiscal year ended August 31, 2016, compared to \$17.9 billion during the fiscal year ended August 31, 2015. Specifically, the DMS segment revenues increased 3% due to increased revenues from customers within our mobility business due to strengthened end user product demand during the first half of fiscal year 2016. EMS segment revenues increased 2% due to a 3% increase in revenues from new business with existing customers within our telecommunications business, partially offset by a 1% revenue

decline spread across the remaining industries within the EMS segment.

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

The distribution of revenue across our segments has fluctuated, and will continue to fluctuate, as a result of numerous factors, including but not limited to the following: fluctuations in customer demand as a result of recessionary and other conditions, such as the less than anticipated product demand that we experienced within our DMS segment that impacted our second, third and fourth fiscal quarters; efforts to de-emphasize the economic performance of certain portions of our business; seasonality in our business; business growth from new and existing customers; specific product performance; and any potential termination, or substantial winding down, of significant customer relationships.

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

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

	<b>Fiscal Year Ended August 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
EMS	60%	60%	67%
DMS	40%	40%	33%
Total	100%	100%	100%

Foreign source revenue represented 90.7% of our net revenue for the fiscal year ended August 31, 2016 and 88.0% of net revenue for the fiscal year ended August 31, 2015. We currently expect our foreign source revenue to remain relatively consistent as compared to current levels over the course of the next 12 months.

**Gross Profit.** Gross profit remained relatively consistent at \$1.5 billion (8.3% of net revenue) during the fiscal year ended August 31, 2016, compared to \$1.5 billion (8.4% of net revenue) during the fiscal year ended August 31, 2015.

**Selling, General and Administrative.** Selling, general and administrative expenses increased to \$924.4 million (5.0% of net revenue) during the fiscal year ended August 31, 2016, compared to \$862.6 million (4.8% of net revenue) during the fiscal year ended August 31, 2015. Selling, general and administrative expenses as a percentage of net revenue remained relatively consistent with the same period of the prior fiscal year. Selling, general and administrative expenses on a gross basis increased during the fiscal year ended August 31, 2016 as compared to the fiscal year ended August 31, 2015 primarily due increases in salary and salary related expenses and other costs due to increased headcount to support the continued growth of our business.

**Research and Development.** Research and development expenses increased to \$32.0 million (0.2% of net revenue) during the fiscal year ended August 31, 2016, compared to \$27.6 million (0.2% of net revenue) during the fiscal year ended August 31, 2015 primarily as the result of new projects in targeted growth sectors.

**Amortization of Intangibles.** Amortization of intangibles increased to \$37.1 million during the fiscal year ended August 31, 2016 as compared to \$24.4 million during the fiscal year ended August 31, 2015. The increase is due to the definite lived intangible assets acquired in connection with the Plasticos acquisition that occurred in the fourth quarter of fiscal year 2015 and the acquisitions of Shemer, Inala and Hanson that occurred during the first and second quarters of fiscal year 2016, respectively.

**Restructuring and Related Charges.***2013 Restructuring Plan*

In conjunction with the 2013 Restructuring Plan, we charged \$11.4 million of restructuring and related charges to the Consolidated Statements of Operations during the fiscal year ended August 31, 2016 compared to \$34.6 million during the fiscal year ended August 31, 2015. 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. The restructuring and related charges during the fiscal years ended August 31, 2016 and 2015 include cash costs of \$8.8 million and \$24.3 million related to employee severance and benefit costs, respectively, \$0.0 million and \$2.8 million related to lease costs, respectively, and \$1.4 million and \$1.9 million of other related costs, respectively, as well as non-cash costs of \$1.2 million and \$5.6 million related to asset write-off costs, respectively.

During the fiscal year ended August 31, 2016, \$22.7 million was paid related to the 2013 Restructuring Plan. At August 31, 2016, accrued liabilities of approximately \$17.5 million related to the 2013 Restructuring Plan are expected to be paid over the next twelve months.

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

For further discussion of restructuring and related charges related to the 2013 Restructuring Plan, refer to Note 15 Restructuring and Related Charges to the Consolidated Financial Statements.

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**Other Expense.** Other expense increased to \$8.4 million for the fiscal year ended August 31, 2016 compared to \$5.6 million for the fiscal year ended August 31, 2015. The increase is primarily due to an increase in fees associated with the asset-backed securitization programs as a result of an increase in receivables sold.

**Interest Income.** Interest income remained relatively consistent at \$9.1 million during the fiscal year ended August 31, 2016, compared to \$10.0 million during the fiscal year ended August 31, 2015.

**Interest Expense.** Interest expense increased to \$136.5 million during the fiscal year ended August 31, 2016, compared to \$128.1 million during the fiscal year ended August 31, 2015. The increase is due to interest expense associated with the Term Loan Facility entered into on July 6, 2015.

**Income Tax Expense.** Income tax expense reflects an effective tax rate of 34.1% for the fiscal year ended August 31, 2016, compared to an effective tax rate of 31.8% for the fiscal year ended August 31, 2015.

The effective tax rate for the fiscal year ended August 31, 2016 increased from the effective tax rate for the fiscal year ended August 31, 2015 primarily due to the decrease in income from continuing operations in low tax-rate jurisdictions and the increase in losses in tax jurisdictions with existing valuation allowances during fiscal year 2016. This effective tax rate increase was partially offset by tax benefits from favorable tax audit resolutions and statute of limitation expirations in non-U.S. jurisdictions during fiscal year 2016.

**Fiscal Year Ended August 31, 2015 Compared to Fiscal Year Ended August 31, 2014**

**Net Revenue.** Net revenue increased 13.6% to \$17.9 billion during the fiscal year ended August 31, 2015, compared to \$15.8 billion during the fiscal year ended August 31, 2014. For the fiscal year ended August 31, 2015 compared to the fiscal year ended August 31, 2014, DMS segment revenues increased 39% as a result of increased revenues of 35% from customers within our mobility business due to strengthened end user product demand and 5% growth in the consumer lifestyles and wearables technology businesses, partially offset by a 1% decline spread across the remaining industries within the DMS segment. EMS segment revenues increased 1%, which was attributable to increased revenues of 6% from new business with customers within our telecommunications and automotive businesses, partially offset by reductions in revenue of 5% predominantly from the sale of mobility handsets as a result of our disengagement from BlackBerry Limited.

Foreign source revenue represented 88.0% of our net revenue for fiscal year 2015 and 84.5% of net revenue for fiscal year 2014.

For further discussion of our net revenues, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Fiscal Year Ended August 31, 2016 Compared to Fiscal Year Ended August 31, 2015 Net Revenue.

**Gross Profit.** Gross profit increased to \$1.5 billion (8.4% of net revenue) during the fiscal year ended August 31, 2015, compared to \$1.0 billion (6.5% of net revenue) during the fiscal year ended August 31, 2014. The increase in gross profit on an absolute basis and as a percentage of net revenue is primarily due to increased revenue from certain of our existing customers within the DMS segment, as well as an increased focus on controlling costs and improving productivity.

**Selling, General and Administrative.** Selling, general and administrative expenses increased to \$862.6 million (4.8% of net revenue) for fiscal year 2015 compared to \$675.7 million (4.3% of net revenue) for fiscal year 2014. The increase on an absolute basis and as a percentage of net revenue during fiscal year 2015 as compared to fiscal year

2014 was the result of an increase in salary and salary related expenses and other costs due to increased headcount to support the continued growth of our business, as well as a \$45.8 million reversal to stock-based compensation expense during the fiscal year ended August 31, 2014 due to decreased expectations for the vesting of certain restricted stock awards.

**Research and Development.** Research and development expenses remained relatively consistent at \$27.6 million (0.2% of net revenue) for the fiscal year ended August 31, 2015, compared to \$28.6 million (0.2% of net revenue) for the fiscal year ended August 31, 2014.

**Amortization of Intangibles.** Amortization of intangibles remained relatively consistent at \$24.4 million during fiscal year 2015 as compared to \$23.9 million during fiscal year 2014.



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

#### *a. 2014 Restructuring Plan*

During fiscal year 2014, we recorded \$49.9 million of restructuring and related charges related to the 2014 Restructuring Plan. We have completed our restructuring activities under this plan and do not expect to incur any additional costs under the 2014 Restructuring Plan.

#### *b. 2013 Restructuring Plan*

In conjunction with the 2013 Restructuring Plan, we charged \$34.6 million of restructuring and related charges to the Consolidated Statement of Operations during the fiscal year ended August 31, 2015 compared to \$35.4 million during the fiscal year ended August 31, 2014. The restructuring and related charges during the fiscal years ended August 31, 2015 and 2014 include cash costs of \$24.3 million and \$25.0 million related to employee severance and benefit costs, respectively, \$2.8 million and \$0.5 million related to lease costs, respectively, and \$1.9 million and \$1.3 million of other related costs, respectively, as well as non-cash costs of \$5.6 million and \$8.6 million related to asset write-off costs, respectively.

For further discussion of restructuring and related charges related to the 2013 Restructuring Plan, refer to Note 15 Restructuring and Related Charges to the Consolidated Financial Statements.

**Other Expense.** Other expense decreased to \$5.6 million for fiscal year 2015 compared to \$7.6 million for fiscal year 2014. The decrease was primarily due to a step acquisition gain of \$6.2 million on a previously held equity interest investment offset by a loss associated with a cost method investment.

**Interest Income.** We recorded interest income of \$10.0 million in fiscal year 2015, compared to \$3.7 million in fiscal year 2014. The increase was primarily due to dividends (which are treated as interest income) on the Senior Non-Convertible Cumulative Preferred Stock received in connection with the sale of the AMS business on April 1, 2014.

**Interest Expense.** Interest expense remained consistent at \$128.1 million for each of fiscal years 2015 and 2014.

**Income Tax Expense.** Income tax expense reflects an effective tax rate of 31.8% for fiscal year 2015, compared to an effective tax rate of 102.2% for fiscal year 2014.

The effective tax rate for the fiscal year ended August 31, 2015 decreased from the effective tax rate for the fiscal year ended August 31, 2014 primarily due to the increase in income from continuing operations in low tax-rate jurisdictions during fiscal year 2015. This effective tax rate decrease was partially offset by the tax benefit from revaluing deferred tax assets related to the enactment of the Mexico 2014 tax reform during fiscal year 2014, the reversal of stock-based compensation expense with minimal related tax expense during fiscal year 2014, and a partial valuation allowance release related to the U.S. deferred tax assets during fiscal year 2014.

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

The following discussion and analysis of our financial condition and results of operations include certain non-U.S. GAAP financial measures as identified in the reconciliation below. The non-U.S. GAAP financial measures disclosed herein do not have standard meaning and may vary from the non-U.S. GAAP financial measures used by other companies or how we may calculate those measures in other instances from time to time. Non-U.S. GAAP

financial measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with U.S. GAAP. Also, our core financial measures should not be construed as an inference by us that our future results will be unaffected by those items which are excluded from our core financial measures.

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

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

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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 Consolidated Financial Statements (in thousands):

	<b>Fiscal Year Ended August 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Operating income (U.S. GAAP)</b>	\$ 522,833	\$ 555,411	\$ 204,074
Amortization of intangibles	37,121	24,449	23,857
Stock-based compensation expense and related charges	58,997	62,563	8,994
Restructuring and related charges	11,369	33,066	85,369
Distressed customer charges			15,113
Acquisition costs and certain purchase accounting adjustments		(5,480)(a)	
Loss on disposal of subsidiaries			7,962
<b>Core operating income (Non-U.S. GAAP)</b>	<b>\$ 630,320</b>	<b>\$ 670,009</b>	<b>\$ 345,369</b>
<b>Net income attributable to Jabil Circuit, Inc. (U.S. GAAP)</b>	<b>\$ 254,095</b>	<b>\$ 284,019</b>	<b>\$ 241,313</b>
Amortization of intangibles, net of tax			